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Online Advisors: How They Are Challenging RIAs to be Better, More Efficient, and Embrace Technology

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We are at a very interesting period in the RIA landscape where the automation of processes and push for business online has opened the avenue for a new type of financial advisor. This advisor is more nimble, quicker, and more automated. For better or worse, online advisors are challenging the RIA business in a significant number of ways. While traditional advisors have a number of advantages over the push online, these new models are challenging price and expectations of what one should receive for a lower price. Advisors that do not adopt to these changes, streamline their technology to focus on what differentiates them (relationships, market expertise, and advanced financial planning) may be challenged to be competitive and grow their business.

> *Firms who embrace these solutions should see their growth exceed that of their counterparts who ignore the digital investment tools. – Bill Winterberg, FPPad*

Bridge believes that the advisor of the future must support both the elements of traditional relationship building fortified with individualized financial planning; while, at the same time, he/she must understand the importance of creating efficiency and distribution through technology and automation. The problem started with an underserved supply that was easily tapped into, but online advisors have built a formidable business that is attracting young clients, less wealthy clients, and those that want to be involved in the market. The perfect opportunity for advisors to lead their field with a combination of technology, market expertise, business segmentation, and deep relationship building is here. Are you going to take it? I believe those that do will be rewarded, and those that do not will struggle to grow their businesses over the coming years.

It all starts with supply…

At the forefront of this issue is the population that the online advisor serves. Firms like WealthFront, Betterment, Nutmeg, and others are equipped with a number of differentiating features that has allowed them to tap into a new supply of underserved investors as well as tap into a younger population more accepting of doing important transactions online. The four key ways that the advisor has done this are:

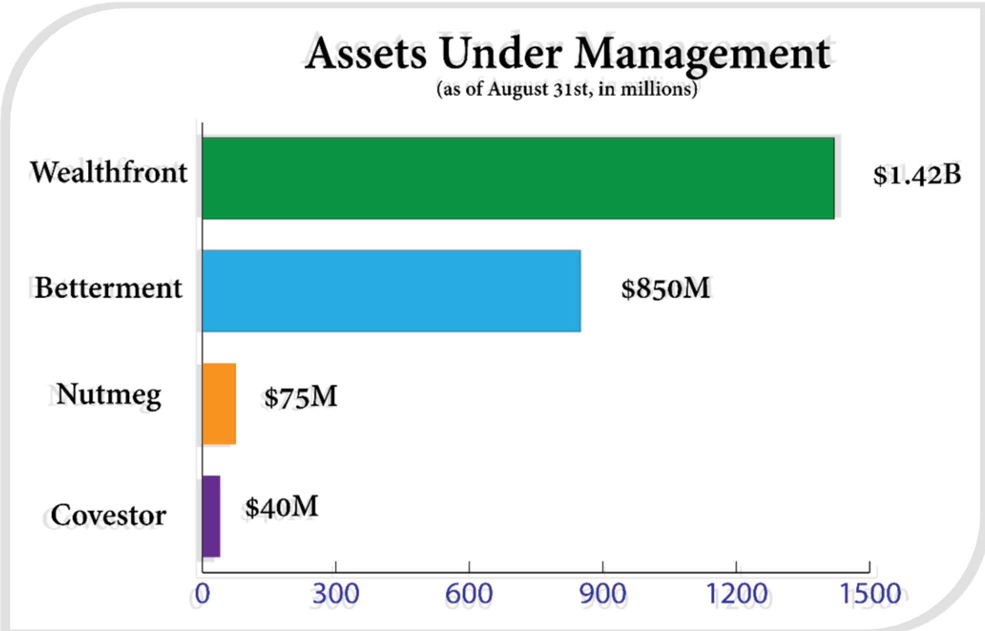
- ***Account Onboarding:*** With a streamlined onboarding process, clients can sign up in about ten minutes;
- ***Data aggregation:*** Making it standard to aggregate all your data in one spot is crucial to the online advisor movement;
- ***Marketing:*** The online advisor is operating in the spaces this population exists (social media, online advertising, etc.); and
- ***Price:*** Prices are drastically less than the traditional advisor. Most online advisor advisors operate around 0.25% fee versus most RIAs around 1-1.5%.

Armed with these distinctions, the online advisor has been able to more easily generate relationships with younger generations, less wealthy clients, and those familiar doing important tasks online. Customers are getting exclusivity of a customized investing plan that takes out some aspects of complexity, but they are also doing it for much less. Further, the online advisor is not shutting the door to anyone, for better or worse. The supply has always been there --- the online advisor has just figured out how to capture it. As Bill Winterberg, CFP and founder of consulting and media resource, FPPad, notes:

> *The online advisory services were created to service a segment of the market that was underserved by most financial professionals. Feeling rejected and frustrated by established providers, startup founders felt it should not be so difficult to build a scalable investing solution powered by automation. So they built a low cost, functional option that targets the emerging investor.*

It makes sense too. After the most recent financial crisis, trust in Wall Street dropped dramatically. Even five years after the crisis ended, a poll done by NBC News/Wall Street Journal showed that only 14% of US citizens have a favorable opinion of Wall St. Based on a cross-section of economic hardship, lack of trust, and underserved population, a new supply of clients were ripened for a new way to think of financial advising.

The four advantages listed above work in tandem more than in exclusivity. Underserved/new individuals, such as Millennials/Gen X/less wealthy clients, demand less from advisors and have also lived through two financial crises at the start of their earning lifetime. The traditional advisor, with higher fees, does not seem as appealing, and the online advisor often offers what appears to be a more straightforward approach (more likely just simpler, thus more people understand it) with up front breakdowns of costs, risks, and plans for investing. WealthFront, for example, gives prospective clients a snapshot of exactly what ETFs they will be invested into in what can be as little as five to ten minutes. The founders of these businesses have developed an ease at automating usual inefficiencies and scale online through a low-cost, efficient, streamlined business.



In a conversation that I had with Jeri Liedl, the Chief Operating Officer for Chalk, Cullum & Associates, a d/b/a of Trinity Portfolio Advisors, LLC, she noted that online advisors tend to recruit their own image. A younger generation that is more comfortable with a digital focus is clearly more comfortable letting computers and algorithms be the base for their investing.

Further, online RIAs are winning because investing has been popular in the past five years since the bottom formed in 2009. The online advisor has existed, for many respects, because underserved groups want to be in a tremendous bull market. As Brian Jack, Director of Information Technology for Budros, Ruhlin, and Roe, notes, “the biggest threat (to online advisors) today is a market correction. Most, if not all, of these firms have started in a very impressive bull market. We have yet to see how an online advisor's clients react when there is a 10 to 20 percent correction." This concern is something that investors should be keeping in mind, and this concern does get to the crux of the strength of RIAs, which we will discuss shortly.

The biggest win for these investment firms, though, may be that millennials will continue to become a bigger chunk of the investing population, especially as baby boomers begin to retire and move/liquidate assets, and they are becoming more and more comfortable with these automated formats of doing business. As Jack notes, "much of the online advisor offering's growth is directly related to technology improvements and the public's comfortableness with doing business on the internet." The rise of technology is showing signs of disrupting the natural relationship between investors and advisors.

So…how big is the threat?

While the "bark may be bigger than the bite" has been the case thus far for online advisors, some companies have started to make an impact. The real change that is occurring is that online advisors are changing what I have titled "advisor standards." The online advisor has packed a good deal of service into their low price point, and they are making many things that other RIAs offer as a premium, or in some cases don't even offer, part of their standard.

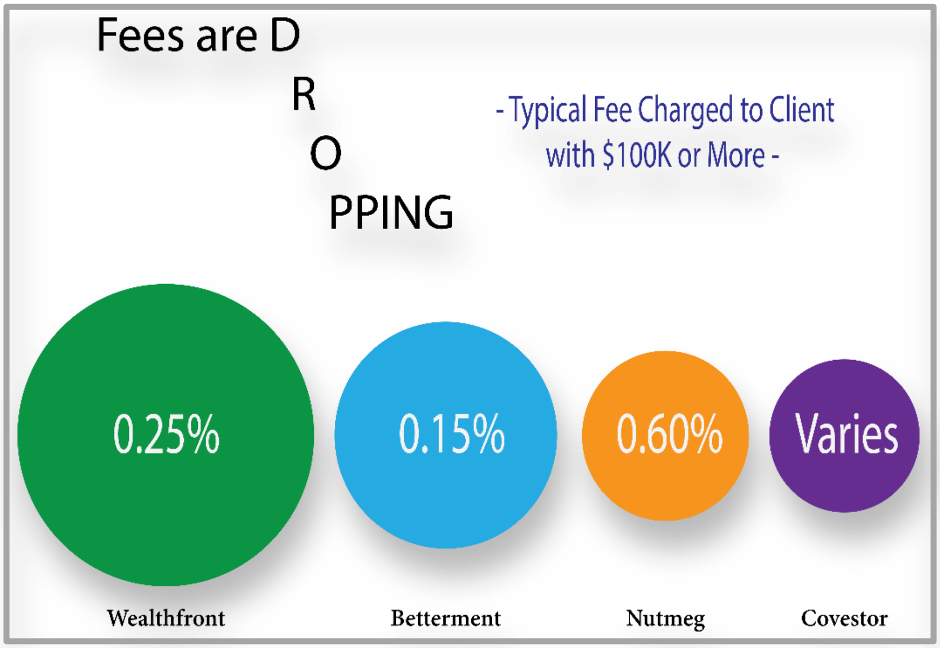
These "standards" are:

- ***Data aggregation:*** Online firms are making the "holistic picture" of all assets much more readily available. 529s, checking accounts, IRA's, 401(k)'s, and more are under one platform (and for less).
- ***Onboarding process:*** Instead of lengthy sign up processes that require lots of paperwork, multiple meetings, etc., the online advisor aims to start people up in 5-10 minutes. For some, this won't work but for others it is a benefit.
- ***Channels of marketing/Ease of access:*** The online advisor is being seen in many spaces from being housed in the internet to being talked about in traditional media to having strong social media platforms. The online advisor can be accessed anywhere there is Internet and is available 24/7.
- ***Price:*** WealthFront charges 0.25% for clients, for example, while most advisors charge a multiple of that.

It seems that a lot of clients are enjoying these new "standards." WealthFront, for example, has more than $1B in assets (more than 99% of all other RIA firms). Betterment, the second leader in the space, notes that they have more than 38K investors on their platform with expectations to hit the billion mark by the end of the year. Yet, how deep these firms can go is definitely a major question mark at this point. Jack elaborates on the situation:

> *I believe that the threat is real, but to what extent, I am not sure. I believe that online advisors will have a seat at the table, but the sector is so young and so new, I believe that it will take time for the full extent of presence to be known. The biggest immediate concern for RIAs is fee compression. The current fees being charged by online advisors will force RIAs to rethink fees as the marketplace grows.*

In comparison to the entire advising space, online advisors are still a tiny part of the equation, but they continue to attract attention. As of writing this, online advisors have pushed to roughly $15B in assets and are growing at rates of 30-40% per quarter, according to *Corporate Insight.* The RIA space is a $1 - $1.5T market, so online advisors only own about 1% of the entire space at this point.



Fee compression is a real threat to RIAs (in the sense of what is standard for a lower fee level) as Jack notes above. Online advisors tend to offer services for free for some levels of investing, while offering most services for as little as 0.25% (sometimes even lower), a fraction of many RIA fees. In my conversations, both Jack and Liedl expressed that they wondered about the sustainability of these lower prices, and it does not seem that these firms are very profitable at this moment. Yet, what they are doing is giving a certain level of service for a distinct price. Most RIAs go well beyond, but a new "standard" of service is being set at a lower price.

The best news for the RIA is that he/she still has a lot to offer that online advisors cannot. Further, the RIA has the ability to adapt new technologies and new formats that will allow them to leverage what the online advisor does in compliment with the deeper advantages of the RIA. To me, those advantages are strong relationships, deeper market understanding, person-to-person communication, and richer financial planning. Additionally, by including technology, the advisor opens him/herself to a more robust product offering that can include data aggregation, better financial planning, segmentation of their business, and much more.

Personal relationships and a deeper understanding of financial planning remain the RIA's consistent advantages over the online movement. Is it enough?

As Liedl notes, "personal relations and contact" are the leading advantage for the RIA over online advisors. The RIA enjoys face time and thrives in it. He/she provides their clients with comfort, peace of mind, and in-depth planning. Further, the RIA unravels complexity and knows his/her client on a personal level to help form a plan that makes sense for their risk level, life goals, and more.

As I have noted earlier, downturns in the market are going to challenge the online space. One of the strengths the RIA has is that he/she can be a beacon of light during times of struggle. Every person goes through rough patches in their lives (just like the economy), and during those times, having a "real" person to talk with about your finances is important. Online advisors, to this point, have not been able to provide that type of relationship, and at their price point, it's hard to imagine they could. As Jack notes, the largest advantage of the RIA is "a personal relationship and experience. The RIA is only a phone call away, in good market conditions, but more importantly in poor market conditions."

Further, advisors are a much better option for those with wealth, who want a close relationship with their advisor, as well as, demand a larger breadth of financial planning/skills, which the current online advisor cannot offer. Costs are less impactful than the support, but the “standards” do appear to be changing. As Liedl notes, “in our market of high net worth investors, I think personal relationship hedges technology.”

What should I do?

Fostering relationships over transactional volume is crucial to the RIA, so using technology to help further that helps gain competitive advantages over other RIAs as well as over the movement of assets “online.” Here are the key ways that RIAs can bring more to the table:

- ***Data aggregation:*** Bringing outside assets into financial planning is very helpful, allowing the client to see everything from checking accounts to 401(k)’s to 529’s. Further, he/she can understand how these assets are performing and receive integral advice from the RIA.
- ***Onboarding:*** Speeding up the process to onboard clients can cut down on paperwork, improve relationships, and help advisors spend more time working on relationship building. Why not have the option for fast-paced clients to have a more streamlined approach.
- ***Back-office platforms:*** Allowing proven technology platforms to manage day-to-day back-office functions can allow an advisor to spend more time planning, building relationships, and acquiring new clients.
- ***E-Signature integration:*** Leading e-signature firms can optimize a number of everyday functions that the RIA is required to do.
- ***Segmentation of business:*** Younger clients often don’t meet minimums and don’t want to pay as much for services they won’t use. Therefore, many RIAs should consider developing a segmented strategy to offer a level of service that both gives exclusivity to a younger or less wealthy group that also means a lower price point that stays competitive.
- ***Lower costs:*** By optimizing your business through technology, RIAs have the ability to create a more efficient business that can allow them to drop their costs.

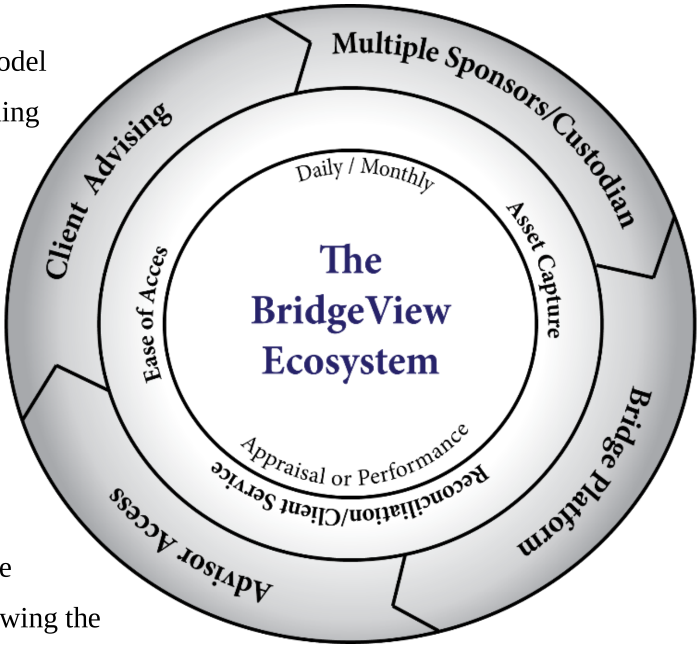
Technology allows the RIA to better foster and build relationships, and the community of independent advisors can take away a great deal from how the online advisor has wielded technology to advance themselves. As Winterberg notes, "Digital investment solutions should be viewed as a beneficial tool and not as direct competition. These solutions act as a complimentary offering to an established advisory firm, where relationships can be established at an affordable price point. Firms who embrace these solutions should see their growth exceed that of their counterparts who ignore the digital investment tools."

Further, using technology, can allow the RIA to embrace an entirely new group of investors that will be cost effective and automated. Many millennials and Generation X clients are the future affluent and mass affluent clientele, and those high earners would embrace the RIA space more fully with these technological advantages.

How Bridge Can Help

Bridge and a number of other firms have built or are building solutions for the RIA community that can help "bridge the gap" between the technology RIAs need and what the typical RIA has. The use of human interaction optimized through technology is the future, and Bridge is helping advisors to build even better relationships than ever before. Further, as price compression occurs, it is crucial that RIAs are able to optimize their technology to foster relationships, cut down on costs, and provide a more scalable business.

The automated, proven Bridge Platform will allow you to do that through a number of products and solutions. Bridge has built a suite of products under one platform that will allow the advisor to spend time building relationships, automate inefficiencies, and grow your bottom and top line. Our platform starts as a typical portfolio management system and moves well beyond your average PMS. Back-office functions, such as reconciliation, trading and model rebalancing, performance reporting, and fee billing are all part of Bridge's proven platform. The countless time and dollars spent reconciling accounts, trading account by account, and figuring out complex billing is now a seamless, turnkey process.



Yet, we want to help you push even further beyond your competition and provide what is becoming a norm for online advisors. One of the most effective ways we are doing this is by allowing the advisor to access more data than ever before. Through BridgeView, our data aggregation solution for outside assets, the advisor can now obtain performance or appraisal reporting on all assets that exist outside of what the advisor manages. Imagine being able to see all assets at the same time in one place, and then quickly moving to Bridge's rebalancing arm while having a holistic picture of the client's financial wallet. You aren't giving financial advice and planning on a limited scope, you are seeing the entire financial embodiment of your clients.

While data aggregation can create a more meaningful relationship between the advisor and the client, optimizing time and eliminating redundancies is also crucial to adding the digital edge to your firm. Bridge also has an automated onboarding platform that will allow you to bring on clients in very little time harnessing the power of automation and e-signature.

Finally, Bridge is built for and recommends considering a segmentation of an RIA's business. By automating your interactions with younger/less wealthy clients, an advisor can bring these high earners not yet rich (HENRYs) under their wing for the future. Further, younger generations will achieve a level of exclusivity from the RIA (that will appeal to them) but also view your product as digitally savvy. For high net worth clients, Bridge can support a deeper level of communication and planning that also leverages technology to optimize efficiencies and remain at the cutting edge of the industry.

As I see the traditional RIA and the future RIA, the two populations are different and one is vastly more efficient, more automated, and thus more connected to their clients. We're hard at work ensuring our platform allows you to focus on what the RIA does best, while harnessing the power of today's growing need for technology enhancements through our Bridge platform of products/services.

Technology should be a tool not a competitor.

For more information about this topic or BridgePortfolio services, please visit www.bridgeportfolio.com or contact:

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