CONCERNED ABOUT THE ROBO-ADVISOR THREAT? BECOME A BIONIC ADVISOR™.

To Protect Your Role as Alpha Advisor—the One Advisor Investors Turn to for the Most Strategic Guidance—Consider Combining Technology with High-Value Advice

An InvestEdge Commentary

Robo-advisors are on the rise—and many advisors see that as a threat.

At least there's the perception in some quarters that portals and algorithm-based recommendations will supplant human advisors across the board, offering investors 24/7 access to their portfolios and automated "best-practices" advice whenever and wherever they need it.

Such concerns may well be exaggerated. But what's certainly true is that robo-advisors are the talk of the industry, and they're going to have an impact on you and your clients. Understanding what robo-advisors are—and what they're not—will help you plan your own next moves, moves that may include blending the best of what you do as a "hands-on" advisor with the best that technology has to offer.

First, let's establish a definition. According to Investopedia, a robo-advisor is:

> …an online **wealth management** service that provides automated, algorithm-based portfolio management advice without the use of human **financial planners**. Robo-advisors (or robo-advisers) use the same software as traditional advisors, but usually only offer portfolio management and do not get involved in more personal aspects of wealth management, such as taxes and retirement or **estate planning**.

In August 2014, *US News and World Report* noted that:

> The advantage for many people is that most robo-advisors have very low minimums. This allows people who cannot meet the minimum of most full-service financial planners to have access to professional **portfolio management**…
>
> Robo-advisors are a wonderful solution for people who have not yet accumulated enough assets to meet the account minimums traditional financial advisors require. When an investor is just starting to accumulate a nest egg, a robo-advisor may be a perfect match.
>
> A robo-advisor may be a good fit for someone whose financial situation is pretty simple…

But…

> … If the individual wants to be involved in the financial planning process that leads to how the money is invested, a robo-advisor may not be the best choice.

So the current wisdom is that robo-advisors are fine for small, young, early-stage investors, but not for higher net-worth investors with more complex financial needs. And yet there's the immediate question of what impact robo-advisors will have on distribution channels and on the unbundling of services, with immediate implications for fee structures that will impact you and your firm.

And in many advisors' minds, there's the nagging concern that current robo-advisors are just the opening round—that in the near future, algorithms will become complex and flexible enough that they can account for a wide variety of investment needs. In that scenario, a future robo-advisor might indeed replace human advisors just as many workers in many industries have been replaced. The threat may not be immediate, but it's conceivable.

Glossary

Technology is having a tremendous impact on financial advisors. Change is happening so quickly that sometimes language hasn't yet caught up. Some terms are in widespread use. Others aren't. It all makes for some confusing conversations. To reduce the confusion and help make sense of it all, here's a quick glossary of the terms we use in this paper:

- ***Robo-Advisor:*** *A fully automated solution in which technology takes the place of a human advisor. A portal-based service that guides investors' choices by administering a set of questions, then processing the answers via an algorithm to arrive at a set of recommendations for portfolio allocation—that's a robo-advisor in action.*
- ***Bionic Advisor:*** *An advisor who makes smart use of technology to enhance client relationships. The bionic advisor might interact with the client via a portal, use algorithms to test out strategies, and lets technology help with the routine tasks, like producing quarterly reports. Technology allows the bionic advisor to focus on the hard work that matters—working with the client to make strategic decisions and achieve results. Like TV's Bionic Man, the bionic advisor is strengthened by technology—but the client relationship is always a human relationship.*
- ***Alpha Advisor:*** *The one advisor that the client relies on for the most strategic, most significant advice. The alpha advisor guides all the client's assets—even those that aren't held by the advisor's own firm. Becoming, or remaining, the alpha advisor is the key to lasting success in an increasingly competitive, increasingly commoditized business landscape.*

Under these circumstances, the risk is that you will lose the role you want to achieve or maintain—that of the "alpha advisor," the one advisor investors turn to for the farthest-reaching, most strategic advice about the entire portfolio, including about assets not housed at your firm. Human advisors are a long way from being supplanted by robo-advisors. However, in the nearer term, the increasing prevalence of technology will disrupt your firm's economics and your own independence, progressively restricting your autonomy and authority as "expert systems" play an increasingly large role in your ability to give advice. Even advisors who don't fear being replaced by technology are concerned that they're going to become slaves to it. And they fear that clients accustomed to lower fees won't want to pay for high-quality, far-reaching insight.

But there's an opportunity for advisors willing to embrace this technology. Becoming a "bionic advisor" can increase your value and strengthen your relationships with investors, making you and your firm more successful

There's a basic problem with these dark scenarios. In one way or another, they're all based on the notion that there's a war between man and machine—that they necessarily have to be in conflict.

But most of our experience says this isn't so. In a vast range of activities—everything from flying airliners to enjoying music—technology doesn't replace but rather enhances human experience. In other words, the future doesn't have to be man vs. machine. Instead, it can be man PLUS machine.

Between the traditional advisor and the robo-advisor is the "bionic advisor."

What's a bionic advisor? Simply a human advisor who makes smart use of technology to strengthen relationships, add value and become or remain the alpha advisor. The bionic advisor uses technology to enhance the client relationship when that makes sense—for example, giving the investor 24/7 access to information about investments and performance. Investors want and need this—they'd prefer to have information and insight when they want it, not when the advisor can schedule it. And if they access the information through a branded portal, that helps keep you and your firm top of mind.

The bionic advisor is freed by technology from routine tasks like compiling and producing quarterly reports. The time released from these labor-intensive, low-value services allows the advisor to focus on high-value added services and advice: Knowing the investor's individual goals and issues, spotting long-term trends, and giving strategic counsel about the investor's total portfolio.

Being a bionic advisor makes sense for the individual professional. You maintain your human role, remaining front and center with the client. Technology doesn't diminish your humanity or the value of your advice—it enhances it by freeing you to focus on the hard problems that matter most to investors. And making smart use of technology can help you expand your client base—it will appeal to the millennials who are your future high-net worth clients, and the use of branded portals creates more touch points with your entire client population.

How to get the technology right

- ***Understand the "division of labor":*** *Know what technology does well—and what should remain a human responsibility.*
- ***Choose the right technology:*** *Get advice to help you select the best portal, risk assessment questionnaires, workflow software and decision-support tools. The best portals reflect your brand. The best questionnaires accommodate a range of investment choices.*
- ***Plan integration carefully:*** *Too many platforms make it challenging to create an effective technology solution. You don't necessarily need to consolidate on a single platform—but reducing the number of platforms can help.*
- ***Nail the roadmap and the costs:*** *Avoid surprises during implementation. Again, a savvy partner can help.*

A bionic advisor initiative can benefit the firm as well. Combining technology with high-value makes business sense—it makes advisors and firms more successful and more profitable. Both individual advisors and the firm as a whole can be liberated by technology from routine tasks to focus on activities that produce the highest return on investment: establishing, building, maintaining and advancing relationships, and cultivating leads in order to build a book of business. With this in mind, advisors should consider how their service delivery might change and where they can realize increased reach and profitability. That's because the new business pipeline is more likely to fill up at a faster pace. Here, too, the bionic advisor initiative pays off: With both new and existing investors, relationship risk diminishes thanks to the ability of advisors to spend more time on higher-value tasks. Finally, the firm can take advantage of the appeal of technology to more (and younger) investors—but without sacrificing "high-touch," relationship-focused activities.

Recent commentary suggests that the idea of the bionic advisor may be getting traction. Certainly investors' attachment to human advice is not going away. Research by Cerulli Associates suggests that clients are becoming more, not less reliant on advisors, with a decline in the self-directed investor segment from 45 percent to 33 percent since 2010, and a 10 percent increase in the number of households that consult with an advisor over the past four years. And a survey by the Investment Management Consultants Association reports that 93 percent of investors think it is "important" or "critical" that the advisor helps them maintain a long-term investment approach, and 83 percent wanted their advisor to help them stay calm in market downturns. They also count on advisors to keep them current on the latest tax laws and on cutting-edge investment strategies.

An informal spot poll of investment advisors by InvestEdge reflects the steady emergence of the technology side of the equation. Most advisors said that a significant number of their clients were using tablets or other technology as an enabling tool. A quarter said they had lost opportunities to robo-advisors and a third were worried about it. Most of the advisors use technology—but most do not share tools with the client. Over 80 percent think tech-savvy clients want human advice; when they consider how to deliver human advice through a technology portal, they contemplate using a wide array of tools, with a dramatic increase in the use of goal-setting software. Only 25 percent use it currently, but over 80 percent would make use of it in a bionic advisor solution. The results aren't scientific, but consistent with other studies and surveys, they do show a growing awareness of technology and a willingness to make it part of the counseling mix.

How to become a bionic advisor: what you need to do, and traps you need to avoid

How to become a bionic advisor? The practical steps aren't difficult, but there are issues to consider and traps to avoid.

The good news is that you've already mastered the hardest task—your ability to give individualized, high-value, long-term strategic investment advice. No technology challenge comes close to matching the challenge of becoming a trusted advisor.

The challenges specific to your "bionic" capabilities fall into two main categories: The technology itself, and the changes you need to make at the individual and firm levels to make best use of it.

First of all, it's necessary to understand the "division of labor." You need to identify the things that technology does well—for example, portal access, routine reporting, automated outreach to investors—then re-allocate the hours that you previously devoted to routine tasks. These are business-level considerations, and run the gamut from goal-setting and strategy formulation to task management at the most tactical level. The end result will be a firm that is more likely to succeed because it is focused on doing the right things.

Why become a bionic advisor?

- *You stay front-and-center with the client.*
- *Technology helps. It frees you from routine tasks so you can focus on what really matters—strategic advice that cements client relationships, and the ability to prospect for new clients. It gives you more ways to interact with clients—especially younger clients—via portals and apps. It supports your decision-making and improves the quality of your strategic advice.*
- *But technology doesn't hurt. Your clients appreciate the human touch—a much better experience than getting investment advice from an automated questionnaire.*
- *You and your firm stay competitive. By focusing on relationships, and using technology to enhance rather than replace advisor-client interaction, you attract new clients, expand existing ones, and establish yourself as the alpha advisor—the one that clients rely on for the farthest-reaching strategic advice.*

Simultaneously, you need to choose the technology that best supports, enhances and "fits" with your human role. The array of technology options to consider includes:

- **Client portals:** These are essential to the solution. A robo-advisor puts risk/return algorithms in the hands of the client. The bionic advisor solution needs to provide for more flexibility—the advisor may want to guide the client through a risk profile questionnaire, or complete it together with the client. The portal is the place where this can happen, along with all the other client/advisor discussions about strategies and recommendations. So it matters to get the portal right. The right answer is a branded experience—one that can stand in for a face-to-face meeting, and that doesn't leave the client alone at the kitchen table with a tablet. A winning portal is one that enhances the relationship, and that makes the advisor look smarter in the client's eyes.

- **Risk profile questionnaires** for initial client screening and continuous re-evaluation of the client's priorities and preferences. These drive the client/advisor relationship that plays out through the portal.

- **Advisor/client workflows:** It could be a client's need to raise cash, or an advisor needing the client to complete a form. Whatever happens face to face, or by phone or email, needs to be supported in a secure portal to facilitate interaction during the investment life cycle.

- **Tools** to guide portfolio rebalancing, asset allocation and re-allocation, account aggregation, and of course the account opening process.

In evaluating the choices, the overarching goal is to give yourself the flexibility to support the investment strategy on the technology platform you construct. Building a client portal, by itself, can involve a bewildering array of options. To make the right choices, stay focused on the role of the portal: To serve as a place to bring the advisor and client together, so that the client can receive advice, participate in discussions about strategy, and assign tasks, and the advisor can deliver responses. If the elements of a portal support this, they are the right choice. If they do not, then the portal will not be useful or helpful.

Among the other strategic priorities that must be top of mind are transparency and productivity. Transparency must be supported by the risk profile questionnaire as well as any solutions that provide for portfolio rebalancing, asset allocation and account aggregation. Productivity is the main focus of the advisor/client workflows, and is also supported by the risk profile questionnaire, which, if effective, will allow for faster, more efficient development of client risk profiles.

How good is your firm at technology integration? Your bionic advisor program may well succeed or fail depending on your ability to pull together disparate platforms and choose wisely about whether and when to consolidate them. If integration is not a core competency, then the better path is to admit this and look for an integrated solution from the start.

Looking at the challenge from an opposite perspective: What traps do you need to avoid? What should be your criteria for rejecting technology platforms? Again, keep your priorities in mind. A platform should be rejected if it does not support your investment strategy (if, for example, it offers limited investment options, or no investments outside those that are platform-approved); if it lacks account aggregation, or if it does not offer an integrated client portal solution.

Finally you come to the implementation stage. Implementation starts with a product roadmap and an estimate of the total cost of ownership—both for initial setup and on an ongoing basis. A savvy partner—one that is equally well versed in the technology and the industry—can be invaluable in helping you arrive at both the roadmap and the cost estimates. Again, at this most tactical level, it's best to be guided by a few central priorities. Aim for the ability to provide tools through one client interface; provide for data integrity and consistency across all the tools, and make sure to define and develop integration points. This last is essential if multiple systems are used.

Throughout the process of creating your bionic advisor solution—and once it is in place—you need to understand your new role as bionic advisor. What will change is how you plan and execute your and your firm's workday—the specifics of your planning and task management once the technology platform is fully in place. What will not change is your focus on becoming and remaining the alpha advisor and your relentless focus on helping your clients achieve their most challenging investment goals.

The bottom line: becoming a bionic advisor gives you the best of both worlds

There's no question that technology will transform the investment industry. The transformation is already happening.

Therefore, "to robo- or not to robo?"—is not the question.

The question instead is how to harness technology to the highest benefit of the investor, the advisor and the firm?

Robo-advisors have their place—for small investors and for others that do not want professional guidance or human interaction.

But high net-worth individuals and those who aspire to be will still need what alpha advisors do best—high-touch support and far-reaching, long-term strategic advice.

Myths about technology and investment advice

- ***Myth:*** *technology will replace human advice. No, investors will always want human advice—especially high net worth individuals. Technology can help, but the advisor will always be front and center.*
- ***Myth:*** *technology solutions are painful and costly. They don't have to be. Solutions can be built that take advantage of your existing systems and are based on your current workflow. Costs can be held in check through careful planning.*
- ***Myth:*** *technology will complicate my work. Technology can simplify your work. It can free you from routine tasks such as generating routine reports, and enable you to concentrate on high-level strategic advice that clients value.*
- ***Technology will make it impossible for any one advisor or firms to stand out from the pack.*** *It's a leveler. No, technology can help you and your firm stand out. It can improve the quality of your advice while enhancing your "reach" (your ability to connect to clients wherever and whenever they need). A good portal can convey your brand. The end result will be that clients value you more, and your relationships get stronger.*

Becoming a bionic advisor lets you maintain that alpha role—and actually get better at it, because a smart and skillful application of technology lets you devote more of your "human" time to work that matters most to investors. Technology liberates you from the routine so that you can commit a higher level of focus to your clients' needs and to getting those results.

The bottom line? Becoming a bionic advisor is indeed the best of both worlds—and in a world of rapid change and disrupted economics and distribution models, it's the clearest path to becoming or remaining the alpha advisor.