Is Financial Planning Commoditized?

By Helen Yang
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"Bank of America, which launched its Life Plan app on Oct. 5, said it created customized plans for around 475,000 of its customers as of mid-October." Sean Allocca wrote in *InvestmentNews*. Fidelity and Charles Schwab also introduced free planning apps.

In related news, eMoney announced its outsourced planning service, making financial planning a commoditized service. I call it Financial Planning as a Service (FPaaS).

The next wave of commoditization is on its way. In the era of low-cost ETFs and free trades, the 1% advisory fee stands out as the fattest piece on the chopping board - for a client with $1 million of assets, the advisory fee is $10,000 each year. It is getting harder and harder to justify this fee.

Would financial advisors one day face the same fate as traders? For the mass affluent and lower end of high net worth, the free financial planning tool and a classic asset allocation are all they need. For wealthier clients, how do you justify charging for a percentage of the assets?

In working with advisory firms, our first step is to help them validate their existing models and "fix them up". Their models are typically on par with, or underperform, the classic models consisting of simply SPY, ACWX, and BND. In other words, most advisors do not add any value in asset management whether they do it in-house or outsource it.

It should not surprise anyone. It is difficult to beat the classic models. There are firms whose models consistently outperform the classic models, but there are not many. If you think you are one of them, our visualization can help you validate it, and it will be a slam dunk when you show it to prospects.

What if your models are just as good as everyone else's?

Logically, it would make sense to charge a flat fee for planning and other services, plus an administrative fee for asset management. However, for higher net worth clients, this would mean lower fees, hence not an attractive option for advisors.

Can financial advisors justify the 1% fee by taking their service to the next level beyond the traditional cookie-cutter service? The answer is yes. With the right tools, advisors can deliver real insights, better-informed advice, and truly personalized services.

It starts with getting to know clients well using behavioral finance. People talk a lot about behavioral finance, but there has not been a good way to use it systematically until we came along.

But we cannot talk about behavior in a vacuum. Advisors need to show real insights in investments to build credibility. Our real-time risk monitoring & visualization reveals timely insights that clients cannot get from CNBC and Yahoo! Finance.

Combining behavioral finance with risk visualization, it is a powerful tool to convert prospects and better engage clients. Industry lead Bob Veres says, "it is an ongoing instrument to spur conversations and provide explanations in the face of extreme market conditions."

With financial planning getting commoditized, it is time for financial advisors to find ways to deliver real insights and better client experience. Fortunately, money is an emotional matter. Those deeper conversations are not something that algorithms can replace any time soon.

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Learn more at www.andeswealth.com.

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