WHITE PAPER

Next: The Wealth Management Firm of the Future

The Keys to Driving Growth and Success for Wealth Management Firms in 2023 and Beyond

Introduction

What defines a successful firm in 2023? Assets under management? Client satisfaction? Its latest annual growth rate? Is the $100 million RIA with consistently high client satisfaction ratings more or less successful than the $10 billion IBD with NPS numbers that are just okay?

In short, the answer is "yes."

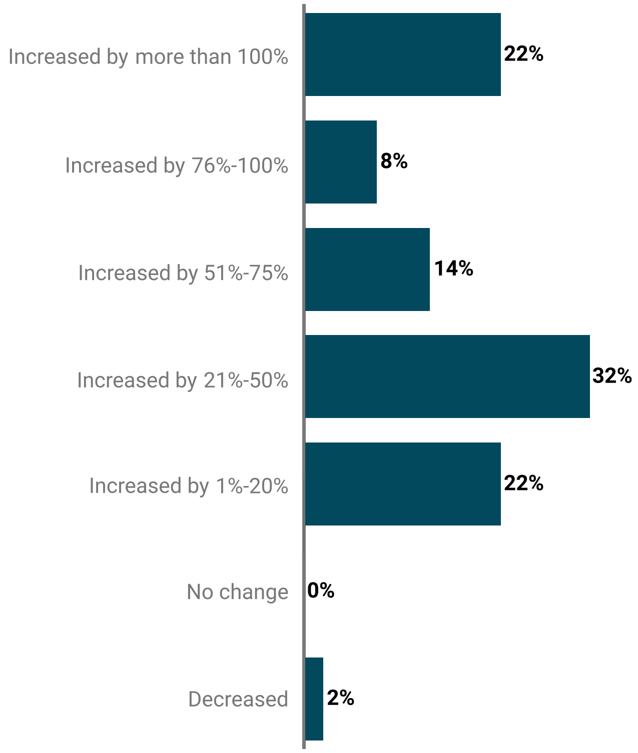
Firms come in every shape and size imaginable, which makes finding a single definition of success for modern advisors nearly impossible.

This report digs deep to discover the common factors that define success for advisory firms. Rather than applying the same bar to every firm, advisors surveyed for this report were asked to offer their own definition of success – based on their unique clientele, their unique services and the unique way they leverage tech tools.

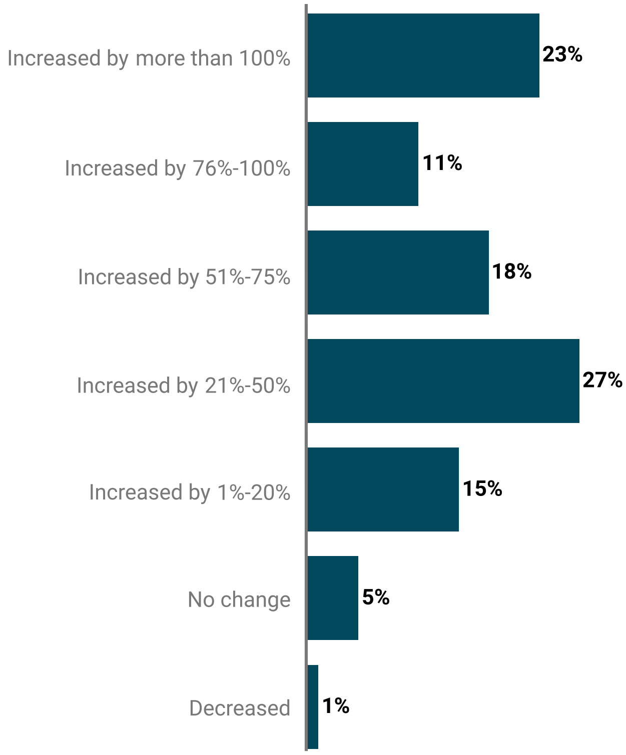
But while definitions of success may vary from one firm to another, one thing is certain: The financial industry shows no signs of slowing down. Despite a global pandemic, 98% of firms reported AUM growth in the last five years, with 22% reporting that they at least doubled the assets they oversee. And despite signs that the markets are slowing down, 94% expect continued growth over the next five years.

What is driving all this growth, how are advisors scaling their practices and what does their client experience look like (and what does "client experience" really mean)? The rest of this report will explore these questions and more.

AUM Growth Since 2016

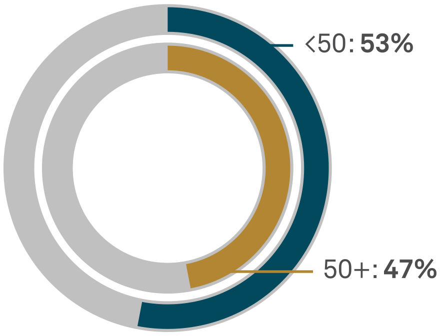


Anticipated AUM Growth, 2022-2027

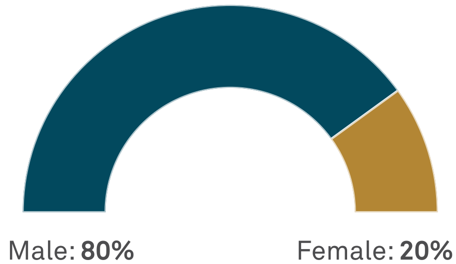


The Study at a Glance

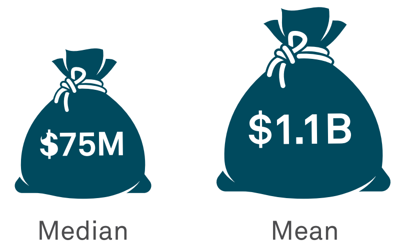
Age



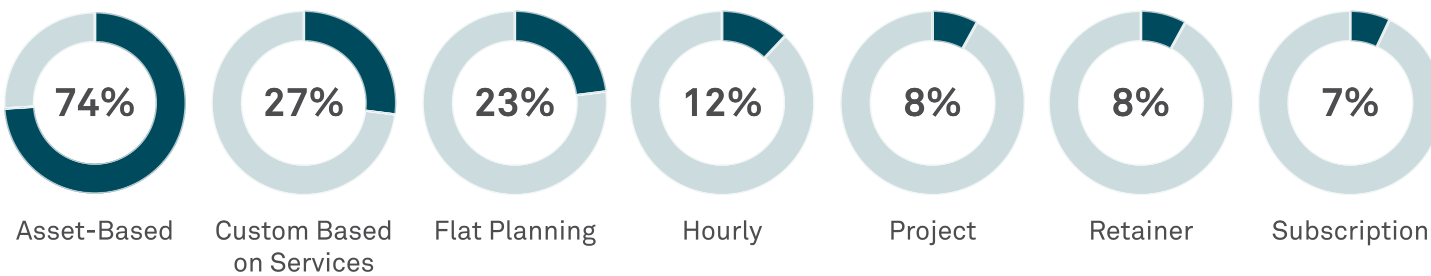
Gender



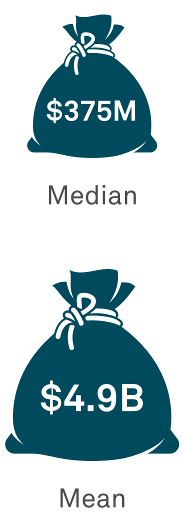
Assets Personally Managed



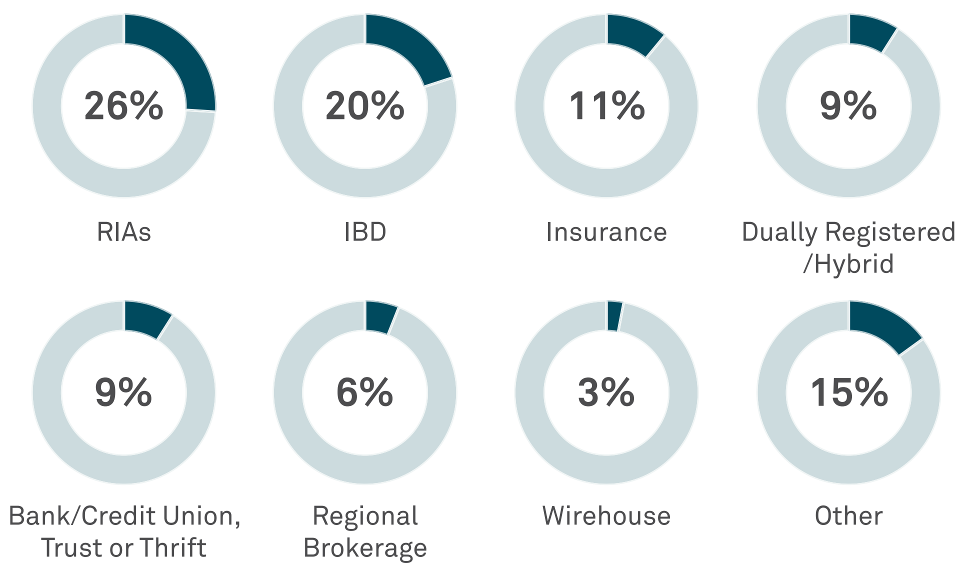
Fee Type



Assets Managed by Firm



Firm Profile



Growth Drivers

Whatever the reasons may be, there is a clear difference between younger and older advisors when it comes to recent growth and growth expectations for the future.

The survey found that 52% of advisors under the age of 50 grew their AUM by more than 50% over the last five years, versus just 34% of advisors over 50.

The spread is similar when looking forward, with 60% of advisors under the age of 50 expecting to grow their AUM by more than 50% in the next five years, versus 43% of advisors over 50, as seen in the figure below.

With markets firmly in bear territory halfway through 2022, generating net new business is clearly the top priority and largest expected driver of growth over the next five years.

Advisors identified the **top three growth drivers** as:

1. Referrals
2. New business from existing clients
3. Business development

Market appreciation was selected by only 21% of respondents as an expected contributor to increasing AUM. While a firm's AUM will inevitably rise and fall with the tide of the markets, advisors in our recent RIA Edge Think Tank conversation agreed that relying on market appreciation as a growth driver is not universally recommended.

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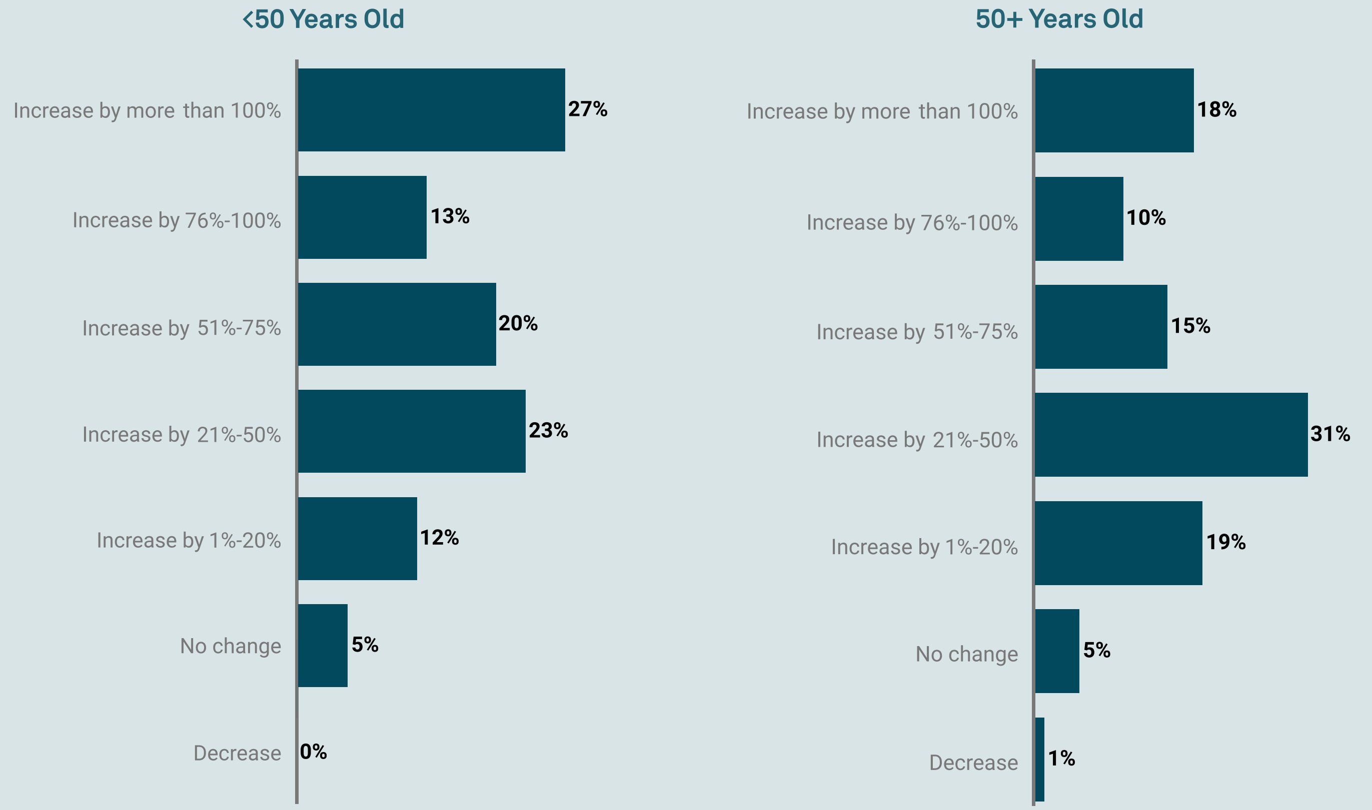
Anticipated AUM Growth Next 5 Years by Respondent Age



“One of the common traps in the industry is the idea that market growth should count toward your growth. We don’t count market growth because it’s not something we proactively did, it’s not something we can influence.”

-Ron Bullis | Lifeworks

Two surprising finds rounded out the list of growth drivers. M&A and digital marketing were only listed by 16% and 14% of respondents, respectively, as key drivers of growth, despite all the noise commonly heard in the advisor space today.

Leveraging Tech: Who Are the True Innovators?

This report identifies four types of advisory firms related to how they use and view technology:

1. **Innovators** – Firms that invest in new technology to drive growth
2. **Enablers** – Firms that leverage tech tools to increase efficiency
3. **Utilitarians** – Firms that use basic technology to support overall operations
4. **Laggards** – Firms that do not invest in new tools and use outdated technology

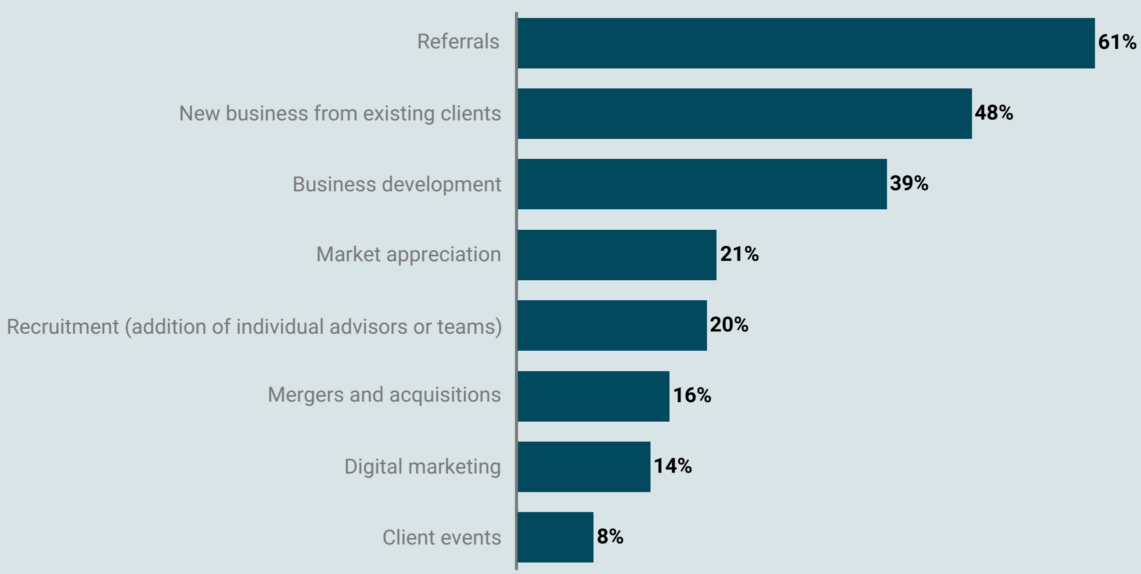
The vast majority of advisors view their firms as fitting in the first two categories, with 73% of professionals under the age of 50 and 59% of advisors 50 and over.

With so many advisors claiming to be on the cutting edge of technology, it’s worth asking: “What does true innovation look like for advisors today?”

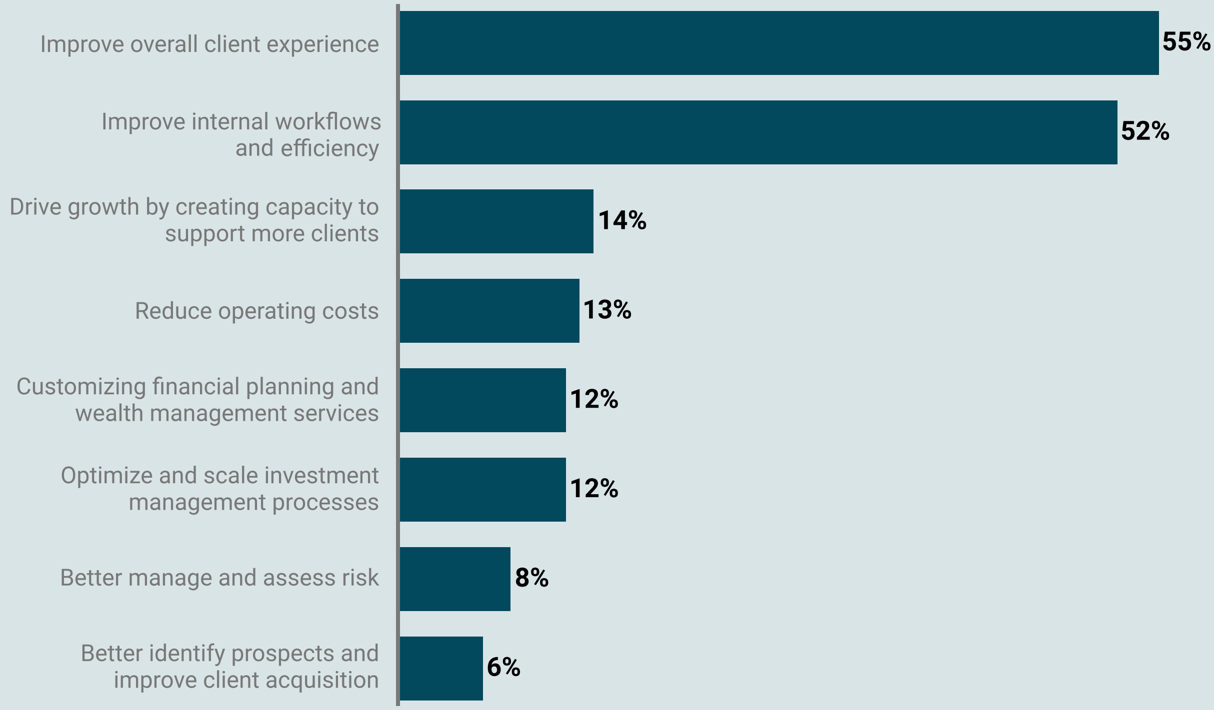
For many, being an early adopter is no longer sufficient. A growing number of advisors are pioneering their own technology that can reshape their planning processes and business exactly how they want, instead of adapting their processes to fit existing technologies. Lifeworks, FP Alpha, Asset-Map – the list goes on of tools recently built by advisors who saw a space to fill.

Granted, not every advisor can build their own tech – it’s not practical or needed. With so many tools launching each year,

Top Three Drivers of Firm Growth, Next 5 Years



Top-Two Objectives for Firm Investment in Technology



most advisors can find close to exactly what they need without crafting their own from scratch.

Where a firm falls on the spectrum from Tech Innovator to Laggard often clearly corresponds to the age and size of their firm. The younger and smaller they are, the more they use tech to differentiate and scale services. The larger they get, the more they tend to lean on technology to maintain a personal feel in their services. Whether an Innovator or an Enabler or something else, all types clearly leverage technology, just with a different focus.

"It's interesting, because I've been all four of them," said Rebekah L. Kohmescher, CEO of Altair Advisers. "Altair is 20 years old and we definitely were an Innovator on the reporting side, but now there's been lots of third-party innovation in that space, and we're not really an Innovator anymore. Most of the time I would say we're Enablers now because I'm looking at how I can tech-enable inside the firm so my advisors can spend more time with their clients."

Wherever an advisor gets their tech, it's clear that it needs to facilitate a better client experience. When we asked advisors what their primary objectives are from tech, two answers dominated: client experience and increased efficiency.

With so many advisors investing in client experience, though, it's also imperative to define the term and understand the role it plays in the modern advisory firm.

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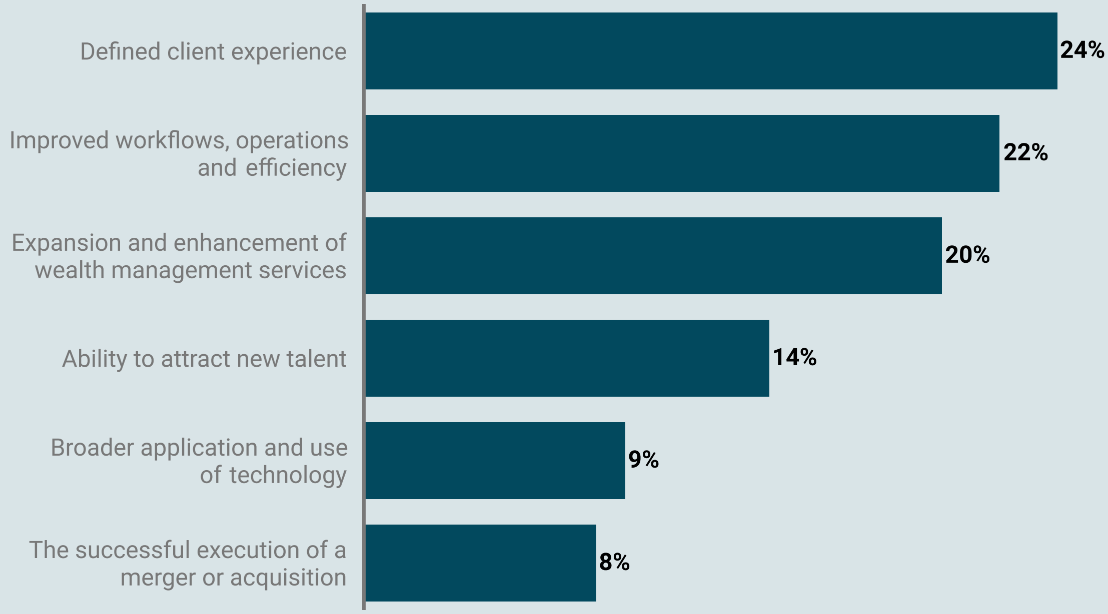
-Rebekah L. Kohmescher, CEO of Altair Advisers

Most Important Contributor to Firm's Overall Growth in 2022



What is Client Experience?

When asked to name the single biggest contributor to their firm's growth in 2022, advisors' most cited answer was the popular, albeit vague concept of having a "defined client experience."

If you ask 10 advisors to define client experience, you will get 10 different answers. The industry is quick to identify a bad client experience, but it's much harder to define what makes a good one.

According to Martine Lellis, Chief Talent & Business Solutions Officer at Mercer Advisors, a good client experience is one thing: efficient. She points to the Mayo Clinic as a customer experience advisors should strive for.

With typical healthcare, patients must plan and coordinate their care, setting appointments and informing different specialists of their history and information from previous appointments, often going months between visits. At Mayo,

"If you're working with your primary advisor, maybe there's also a tax person, an estate planning person and a portfolio specialist – it should be an integrated experience. Technology comes into play because of all the notes [between specialists]. And it should be fast – there should not be a lengthy window of time that a client goes through to get these checkups. All these specialists that are touching that client experience have the information that is necessary to have that conversation. That's how client experience should be delivered."

-Martine Lellis | Mercer Advisors

over the course of a single week, a patient meets with multiple specialists and those specialists clearly talk to each other between patient visits, leading to a complete experience where patients are guided through the process by health professionals rather than running things themselves.

Most healthcare experiences are not like the Mayo Clinic, and most advisors do not deliver that level of individualized service.

One frequently cited pain point for advisors and clients is the onboarding experience. As new clients sign up, advisors typically get bogged down in the administrative work of opening accounts and establishing client records, often leaving clients feeling out of the loop at a pivotal moment where they should be establishing a new relationship.

Heather Goodman, COO & President of True Capital Management in San Francisco, said her firm has basically solved this issue this year by adding a brand new position: Transition Manager.

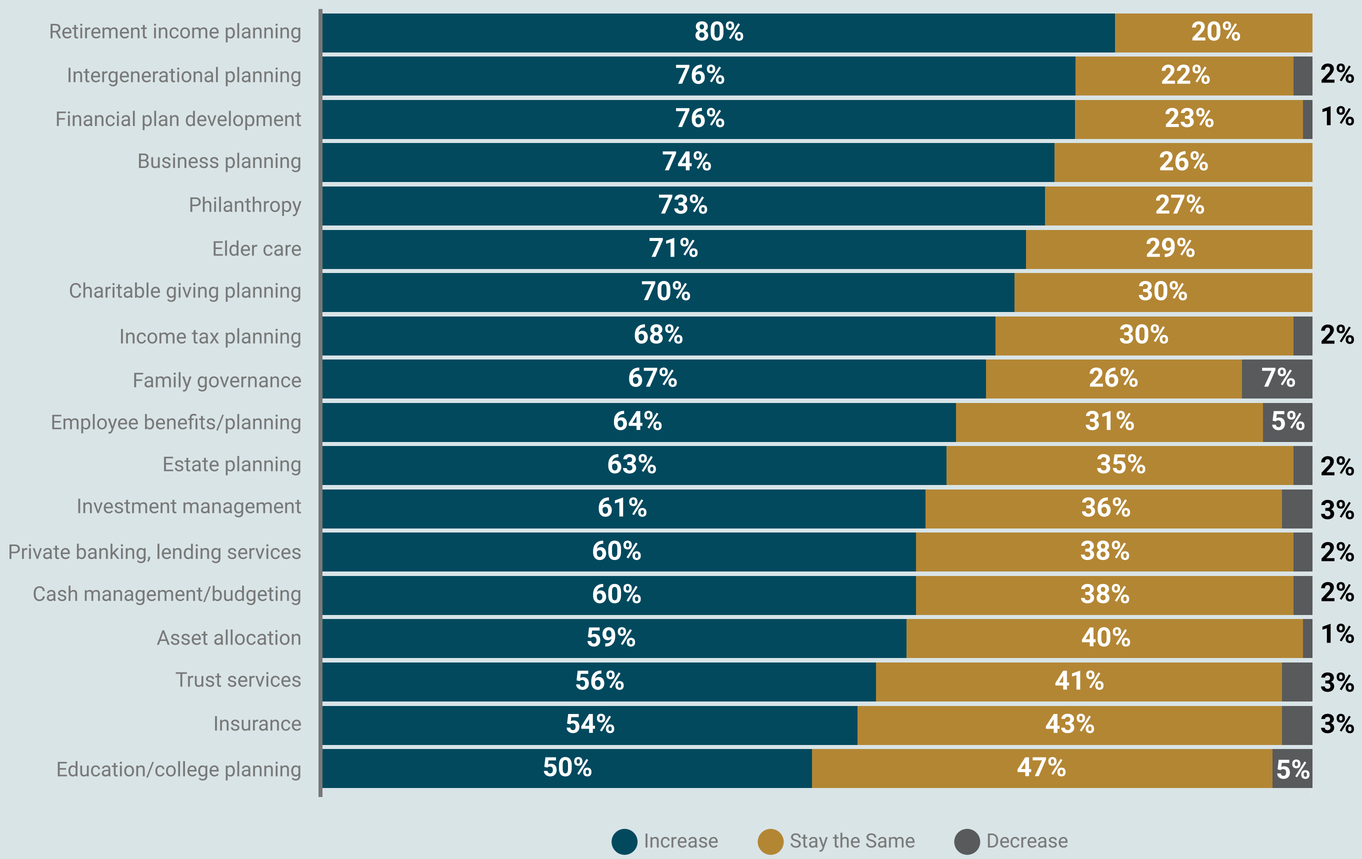
According to Goodman, the thought behind this new position is to have "one person who kind of liaises between all the different people who are involved with onboarding a client, so it should streamline the process and take the lift off of the business development client service team."

The current gold standard advisors seem to be aiming for is "mass customization," which, as Andrew Altfest put it during a recent RIA Edge Think Tank, boils down to "creating different experiences for different people without clients having to pay us a fortune."

Whether mass customization can be done authentically and sustainably has yet to be proven over the long run but creating a client experience like Altfest describes is clearly the aim of most growth-minded advisors.

With the Mayo Clinic example and mass customization in mind, which services do advisors believe they need to provide at the core of the client experience? The top four services advisors see increasing the most in the next three years include:

Expected Changes in the Frequency of Delivered Services Over Next 3 Years



1. **Retirement income planning**
2. **Financial plan development**
3. **Intergenerational planning**
4. **Business planning**

A clear sign of the shift among advisors to a planning-based profession is that "Investment Management" didn't even make the top 10, down below more niche offerings like estate planning and income tax planning.

While a majority of advisors expect to increase some of these newer services, comparatively few are currently offering them. There may be a first mover advantage for firms that can stand these up fast enough.

If services are the gift of the client experience, technology is the wrapping paper – and most firms leave much to be desired.

Human Capital: Preparing to Grow

With so much anticipated growth on the horizon, we asked advisors how they plan to expand their teams.

Most firms surveyed indicated that they plan to bring on more client support roles – which aligns closely with the understanding that a defined client experience and exceptional customer service are necessary for growth. When firms look to the next five years,

they see paraplanners and research analysts as the top two roles to add – not surprising given the focus on offering expanded planning and investments as core services.

Interestingly, the third most mentioned role is a marketing associate. As mentioned earlier in this report, digital marketing was named one of the least important drivers of growth by advisors. Advisors may be viewing such associates more as "communication drivers" to help with client retention and client communication than as generators of revenue.

One increasingly popular role that didn't make it into the responses but emerged during conversations with advisors is having some variety of psychologist on staff/retainer – whether it was a wealth or behavioral psychologist. Such a role is utilized to help clients better understand their relationship with money and to coach staff on how to help navigate family dynamics around wealth.

"The portal is just such an uninspired experience. When you look at what you can do with phones and how we interact with technology as an industry – money is ultimately emotional and our client portals are like, 'Let me show you a pie graph.'"

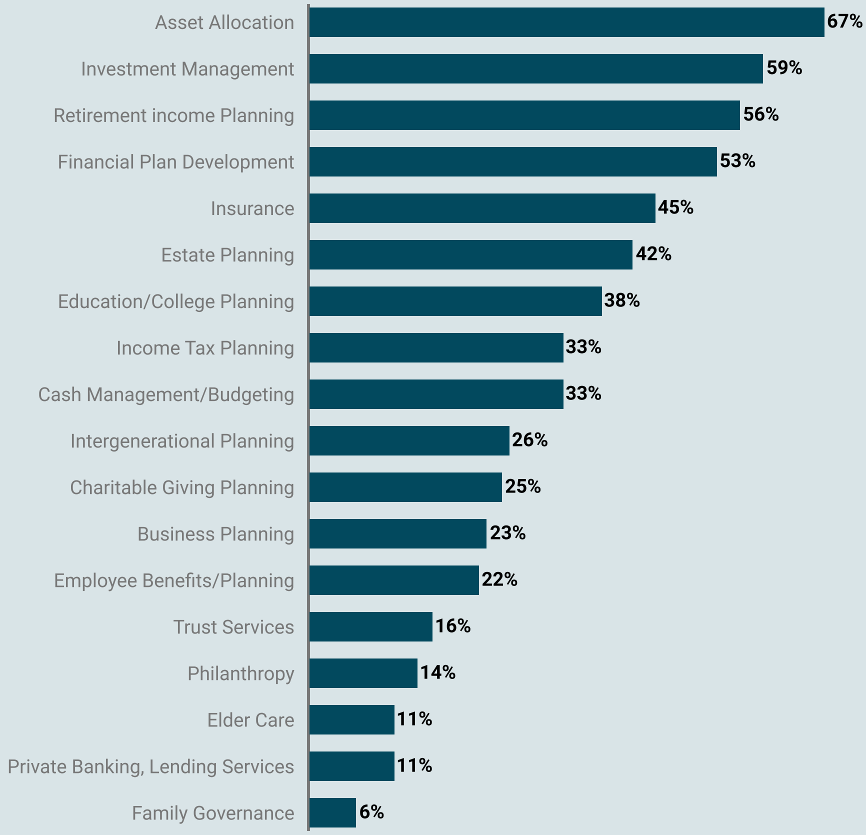
-Shannon Spotswood | RFG Advisory

The Key to Growth

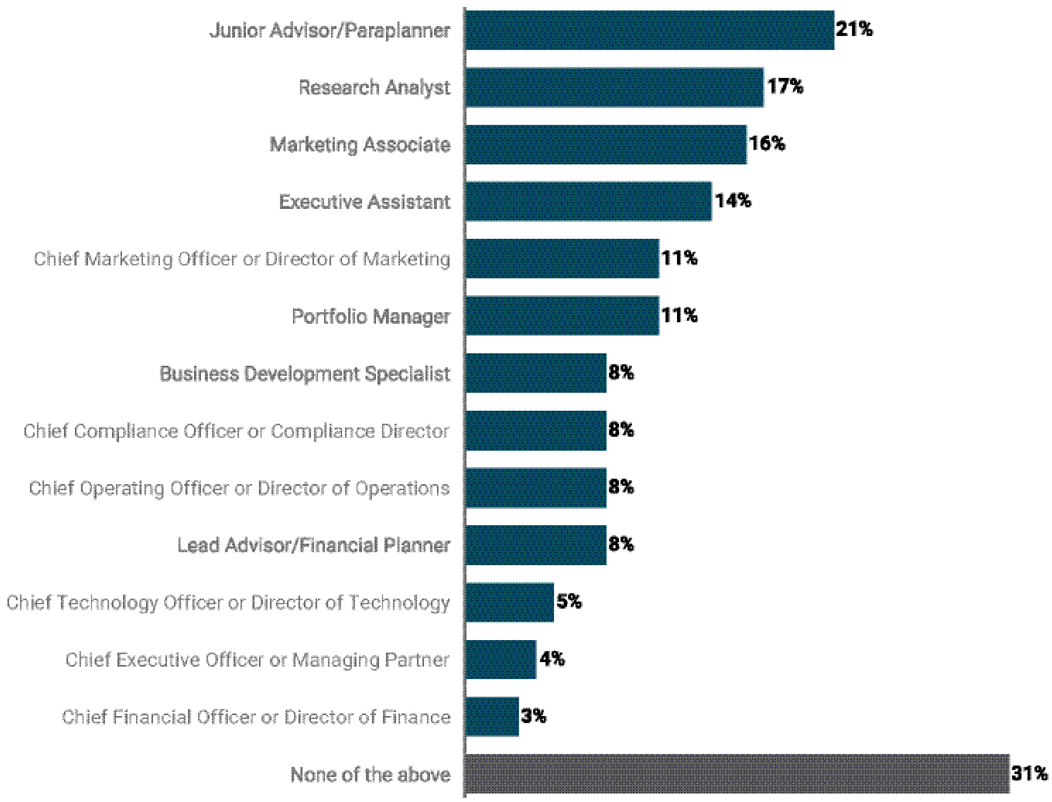
So what is the key to a successful, growing firm? When asked to identify which metrics they use to measure their own success, advisors named two runaway winners.

The firm of the future will drive growth by providing a client experience that is client-driven, personalizing interactions with clients and differentiating their services through their client experience and technology – whether they build it themselves or not.

Most Frequently Delivered Services



Anticipated Role Additions, Next 5 Years



Most Important Metrics in Evaluating Overall Firm Success

Transform Your Business for Growth with Pershing

LEARN MORE

OVERVIEW
Methodology, data collection and analysis by WealthManagement.com and Informa Engage on behalf of Pershing. Data collected April 28, through May 3, 2022. Methodology conforms to accepted marketing research methods, practices and procedures.

METHODOLOGY
Beginning on April 28, 2022, WealthManagement.com emailed invitations to participate in an online survey to active users. By May 3, 2022, Informa Engage had received 453 completed surveys.

RESPONSE MOTIVATION
To encourage prompt response and increase the response rate overall, a live link to the survey was included in the email invitation to route respondents directly to the online survey. The invitations and survey were branded with the WealthManagement.com name and logo in an effort to capitalize on user affinity for this valued brand. Each respondent was able to enter a drawing for a YETI 75 Tundra Cooler, valued at $450.