



A New Way to Deliver Wealth Management

Combining behavioral finance with risk visualization, advisors can un-commoditize service and deliver a superior client experience.

Executive Summary

Wealth management is undergoing drastic changes, driven by technology advancements, regulatory complexities and increasing client expectations. Clients do not want more data; they want plain and clear insights.

Recent research into behavioral finance and risk management reveals powerful new ways advisors can use to un-commoditize service, satisfy Reg BI and deliver truly personalized services. This new approach, enabled by integrated technology, holds great promise to simplify the complex and differentiate advisors in a sea of sameness, while ensuring that regulatory demands are easily met.

This whitepaper dives into these industry trends and discusses how new advisor technology available today can move clients seamlessly from risk tolerance to the Investment Policy Statement, deliver unprecedented transparency, and enable advisors to run better businesses.

1 Introduction

It is no secret that wealth management is undergoing change, driven by technology advancements, regulatory complexities and increasing consumer expectations. As an industry, we are no longer in the “salad days” when there was an unending supply of clients, little competition and advisors only provided one service – investment management.

Now, things are different. With the entrance of new digital competitors, low-cost providers, more firms offering full wealth services, along with much more volatile markets, clients are expecting more from their financial professional. As a result, we are now in a new environment that requires a new approach.

Most notably, advisors need to harness the latest technologies and operating models to ensure they are building businesses that can scale, are dynamic and provide the key services clients value most; else risk being marginalized in a much more competitive and challenging industry.

Recent research into behavioral finance and risk management reveals powerful new ways advisors can better articulate the value they are providing to clients, while providing significantly better communication tools so that they are building trust with their clients, ensuring client loyalty and enjoying all that comes from happy, satisfied clients, such as increasing referrals.

One powerful way to do this is to combine behavioral finance with risk management in a process that is repeatable, documentable and intuitive for clients. This new approach, enabled by integrated technology, holds great promise to simplify the complex and differentiate advisors in a sea of sameness, while ensuring that regulatory demands are easily met.

Accordingly, this whitepaper will highlight these industry trends and discuss how enhancements in advisor technology can provide solutions to these key challenges, while transforming the client experience and enabling advisors to run better businesses.

2 Industry Challenges

Satisfying Regulatory Demands

With new regulations such as Reg BI, the industry needs a renewed focus on the traditional risk tolerance exercise. In this new environment, advisors need a “Defensible Risk Tolerance” that can withstand legal scrutiny. Recent commentary by industry experts¹ points out the many inconsistencies and misalignment of traditional risk tolerance questionnaires, such as their psychological nature or the lack of transparency in popular “risk scores”. Additionally, it has been reported that many advisors still don’t include a risk tolerance factor at all when developing portfolios and making financial and investment recommendations – a sure fire recipe for disaster when inevitable compliance audits are conducted or unhappy clients pursue litigious claims for unsuitable investments.

Particularly with the new regulatory environment in the form of Reg BI, it is imperative for advisors to have a much more rigorous process in place – one that is measurable, defensible and easily

¹ [Wealth Management Hyperloop: Digitizing the Path from Client Profile to Portfolio Management](#), William Trout, Feb 15, 2021, Javelin Strategy.

implementable. All of which puts the focus on technology and its role to make this an efficient and cost-effective process as operational efficiencies are critical for firms to be able to increase capacity, gain scale and continue to grow.

Generating the Investment Policy Statement (IPS) is an important step in this process to document the agreement between advisors and their clients when it comes to recommendations. Surprisingly, many advisors still do not use an IPS, mostly due to the lack of good IPS generators available or just a discounting of the importance of this critical document. Again, a recipe for disaster when failed audits and unsatisfied client claims land on an advisor's "to do" list.

Additionally, according to industry experts, most advisors don't know what needs to go into an IPS, and how to make it interesting and educational. This can be attributable to operational challenges and a lack of good, easy to use technology. Most notably, existing IPS document generators tend to be static, and it is difficult to generate dynamic content supported by robust analytics in a static environment.

Seeking Differentiation

Recent research² and industry experience show that the best way to differentiate as an advisor is through getting to know clients deeply and delivering real insights into behavior and investments. As any veteran advisor knows, managing client expectations and emotions is half of the battle in an advisory relationship. As an example, classic financial theory assumes that market participants are rational, while behavioral finance claims that investors are subject to cognitive biases leading to irrational decision making. How can advisors reconcile these conflicting thought processes?

In other words, in this age of information overload, too much data can also be a burden. Clients are tired of numbers and advisors waxing poetic, they want plain and clear insights. One key way to provide this is through a portfolio visualization exercise, enabled by the latest technologies. Interestingly, some of the more popular portfolio visualization tools are no longer available, creating a gap in the market.

Protecting Baby Boomer Clients

Advisors are also increasingly concerned about better protecting older clients from cognitive decline. When clients suffer from cognitive declines due to the onset of Alzheimer's and dementia, they become more vulnerable to scams, coercions, and manipulations. As a result, there is an increased focus on senior protections by regulators, hence it is important to put policies in place in a timely manner. However, advisors often hesitate to bring this sensitive topic up for fear of offending the client.

So, what can advisors do in this more challenging and competitive environment?

² [The Role of Behavioral Finance in Advising Clients](#), Cerulli Associates & Charles Schwab, July 2019.

3 Combining Behavioral Finance and Risk Visualization

To solve for these industry challenges, new technology platforms need to seamlessly integrate the following:

- **Risk Tolerance** – A new, modern risk test that maps the investor’s profile directly to one of the advisor’s models, so it is transparent and defensible.
- **Investment Policy Statement** – The ability to produce an agreement that is robust enough to satisfy the level of scrutiny of corporate trustees yet is also easily understood by individual investors.
- **Practical Behavioral Finance** – Systematic tools to engage clients and ensure that their expectations are aligned with their investment results.
- **Portfolio Visualizer and Risk Monitor** – Daily updates to portfolios and risk metrics to provide clients and their advisors with timely portfolio insights.

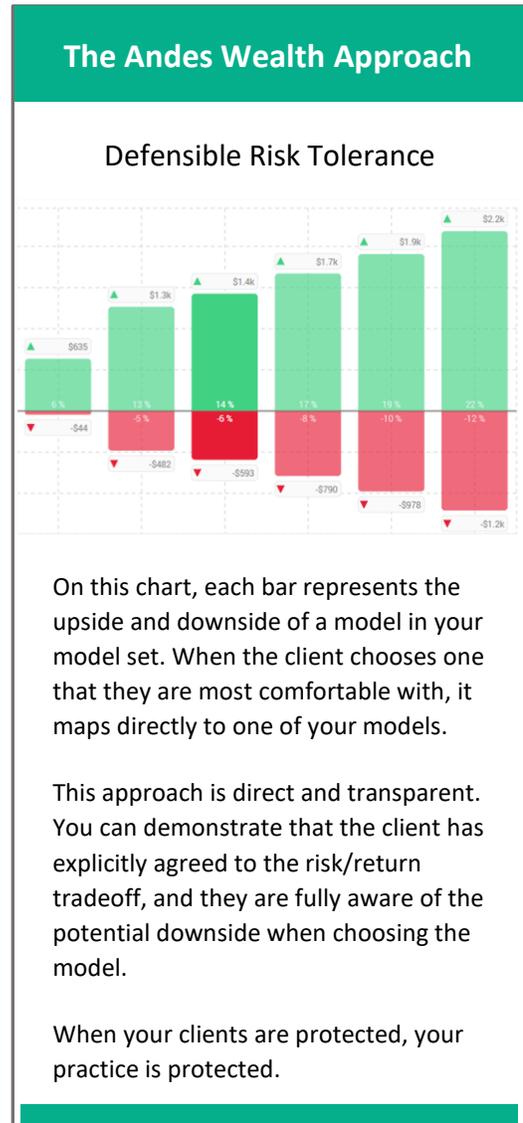
These four pillars work together to provide a powerful onboarding solution that helps move clients seamlessly from risk tolerance to the Investment Policy Statement, while also serving as a powerful ongoing communications platform by providing unprecedented transparency and clarity to empower financial advisors to effectively convert prospects and better engage clients.

Underlying this technology platform is a modern way to better understand investor behavior in the following aspects:

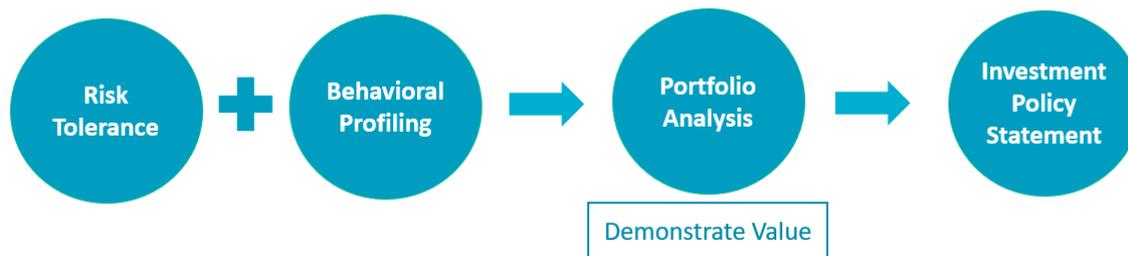
- Investor type, such as passive investor, trend follower and contrarian.
- Behavioral biases, including loss aversion, overconfidence, and herding.
- Financial IQ, testing investor’s knowledge in compounding, diversification, market timing and more.

A credible conversation on behavior needs to be backed by real insights in investments. There is no perfect model to predict or explain the ever-changing risk and return relationship, but we can certainly monitor it and visualize it in a way that is easy for advisors and clients to understand. Using “deep analytics”, advisors can go back in time to review how the market behaved for any time frame, for example, during the market turmoil and in subsequent recoveries.

Combining deep analytics with behavioral insights, advisors can effectively tell the long-term story.



Stated another way, the prospect to client journey can be enhanced and supported by the latest technologies to provide an integrated experience.



The above process can be complex and time consuming, particularly if the tools available are not part of the same platform. These critical workflows can be vastly streamlined, automated and improved with the right technology. The good news for the industry is that this technology is available today. Advisors owe it to themselves, their clients and their businesses to learn more about this ground-breaking new technology and how it can help integrate the very human aspect of investing.

4 Practice Management Benefits

There are tremendous practice management benefits wealth firms and their advisors can achieve from leveraging the latest advisor technologies.

Provide a better client experience – With better communication and onboarding tools, client satisfaction will increase, enriching client relationships for better loyalty and referrals.

Grow your firm – Free up your advisors and staff from manual processes and legacy technology to empower them with higher productivity and increased capacity to pursue business development activities.

Un-commoditize investing – As the race to zero is here, advisors will need a new approach to tell their investing story, and offering a more tailored approach can be a powerful way to justify 1% fees.

Gain scale and productivity - Deploying workflow automation to increase capacity will save time, increase efficiencies and at the same time provide digital tools to keep clients involved and engaged – all of which are critical to support sustainable growth.

5 About Andes Wealth Technologies

A finalist of the 2020 WealthManagement.com Industry Award, Andes Wealth Technologies provides innovative solutions to address the critical need of financial advisors to differentiate, demonstrate value and strengthen trust. Andes platform provides a seamless client onboarding experience including risk tolerance, behavioral finance, portfolio visualizer/risk monitor, and Investment Policy Statement (IPS). It is also a powerful communications platform to spur dialog and provide explanations in the face of extreme market conditions. Learn more at www.andeswealth.com.