Trends in the Financial Advisory Profession: Key Implications for the Investment Management Industry

Webinar
presented by
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The Questions We Sought to Answer

- Which trends are becoming increasing prevalent among investment advisors?
- How advisors are implementing tactical asset allocation with different client segments?
- Which asset classes they're most likely to increase – and decrease – in their clients' portfolios in the coming months?
- Which kinds of products – mutual funds, ETFs, SMAs, alternative assets, commodities – they're likely to recommend for middle income, mass affluent, and high net worth clients?
- What kinds of information advisors are looking for from investment companies to aid in their due diligence efforts?
- What investment companies need to do to address the evolving needs of advisors and their clients?
Target Audience

- Firms
  - Mutual fund companies
  - ETF sponsors
  - Other manufacturers of investment products
- Individuals
  - Directors of marketing
  - Directors of research
  - Directors of product development
  - Sales Managers
  - Salespeople and Wholesalers
• Survey sample provided broad representation into in all areas of the traditional AUM segmentation spectrum.

• Note that 25 respondents work with firms with more than $1 billion under management.
Survey participants also work with a broad spectrum of clients. Results and analysis offers insight along the other traditional way to segment advisors.

- Note the representation of advisors who serve ultra-high net worth clients.
Who Were the Advisors Who Provided Research Data?

- The respondents can also be segregated according to their experience levels.

- Most had more than 10 years of experience in the advisory profession.
Segmenting by business model, we find that dually-registered advisors are most likely to work with middle-income clients.

Fee-only advisors provide access to the wealthier clients.
Key Findings

• Overall 83% of the advisors in the sample reported that they were planning to make tactical shifts to client portfolios.

• This trend was strong across all categories, but was strongest among advisors who work with the wealthiest clients.

• Similar movement toward actively managed funds, including unconstrained funds.

• Advisors are diversifying into commodities, real estate and other alternative asset classes.

• Certain products, including TDFs, SMAs and black-swan funds are not gaining popularity.
Portfolio Changes Chart 1

Percent of respondents who plan to raise/lower allocations to various equity investments. Different advisors chose different parts of the portfolio to make their opportunistic tactical adjustments.

- One response: take direct tactical action.
- Almost 40% of advisors plan to raise allocations to U.S. Large Cap, U.S. Value and Emerging Market Equities.
Portfolio Changes Chart 6

Percent of respondents who plan to raise/lower allocations to various fixed-income investments. This trend was apparent in the fixed-income world as well.

- Tactical Activists see opportunity in Emerging Market Bonds, Munis and Foreign Bonds, and reducing exposure to Treasuries and Cash.
- The size of the segment appears to be consistent at 30-40%.
Portfolio Changes Chart 2

Percent of respondents who plan to raise/lower allocations to various actively managed investments

- A significant number of advisors – roughly a third – plan to incorporate tactical input into portfolio construction and raise their allocations to more actively-managed and/or unconstrained funds.
The trend to “delegate” tactical portfolio activities is robust across all segments.

A third of advisors – ”Tactical Delegators” – are addressing the downside risk issue by delegating tactical activities to the funds they select, rather than making the tactical judgments themselves.
Portfolio Changes Chart 4

Percent of respondents who plan to raise/lower allocations to real estate, futures and MLPs

- The segment of advisors is raising exposure to real managed futures and MLP investments.
Portfolio Changes Chart 7

Percent of respondents who plan to raise/lower allocations to various annuity investments

- The diversification trend is raising interest in variable annuities.
Key Themes

• Advisors overall are looking for ways to reduce downside risk in client portfolios.

• Each of these changes – a greater tactical orientation, moving to less-constrained fund management, broadening portfolio allocation, adding annuities--represents a different method for dampening volatility.

• In addition, advisors appear to be dramatically evolving the criteria by which they select investments. (One of the key findings: the Morningstar star rating ranked dead last among selection criteria.)
Conclusions

• In the current environment, marketing executives can (and should) segment advisors by their downside risk strategy.
• Advisors who are still looking for a downside-risk-management strategy have essentially four broad options that are being pioneered by their peers.
• The preferred risk-management strategy also seems to be influenced by the types of clients advisors are working with.
• The most successful marketing and new product development initiatives will segment the advisor community and talk to the particular strategies they are adopting.
• The new investment selection criteria has implications for how funds/ETFs/annuities can most effectively be positioned, and helps clarify what information advisors are looking for today.
Purchasing Our Report

• 65-page PDF with detailed analysis of our findings
• 50-slide PPT presentation with all charts and figures
• Intended audience:
  • Mutual funds, ETFs and other manufacturers of investment products for the advisory channel
  • Sales teams, product managers, marketers, strategic planners and C-level executives

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