Transcript


Episode 39 - What am I paying you for: The evolving pricing models of advice.

John Anderson - We're an industry that focuses on charging on a commodity, yet giving what's valued away for free. So, the more an advisor can focus on what the real value add is, in my mind, the less they're going to have a problem with fees down the road. But, if I tie my whole value towards an investment return, if the thing that I deliver the most is an investment return and that investment return is down and I'm overpaying for it in the client's eyes, again, I think that's going to be a huge problem for a lot of these advisors.


Emily Larsen - And I'm Emily Larson. In each episode, we'll explore topics relevant to today's trusted financial advisors, interviewing experts and investigating the world of wealth advising from every angle. We'll also provide you with actionable ideas designed to improve outcomes for advisors and their clients.

Ben Jones - To access the resources we discuss in today's show, or just to learn more about our guests, visit bmogam.com/betterconversations. Again, that's bmogam.com/betterconversations. Thanks for joining us.

Emily Larsen - Before we get started with today's episode we wanted to share some very exciting news. Recently we received official word that this podcast was just named as the winner of the 2017 Wealth Management Industry award for Asset Managers: Education and Thought Leadership! Our entire team is super excited! However most importantly we wanted to take moment and thank all of the amazing guests that have really been the stars of this podcasts success. To all of our guests, thank you for sharing your idea, providing our audience access to your expertise, and your time. Last but certainly not least...thank you for listening to the show, sharing it with others, and sending us your feedback and ideas for future episodes. We know that you have many listening choices and we are glad you choose to invest some of your time with us.

Disclosure - The views expressed here are those of the participants and not those of BMO Global Asset Management, its affiliates, or subsidiaries.

Ben Jones - John, maybe as a starting point, could you tell us your story?

John Anderson - Sure, I've been with SEI with for 22 years. I've been in the industry for about 30. Started off in a very traditional sales role, wholesaling roles, managing director of sales region roles. About seven years ago, we decided to take up our core competencies, the investment management, the back office solutions, and really that practice management solution was an area that we didn't necessarily have anybody that was, as I said earlier, curating that content. So, as someone who has been in the business a long time, someone who
is really fascinated by how advisors work with their clients, how advisors run their own business, and how advisors look to the future, I was really interested in taking on this role and one that has really kind of morphed into a couple different ways. Practice management to me manifests itself in a couple different ways for us. Number one, it's the tactical, the step by step, day by day, instructional; what are the best practices of advisors. The other area is the area that, quite frankly, is more fun for me, and that's really kind of looking out to the future. So, over the last four or five years, we've put together probably about eight, nine white papers where we really start to look at what are some of the changes, what are some of the challenges of the industry, what are some of the things that are going to disrupt the industry. Once we get that down, talk about those subjects, then we start to look at road maps. What are things that advisors should be doing now to protect themselves, to prepare themselves for the future.

Ben Jones - Changes on the horizon when it comes to fee structures. And this presents a crossroads for advisors and advisory firms. Today's episode is about how advisors should think about the topic of charging fees to clients; commissions, retainers, and all other sorts of fee models. John Anderson, head of practice management solutions for SEI is just the guy we wanted to speak with on this subject. Last year, he co-authored a white paper called *Fees at a Crossroads*. After you're done listening to the episode, I really encourage you to check out all of the details and graphics from his white paper. The link will be in the show notes at bmogam.com/betterconversations.

Emily Larsen - In the late 1990s, the financial advising industry went through a transformation from transaction to fee-based models. While the fee model changed, in many cases the deliverables didn't change much. It was still investment management centric and many advisors use the financial plan as a free tool to get people's assets under management. Today, there's yet another transformation occurring in the form of digital advice. It turns out that tax loss harvesting and investment implementation can be done with low cost technology solutions widely known as robo-advisors. The services that people value most are often something advisors are giving away for free, which are the financial plan and advice tailored to a client's unique circumstances. So, when we're looking to the future, advisors will need to refocus the conversation around client fees, centering the conversation more around the areas of value the advisor can deliver, and less about a fee as a standard number universally applied to all.

Ben Jones - John has a story from a friend that really illustrates all the converging factors that have led to this topic becoming a prominent conversation today.

John Anderson - I had a call from an advisor right after this first white paper went out on the next wave, and the advisor who I've known very well for years, said I've got a little bit of a situation here. I'm trying to figure out how I'm going to respond to this client. I'm wondering if you can help me work through this. I think I know the answer, but I just want to make sure that it sounds right. And he said I've got this client, I've got $2M in assets, I charge him a flat 50 basis points, we do comprehensive investment management, comprehensive wealth planning, comprehensive financial planning and I think we've been doing this for a number of years and we're really happy. So, it sounded good to begin with. He said, but I got this e-mail the other day and I'm really concerned about how to answer this. So, he sends me the e-mail and the e-mail says something to the effect of: Dave, first of all this isn't a complaint letter. Which means it's probably a complaint letter. He said the relationship that we've had over the last five years has been wonderful, I feel more confident in our financial future, all the things that you want to hear from a client. He said but the last recommendation you made is a little unsettling. He said you recommended moving my wife's 401k -- the wife had just retired -- you had recommended moving my wife's 401k to you under management and I want to know -- while that sounds like a
great idea, what are you going to do different? You’re about to get a raise. You’re about to have more assets under management, you’re charging me based on my AUM, what are you going to do different going forward now that you are getting a raise? So, that was one of the lightbulbs that popped up in a lot of our heads around here. We said how do you answer that question? What is the right answer? Because that is kind of that one client out there that’s that informed investor, that’s that validator, that’s the person who’s looking for transparency in the relationship. And the pricing models that we have today, as you said at the very beginning, is that we do this great job of advice. We do this great job of planning, but we only charge if they buy this commodity, and that’s that investment product that they can get on any street corner in town. So, it’s how do you start to think about these -- so that’s the consumer changing this discussion. But, you also have things like robo-advisors. Robo-advisors are coming out in the marketplace today and they’re basically saying that they do three things very well; they create an investment management offering, they do asset allocation advice, and they do cheap, low cost implementation. So, if you’re an advisor who’s focused on providing just investment advice, the market is being set for you at 25 basis points.

_Ben Jones_ - You know, it’s interesting you bring up robo because one of the commonly repeated mantras I hear in advisors circles as I travel around is that, oh yeah, robo might serve smaller clients or non-high net worth clients really well, but high net worth client accounts, they’re not really interested in that service. I found it interesting that in your survey work, some of your research indicates that’s not exactly the case. Tell me some of the things you’ve learned.

_John Anderson_ - Well, I think the -- one of the big things that we’ve learned is that the robo movement has really begun to change. What we’ve seen is a shift where I won’t call them robo as much anymore as I will call them virtual advisors. Robo-advisor is purely algorithmic, no human interaction, very low cost, online tool. But, if you look at four of the top five largest robo-advisors today, they all have human interaction now. Schwab is up to like 20B, Vanguard is up to 65B. These firms are taking that robo front-end, but providing a voice, providing a human on the other end of the phone when there is a question. So, I think that shift is starting to change and I think you’ll probably see the asset size starting to increase because some people are very comfortable with that 1-800 help solution versus doing it themselves or doing it online. So, I think you’re going to find that the more generalist the investment solution is, the more these robo, or now what we call virtual advisors, are going to be very, very attractive to the consumer.

_Ben Jones_ - Yeah, over the summer I did a panel at a conference on this idea that it’s really about hybrid advice. It’s taking the best of humans, and the best of robots, and putting them together in a way that can serve the client and consumer needs in a different way. And I think that’s really what you’re getting at is some of these robo solutions have really morphed into this hybrid model of human interaction when you want it and technology implementation when you need it or to automate. You noted that clients don’t even really know what they’re paying, so how does that confusion of the end consumer -- you just gave an example of a very, very informed client. I would say a non-typically informed client, but how does the confusion that the majority of clients have around how their advisor get paid fit into kind of this topic?

_John Anderson_ - Yeah, so this is the one thing that, when I do this, present this white paper to large groups of advisors, typically this is the one where they pull their cell phones out, they take pictures of this slide, because this is the one that would be the most disturbing. We surveyed 539 households and we asked them how do you compensate your primary advisor. 33% said they pay a fee based on the level of assets, 27% said that they pay each time they make a transaction and that’s kind of standard. But when you got down to the bottom of the survey,
24% of the consumers said I'm not sure how my advisor is being compensated. And 14% said I don't pay my advisor which means they're not sure how their advisor is being compensated. 38%, almost 40% of the consumers came back and said we have no idea how our advisor is getting paid. Well, that's okay I guess when the market is going up and it has over the last couple years, but when we start to see maybe lower equity returns, when we start to see maybe more volatility in the marketplace, this is a big huge red flag. Because consumers are going to start looking around and they're going to say well wait a minute, what have I been paying you for? If my business is focused on providing investment advice, I'm charging 100 basis points and I can get investment advice from a robo or a hybrid for 25, why am I paying you that delta? And wait a minute; let's add up all I've been paying you over the last 4, 5, or 6, or 10 years; that's a huge number. So, in the days of being a fiduciary and the days of volatility in the markets, I think this is going to be eye-opening for a lot of consumers and they're going to be very, very upset. And I'm not going to say litigation, but I'm going to say there's going to be some problems for a lot of advisors down the road if they're not continuously discussing the value they provide over and above the investment management.

Emily Larsen - That's an astonishing thought, that almost 40% of your clients might be unsure how or if they're paying you. So, it's a good idea to start thinking about how you can engage those clients in a conversation now about what they're receiving for the fees they're being charged. Now is the time to start. When returns are relatively good and markets are somewhat calm. Rather than waiting until the next big correction where volatility and returns and emotions can run wild. So, we have one key take-away. Should you do nothing else in this episode, engage your existing clients right now in conversations about their fee structures. That said, looking to the future, what should you be thinking about with respect to evolving fee structures?

Ben Jones - It was interesting because I thought you were really clever in pointing out some of the differences in the way that other professionals service industries or professions, differentiate their services, and for some reason in financial planning and financial advice, we differentiate by fees. So, maybe explain your thinking around that.

John Anderson - Yeah, so, I think that -- I do it jokingly in the very beginning of this. I talk a lot about the fact that we as an industry have really started to focus on differentiating by how we get paid. We hear a lot about fee only advisors. We hear a lot about fee-based advisors and things like that, and as I look around the marketplace, if I go to my attorney, I don't seek out the most highly qualified retainer based advisor. I don't go out and seek out my favorite hourly-based CPA. I typically go to specialists. I go to trusted advisors that have a specific niche in the area that I want. Maybe it's immigration law, maybe it's family law or something like that. I'm going to go seek out a specialist. So, I really like to think that we should change the name. It's an advice based -- it's an advice based planner. It's not a fee only planner. It doesn't necessarily -- I don't think we need to lead with how we get paid with the consumer to differentiate, I think we should lead with what our real value is.

Ben Jones - Yeah, I mean to some extent we kind of taught the consumer to look at fees first, as you point out.

John Anderson - Right.

Ben Jones - It's interesting. We just did an episode on divorce and financial planning, and there's a number of people across the country that are certified divorce financial analysts and they just specialize in that specific niche. And so it kind of aligns with what you're saying about this specialization and that sometimes you just need some specialized services for a short
period in your financial plan and by changing the nature of what we call it and how we charge for it, we might be able to better serve our clients.

*John Anderson* - Ben, I think you kind of hit it right -- one of the main things that we talk about both on this paper and a lot of things that we do. If I think about a robo-advisor, robo is going to say someone should think about retirement when they turn 65. If you take a virtual advisor, maybe they're going to say okay when you turn 65, here's how you're going to shift between Social Security and maybe your own investments. A real advisor, one that can dig in with a client, is going to say well, what does retirement mean to you? And if you think about that switch, AI, robo advice, are never going to have to have that ability to sit down with a client and really discuss what retirement means to them, how they're going to work in retirement, how they're going to play in retirement, what that next stage of their career is. So, the more specific and the more specialized we become, the more value add we bring. More importantly, the more -- the less question there's going to be about fees because the client is going to see that value.

*Ben Jones* - Yeah, makes a lot of sense. So, I want to kind of shift topic and dive a little bit deeper into the different models. And so, before we dive into all of the variations of different ways that fee-based advice is changing, could you just maybe define for the audience in your own words the difference between fee-based advice and fee-only advice?

*John Anderson* - Well, my definition hopefully is going to be relatively standard. My definition is fee-only is there is no compensation other than from the consumer and that would be fee-only. Fee-based, I think you have a business model that is primarily fee business; however there may be a person that needs a variable product. There may be a person that's maybe a very small account that a loaded product makes the most sense for that particular client. I think you have more of a combination. You have more opportunities and more products to sell, but the fee-only is the one that's going to be very focused on doing nothing but being paid more by the consumer.

*Ben Jones* - In these two different models, does one lend itself to more or less conflicts of interest and everybody's talking about conflict of interest post-DOL implementation.

*John Anderson* - Right.

*Ben Jones* - Does one of these lend itself more or less to the conflict of interest discussion?

*John Anderson* - Well, I think -- and you brought up DOL. And I'm going to suggest that the DOL itself, whether or not we see really what happens at the end of this year, I think the fiduciary movement is here to stay. Whether or not the DOL, or the SEC down the road, or even states have started to adopt some fiduciary ideas, I think there's fiduciary movement around there. And when I saw the actual press conference when the DOL ruled out their rule last year, one of the things that hit me was it didn't say DOL rule on the screen, it didn't say fiduciary rule, it said the conflict of interest rule. So, they're really focused, especially -- and I, as I said, I've been in this business for about 30 years and I can remember the very first product I ever sold carried an 8.5% up-front commission. I thought it was one of the best days of my life. But the point is that we don't see those high commissions anymore. Every time there is regulation, regulation is focused on compensation for advisors and that conflict of interest. So, let's think about conflict of interest. If I have a product that I'm selling, 5% up-front, 3% up-front, the conflict is is this the right product or is because I get paid? In the AUM model, there's also a conflict. It's not as much, but if a client says for example I want to pay off my mortgage and they're going to pull assets away from you, you can talk all day long about low interest rates, tax
deductibility, etc, but at the end of the day, telling them to stay is a conflict because you would have your income reduced. There is one model out there that I've seen which some advisors are starting to use and it's a model that works very well for some of these what we would call HENRY clients, the High Earners, Not Rich Yet. So, there is a model out there that people are using in some cases that's the salary plus total net worth, which is a very innovative model that basically takes a percentage heavily tiered based on the client's income, based on their total net worth, and the focus in that particular model is to be at least conflict free. So, I'm not going to suggest that any model is completely conflict free, but this one, the one salary plus total net worth, really focuses on if you've got a high earner that's not rich, has a lot of medical school debt or something like that, the fact that you're helping them pay down that debt is actually increasing your income because you're both in the same boat and making sure that they're trying to achieve their goals.

**Ben Jones** - High Earners, Not Rich Yet. HENRY. That's an acronym that will for sure stick in my vocabulary for quite some time. Now that we've got a sense of the different fee models that advisors can use to position their business -- and remember it's a best practice that those fees are tied to the value that you deliver to clients -- let's dive into some specific models that John and his co-authors detailed in their paper.

**John Anderson** - The initial model that most people got started with in this business, the one that's been evolved forever, is really the commission or the ticket charges. You're going to see mark-ups anywhere from 1% to 5% depending on the time that you're -- the type of business that you're in. And it's great for those that want simple. It's easy for small accounts. It's not necessarily considered objective. It could be considered expensive up-front, but maybe even cheaper down the road. But for the advisor of course, it's very transaction dependent. You look at the AUM model and for the most part, I remember 22 years ago sitting down with advisors trying to convince them to have their clients pay them 1% versus a transaction fee. 22 years later, we still see the average AUM fee is around 100 basis points. It's easy for the advisor to explain, it's easy for the client to understand. Again, it's not necessarily aligned very well with the services of the advisor if we're providing planning and then charging for the investments. And it's also the advisor's revenue is much more tied to the market performance. You know, in 2008, we see a lot of advisors who were working harder and harder trying to retain those clients and keep those clients happy and yet they were taking huge pay cuts as well. Some of the other models that are out there that we're starting to see evolve and one that's particularly interesting to me is this retainer model where you're much more aligned with the services and the value. It can be a little bit more complex however because you're now having a discussion on a regular basis about the retainer or maybe fee for service. The transitions going from fee-based to this type of model is a little bit more unique, but what I like about that model is that, you know, as an advisor, if the markets are down and you're working hard, you're protected on the downside. What's difficult about that model of course is that when the markets are going up like they have over the last couple years, you're not increasing your income as much as some of those other models that are out there.

**Ben Jones** - And so in that retainer model, do advisors -- do they tend to put some sort of inflation -- I can just see, you know, you talked about the stability of AUM fees over time.

**John Anderson** - Mhm.

**Ben Jones** - In a retainer model, there's got to be some sort of inflationary component because the underlying cost of providing advice are going up every year with operational costs and salaries and so on and so forth.
John Anderson - Yeah, so let me walk you through. This is a scenario that I see a couple of advisors using that I think is kind of interesting. Let's say for example you have a $500,000 account. At 100 basis points, the advisor earns a gross of $5,000, right? So, it's fairly simple. It's simple for the clients. It's easy. It's out of sight, out of mind, etc. So, what we're seeing some advisors do is another model, and this is what we call retainer and investment oversight model. So, this model would say that we'll charge 25 basis points as an investment oversight fee, and then we'll charge a flat fee, a retainer fee, we'll charge it quarterly, and we'll do that as a retainer for advice. So, it's 25 basis points for investment oversight, and then we're going to charge in this case, we're going to put an example out there of $950 a quarter for advice fee. Now remember our $500,000 account at 100 basis points is $5,000. 25 basis points plus $950 a quarter is $5,050. So, we're not suggesting in this case that the advisor takes a pay cut. We're saying we want to tie it closer to what the value add is perceived by the client. So, it pushes the advisor to offer the value added services. It really ensures that moral high ground; if you will, and that complete transparency because the client's actually writing a check or having it deducted from their account a flat fee for advice, does your life really change that much if you have 1M or if you have 2M or if you have 3M. The advice is pretty much the same but that investment oversight fee would be that inflation adjustment if you will. Plus, coincidently, it's kind of tied to what the robo-advisors charge. So, when you think about, you know, a competition or fee compression, you're basically meeting that investment advice fee with the same investment advice fee that a lot of these robo robos are charging.

Ben Jones - And as an advisor thinks about their practice, are there firms that you see that just pick one of these models or is there a blend? Do they do it based on segmentation? How do they think about having more than one fee model or should they not have more than one?

John Anderson - Well, I think there's no right or wrong model. That's the first thing. I think there's a lot of different models that are out there and you very well could look at different models for your firm. I think it's really driven by the client base that you have. It's driven by the size of the firm you have. It's driven whether you're a start-up or a mature business, a growth or a lifestyle business. So, it really starts with understanding really your client base. Maybe one of these newer models like this retainer plus an investment oversight model, maybe the salary plus total net worth is a great way to start with a new segment of clients so you're a more established firm, you have a bunch of retiring boomers, you're probably going to stay in that AUM model. But if you want to start talking to the kids and the grandkids, the next generation, maybe want to adopt the retainer model or maybe you want to adopt the salary plus total net worth model as a way to attract this younger market.

Ben Jones - You know, it really requires an advisor to have a lot discipline around segmentation and differentiating those service levels, which for as long as I can remember is something that I've seen many advisors struggle with, but it makes a lot of sense to have a model that lends itself to helping clients differently as long as you really understand the cost of the services that you're providing. So, tell me a little bit about what an advisor needs to understand about the cost of delivering their services in order to figure out how to price and align these models.

John Anderson - Sure, I think -- you know, Ben that is probably the favorite topic of mine to talk about is segmentation, because I think segmentation when done right is exceptional, and I would argue that most do it wrong, or at least miss out on a big opportunity. Segmentation is always A/B/C, gold/silver/platinum, whatever it is. And segmentation is usually done at what's important to the advisor instead of what's important to the client. In other words, we segment based on revenue. We segment based on AUM, and two clients, each with $1M, could be
dramatically different. So, when I start thinking about segmentation, I always tried to turn it around and say let's segment based on what's important to the client. Let's create a persona based on that client or an avatar or something like that, and then look at the services that we deliver and figure how profitably we are on each of those services. So, for example you have a 68-year-old couple, retired, $1M out of their 401(k), going to live on that, spend it down in retirement. That's a persona that's going to require quarterly meetings. That's a persona that's going to acquire the workshops that you do, the client appreciations that you do, really have a good understanding of a drawdown and what volatility does to the market. Your other client's a 55-year-old corporate level executive, exercise stock options, delivered $1M and says call me in 15 years when I retire. That's a persona that I'm probably not going to spend as much time on. I'm going to meet with him once a year. I'm going to probably do a WebEx, maybe send him a couple letters now and then. Talk to them about tax strategies instead of maybe Social Security like the other persona. So, once I understand what the clients are looking for, I create these personas, and I have the ability to market my services as well as deliver service to clients in a different way. So, understanding that is number one. Number two is to scrutinize your costs and your profitability on a client. So, a number of years ago, I'm at a conference. I'm sitting down with a group of advisors. It's late. You know, we're solving the world's problems. There may or may not have been about three or four glasses of wine to really get us going, but the idea of that night was we started to think about what does it really cost us to service a client. And we came up with a very, very simplistic formula though that really kind of started going down that path, right? So, we created your hourly rate. Your hourly rate was your gross revenue divided by 50 work weeks a year, divided by five days a week, divided by seven hours a day. So, gross revenue divided by 50, divided by 5, divided by 7. So, in other words, if your gross revenue is, let's say, $500,000, then your hourly rate is $286. And that was really enlightening because what we sat around that table is we decided that anything that we did that wasn't worth $286 an hour, get rid of, outsource, pass on, delegate, whatever it is. But we also said, well, what does it cost us to service a client? So, if we're servicing a client, let's say it's 10 hours per client. At $286, that means I'm probably not profitable on some of my smaller accounts. So, I need to maybe start changing the service plan on some of those smaller accounts.

*Ben Jones* - Now, I want to talk about two kind of very different scenarios, unique scenarios, but one that every advisor faces, and I've talked to a lot of folks around the country that are really trying to solve for the best ways to handle these two things. So, on one side of the curve, I want to talk about kind of -- We've talked about ongoing fees and relationships, but often times advisors give away the plan up front to get AUM in the door. How do you think advisors should think about all the work that goes into the initial financial plan that maybe historically they were giving away for free around should they'd be charging for that. And then the second kind of other tale of this conversation is you now have a lot of advisors that have a lot of clients that are in retirement or nearing retirement. They're naturally in decumulation which doesn't bode well for the AUM fee model. How should they think about properly feeing client that are in a decumulation phase of their life that's fair to the client and fair to the amount of work the advisor needs to go through?

*John Anderson* - Sure, that's two big questions. Well, with regard to the ongoing fees and in our survey that we did with the advisors, 26% of the advisors that we had in our survey said that they charged up front for planning fees. Only 26% of advisors. And you know what, to me it's a challenge, because of course you've got -- it's a large hurdle. You know, when a client walks in the door, you're going to promise them that you're going to create this financial plan that will help them guide themselves towards a solvent financial future or helping to send the kids to college or retirement or whatever, and it's -- you know, it's kind of air. You're kind of building this trust. So, it's a really big hurdle for a lot of clients to say I'm going to write you a check for
$5,000 or $10,000 or whatever it is for that up front. At the same time, if we're not charging for that up-front fee, are you really more of an investment advisor? Are you giving your advice away for free and charging for this commodity down the road. What we're also challenged with is what about ongoing planning. If I charge this up-front fee and then three years from now I need to redo the plan or I need to update the plan, do I charge them again. So, there's a lot of hurdles in this case. I'll tell you, one of the ways that I'm seeing advisors get around this hurdle is by changing the conversation, is talk about co-planning, talk about ongoing planning. But at the same time there is initial work that has to happen up front. So, we're going to call that an onboarding fee instead of a financial planning fee. The onboarding fee takes into consideration the movement of the assets. The onboarding fee takes into consideration the -- adding them to the financial planning software, to the aggregator and all of that other stuff that you do up front. It takes into consideration the staff time early on in getting that stuff, as well as your time, meeting, getting to understand them, and building that. You know, that first 12 months is that honeymoon period. The second 12 and thereafter, the client then starts to look at is this the type of relationship I want. So, what I think the onboarding fee allows you to do is to start talking early on about this is an ongoing planning experience and the onboarding fee gets us started in that planning experience because there is initial work up front. From what I've seen around, that's a model that kind of works fairly well for a lot of advisors is to talk about planning -- not separating out planning and the AUM fee in this case, but really that onboarding fee. And the other question, I think -- that you talk about, is really with this de-converting. I would argue that you got two things in play here. You've got the clients that are retiring, that are pulling money out in assets. I think there does need to be some sort of asset minimum or -- maybe not asset minimum but revenue minimum that you're going to have to have working with a client. So, we may turn into a retainer fee down the road. At the same time, early on, most of the planning has been done, so these clients in decumulation mode very well may be relatively profitable, even if they're going down in assets. What I would argue is the bigger challenge for the advisors is complacency, is that we need to think about not just these clients, as my business is winding down and I'm winding down, is how do I begin to attract new business.

Emily Larsen - There are a variety of fee models out there, and finding one or two that can work for a segment of your business and their changing life stages needs to be a thoughtful process that's revisited over time. Now how do you get from today to tomorrow if this is a route you'd like to start exploring. John talks about the transition and what they've learned from many discussions with advisors who have been through this.

Ben Jones - I remember how much time and energy I spent early in my career talking to advisors trying to get them to transition from transaction to fee. So, a lot of advisors are scared they're going to lose clients, they have to have a fee discussion they don't want to have, but what were some of the results of that transition and experience -- client experience that we can learn from that might help our discussions today as we adopt some of these models.

John Anderson - Sure, and I think that's one of the bigger challenges for most advisors is really coming up with what does that conversation look like. Because you're going to walk to a client and say, you know what, I've been charging you 25 basis points that you don't even see. It's built into the funds. I'm now going to charge you 100 basis points that you're going to see all the time, are you happy with that? And most clients would say, not necessarily a great thing for me. So, one of the first things we talk about in this transition is to truly clarify the value that you deliver and really understand the value proposition. It's amazing to me how many advisors don't really have a clear definable value proposition. Who are the clients your firm is set up to serve, what are the obstacles they face, and what are the solutions that you provide. If you can answer those three questions, you have the beginning stages of a value proposition that can really
change the conversation that you have with your clients. Now, for me, that value proposition starts with kind of that blue ocean. You've kind of read about the red ocean versus the blue ocean. The red ocean is where there are battles taking place, where people on the water, they're shooting at each other, they're fighting, there's blood in the water, and it's the red ocean. That's really kind of where our business is like today with regard to investment products. We hear a lot about fee compression. It's typically compression happens when there's a commodity, and when we think about the commodity today, it's product. When we think about the commodity today, it's an advisor who says he or she works with high net worth individuals and business owners providing comprehensive financial planning. They all say that. So, what we need to do is really get down and understand who is that exact type of client and what is their exact type of problem, and what are the exact types of solutions. The more I have this value proposition down, the more I come into that blue ocean where it's calm and peaceful, where no one is assailing me on my prices. No one is talking to me about anything other than the value add that I provide. So, I think the first thing for anybody having this fee discussion is to really understand what is it they deliver, what is the value they deliver and who is that client for, and I can walk through an example of that, but for the most part that's the big discussion that you've got to have is to understand what your value is and that mindset first before anything else.

**Ben Jones** - One of -- I mean, I think that makes a lot of sense. I've talked to a lot of advisors in the last several months about this idea of really getting very specific about their vision of what they want to be in the next 10 years, because if you don't know, how do you explain that to clients and how do you get to no, as in the word N O, how do you get to no quickly when you meet a new prospect to make -- you know, if it's not a good fit.

**John Anderson** - Right. Another quick story here. So, I live outside of Philadelphia. Let's say, for example, that if I flipped on a light switch here, the utility company is PECO. So I'm writing a check to PECO every month. So, let's for example I work with PECO employees, so what's the biggest single fear of a PECO retiree, well, it's running out of money. So, let's say my business solution is creating retirement income solutions for PECO employees who are afraid of running out of money. Now that's getting to no, right. If you're not a PECO employee, if you're not afraid of running out of money, then you're probably not going to be interested in me. At the same time, if you are a Pico employee and if you are afraid of running out of money, you know that I have a solution dedicated specifically for you, and that's really where I focus on creating that value, and that's where I focus on saying this is what I do and who I do it for so that you can target that type of client and that they understand who you are and you understand who they are.

**Ben Jones** - Understanding and articulating your value proposition is such a crucial part of the prospecting client conversations and I'm so glad that John brought that up. At the end of his paper, John and his co-authors list some really actionable steps that advisors can take when they start exploring the idea of transitioning from maybe their current model to a new model, and I'd really encourage you to check out the paper so that you can learn more about those strategies, and you can do that at bmogam.com/betterconversations. To wrap up, I asked John what he thinks the dominant fee model for advisors will be 10 years from now.

**John Anderson** - I think it's retainer plus investment oversight. I really do think that you're going to see this business, this financial planning, this financial advisory business is still relatively new. I think that the AUM model has been good, but at the end of the day we're going to morph more into what you see with attorneys and CPAs where there is an advice based model where it's a little bit more transactional with regard to paying maybe a quarterly advice fee. I think the AUM model is still good because there is still some asset management, but that number is going to
be reduced probably dramatically because the investment oversight is something that is important but it's not something that the advisor is doing day to day, and I don't think they're going to be compensated for that down the road.

Ben Jones - And John, I mean, it was an extensive white paper. We've had a long conversation, but if you could kind of summarize our conversation in two sentences or less today, what would you say.

John Anderson - We are planners by nature. We are people that look into the future on behalf of our clients and try to get to help them reach their goals. Once in a while, we got to look at our business and look at the future and look at the trends and say, are we prepared for our own future as well as the clients.

Ben Jones - Thanks to John Anderson for sharing his wisdom on the show today. Also, special thanks to Jessie Andrews, a friend of the show who introduced John and I and made this entire episode possible. To find out more about John and SEI, I would also recommend checking out his blog, Practically Speaking by SEI. You can find a link to the blog, the white paper, and other information about SEI by visiting our show notes page at bmogam.com/betterconversations.

Emily Larsen - On November 14, Ben will have a show on the road at IMPACT® 2017. We'd love to meet you in person, have a conversation, and hear your thoughts about topics we should explore on future episodes. E-mail us at betterconversations@bmo.com to ensure we connect.

Ben Jones - Thanks for listing to Better conversations. Better outcomes. This podcast is presented by BMO Global Asset Management. To learn more about what BMO can do for you, visit us at www.bmogam.com/betterconversations.

Emily Larsen - We value listener feedback and would love to hear about what you have thought about today's episode. Or, if you're willing to share your own experiences or insights related to today's topic, please e-mail us at betterconversations@bmo.com. And of course, the greatest compliment of all is if you tell your friends and co-workers to subscribe to the show. You can subscribe to our show on iTunes, Google Play, the Stitcher app, or your favorite podcast platform. Until next time, I'm Emily Larson.

Ben Jones - And I'm Ben Jones. From all of us at BMO Global Asset Management hoping you have a productive and wonderful week.

Emily Larsen - This show is supported by a talented team of dedicated professionals at BMO, including Pat Bordak, Gayle Gipson and Matt Perry. The show is edited and produced by the team at Freedom Podcasting, specifically Jonah Geil-Neufeld and Annie Fassler.

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