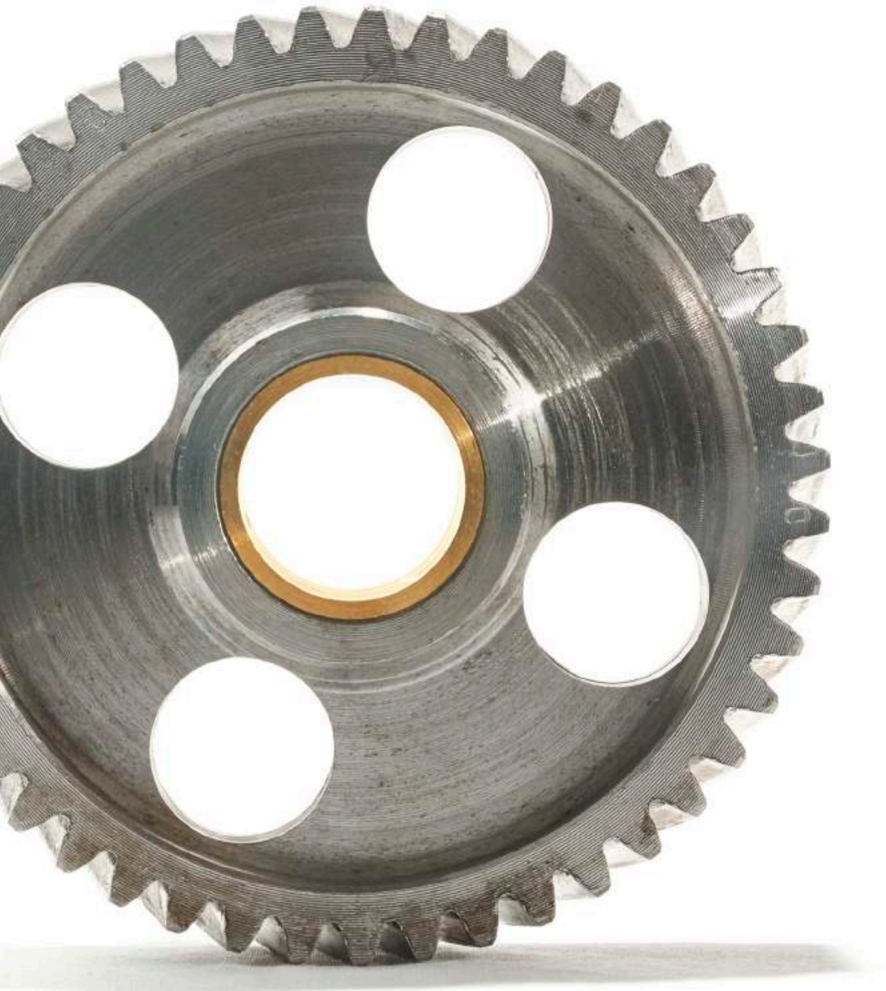
The Robo Opportunity and How You Can Capture It —

Get Ahead of the Change that's Revolutionizing Financial Advice



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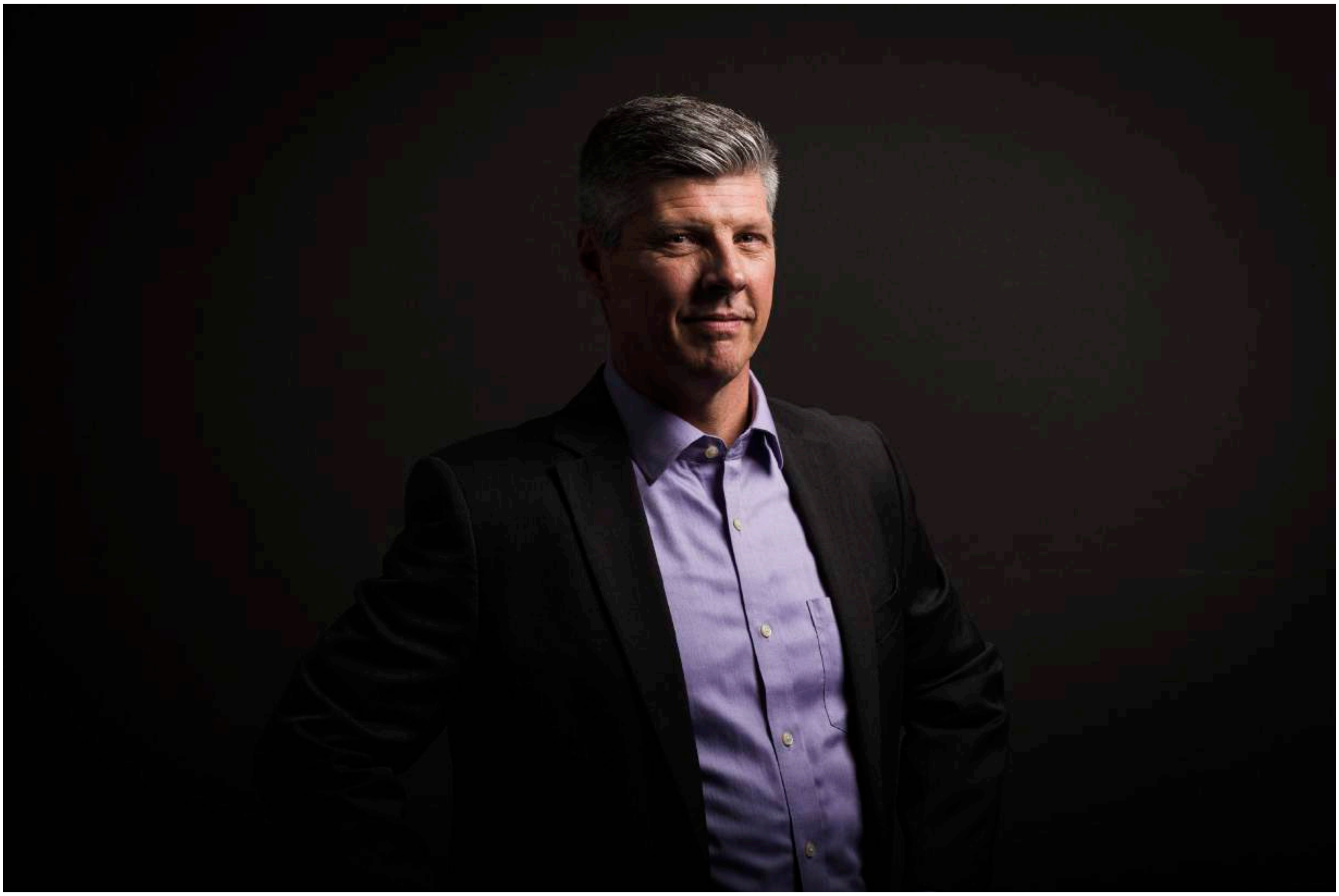


Executive Summary

Robo-advice is changing the face of the asset management business, but it's a tool not an end in itself. This white paper shows you how you can use robo capabilities to automate routine tasks, freeing up your time to deepen existing client relationships and seek out new ones. Used right, robo capabilities can help you scale up your business and increase your revenue stream, while maintaining the kind of high-touch service that wealthy clients demand.

What’s Inside

Robo–Advice: The Opportunity

Financial advisors are understandably nervous about the new and growing trend of robo-advice. If a computer program can create asset allocations, select managers and implement investment policies, what will anyone need a flesh-and-blood advisor for? Yet for a growing number of advisors, robo capabilities are not a threat but an opportunity, allowing them to automate routine chores and scale up their book of business, while also leaving them time to focus on core relationships.

When you leverage robo capabilities, one set of ideas can serve many different clients in ways that are customized to their individual needs and tolerances. These platforms can allow you to apply your expertise and best practices across a wide book of business. Imagine an army of robots, armed with your investment story, disseminating the investment advice you consider best and most suitable for each client situation.

The key idea is that automation doesn't necessarily mean automation only. Pure robo platforms — that is, software-based solutions designed to render conventional client relationships extinct — are growing, but they still represent only a small percentage of the wealth management business. Most wealthy individuals and families still want to receive investment advice from a human being, not a computer program.

As recently as 2014, all the pure robo platforms on the planet might have managed a total of $25 billion rolled together – barely 1.1% of all the AUM that traditional wealth managers currently service. Even at reported channel expansion rates of 65% or higher, it's going to take a long time before traditional advisors are extinct. Extending the growth rate far into the future, industry forecasters are reluctant to assume that pure robo advice — just the automated messaging, none of the human contact — will capture more than 1.6% of all global wealth over the next decade.

The real opportunity comes when you keep human advisors in the picture via cooperative hybrid models. Let's face it: the largest concentrations of wealth are the quickest route to scale, and that wealth will remain under the control of individuals who favor value-added relationships over commoditized discount pricing.

How do Advisors Spend Their Time?

Constraints of the Traditional Investment Model

40-60 hours per week @ 49 weeks per year (assuming three weeks vacation) 1960 to 2940 hours per year total

By 2020, we may see a collective $3.7 trillion worldwide shift into hybrid human/robo advisory frameworks. That's 72% more money than what all U.S. RIA firms manage today, and by 2025 the pool of assets at stake is projected to quadruple. That looks less like an extinction event and more like a golden opportunity, provided you're willing and eager to partner with a robo and play the human role.

Breaking the Capacity Chains

Conventional advisory models have hit hard constraints that cap effective growth relative to existing resources. At its simplest, a typical RIA's expansion is limited by (a) local access to capital (b) human talent available (c) human capacity.

Access to capital encompasses the client attraction and service cycle, including prospecting, marketing and retention. Given a relatively fixed population of high-net-worth and ultra-high-net-worth individuals across a local territory, competition for substantial accounts is fierce and ultimately represents a zero-sum game: for every advisor whose AUM increases when a new client is signed, a competitor suffers a corresponding AUM decline. While some marketing programs target lower-intensity "mass affluent" prospects or stretch the prospecting region to reach more potential clients, these approaches require technological support to manage effectively.

Human talent conventionally scales up with AUM and the associated revenue it generates. Today's advisors appear to hit a wall around 160-175 in terms of the number of clients they can efficiently serve, forcing principals who want to grow beyond that point to hire more people to handle the new accounts. Affluent clients demand increasing levels of value-added service, making it harder to service large numbers of accounts. As a result, the average number of accounts per active advisor has dropped 10% since 2011 and the trend points down from here.

Note that these are retention activities only: any prospecting or business development efforts need to be pursued separately.

Human capacity is the hard limit. Deploying additional financial resources can buy you additional support in the form of junior advisors, specialists and back office support, but it will never buy you additional time spent in front of the clients who value their relationship with you. You need time face to face with your clients – as well as time to market your services to new prospects.

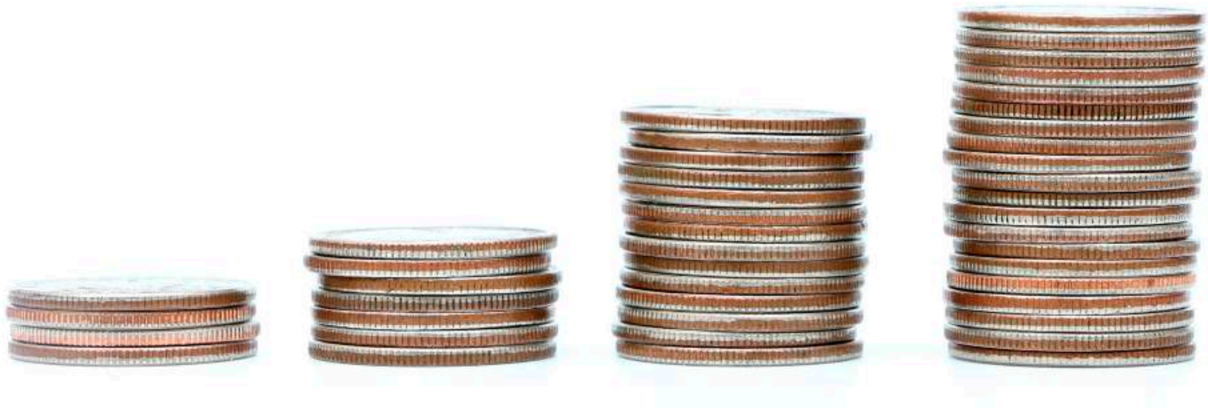
Yet, many advisors spend working hours on routine back-office chores like rebalancing, portfolio construction, client onboarding and reporting, which could easily be outsources to a turnkey asset management program or TAMP.

Switching from an approach of running the portfolio in house to outsourcing can turn a cost center into a profit center without substantial investment or training. All it requires is a realignment of personal and professional expectations: your job is no longer working with stocks and bonds; it is now working with the people.

Removing Barriers to Growth with Robo Technology

Automated systems were built to extend sophisticated investment expertise to less sophisticated investors, particularly the near-wealthy households that fall into the mass affluent category. Collectively, these households have at least $7 trillion in liquid assets, representing a largely untapped revenue pool of $70 billion a year. Unfortunately, account sizes are small. The mass affluent group is approximately triple the size of the HNW population but owns only twice the aggregate asset base. As a result, many wealth advisors have found it too costly to serve these clients effectively. They have refused accounts, offered stripped-down levels of service or absorbed the costs as a favor to more profitable mutual relationships. These people need better investment expertise.

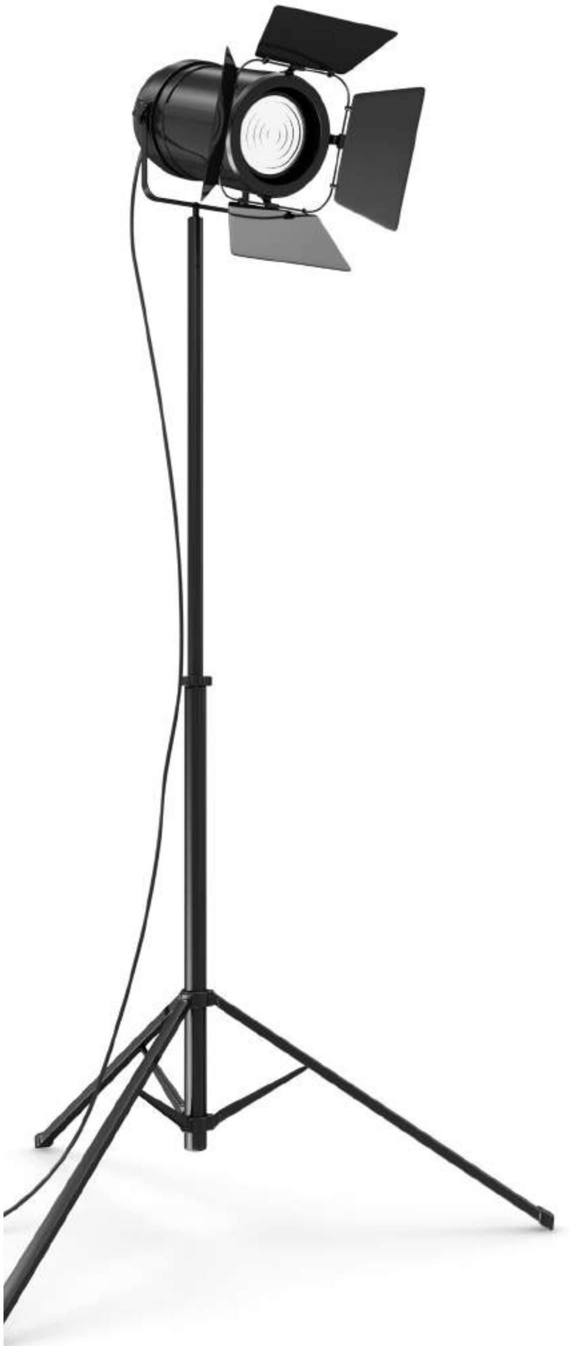
You can provide investment expertise in an automated environment, using platforms for support in routine decisions while handling the exceptions personally, as time allows. This is a critical piece of the hybrid robo model, and the reason the forecasters expect it to experience AUM growth over the next three years. There's a lot of money here that conventional wealth managers have left on the table. Automated services — delivered via a trusted advisor — can put these accounts in play.



Robo Technology + Advisor Expertise = Opportunity

The only question is whether you want to reach for a share of that $7 trillion. Many mass affluent investors are younger and respond well to largely automated interactions. To them, robo-advice is just an extension of the many apps and capabilities they routinely employ in their daily lives. However, they also value active risk management. They're willing to pay a premium to opt into relationships where an expert will at least passively monitor their account for irregularities. Baby Boomers, for their part, have historically been less willing to delegate investment services to an automated technology, but this may be changing as robos become more mainstream, especially if hybrid robo-advisor services are cheaper.

Within the relationship, the advisor adds value by overriding the automated system where necessary and ultimately training it to act as an extension of the core investment practice – incorporating your investment philosophy. The objective here is not to lessen the advisor's expertise but to expand his or her capacity. Advisors can hang onto the parts of their jobs that they enjoy or where they feel they add value, for instance, continuing to perform proprietary research over a slice of the portfolio or to offer other hands-on services like income planning or social security integration on top of the automated investment function.



This is where true open architecture is essential. A platform that simply populates a portfolio from a universe of 20-30 exchange-traded funds is unlikely to provide the personalization that higher-tier clients will demand and others will covet. Because clients will transition along the robo / advisor axis as their circumstances and needs change, it's worth finding a platform that supports them (and you) throughout the relationship. This, in turn, becomes a competitive advantage: those who distrust a purely automated framework will welcome the option of your active involvement when market conditions or client needs require a quicker response than the investment models can make.

At the most basic, these hybrid relationships revolve around an advisor using a robo to run multiple client portfolios cost-efficiently. Clients pay just enough to cover the robo fees and the advisory firm's operating margins, ensuring that the advisor is rewarded for maintaining the human side of the relationship and the client appreciates the overall value.

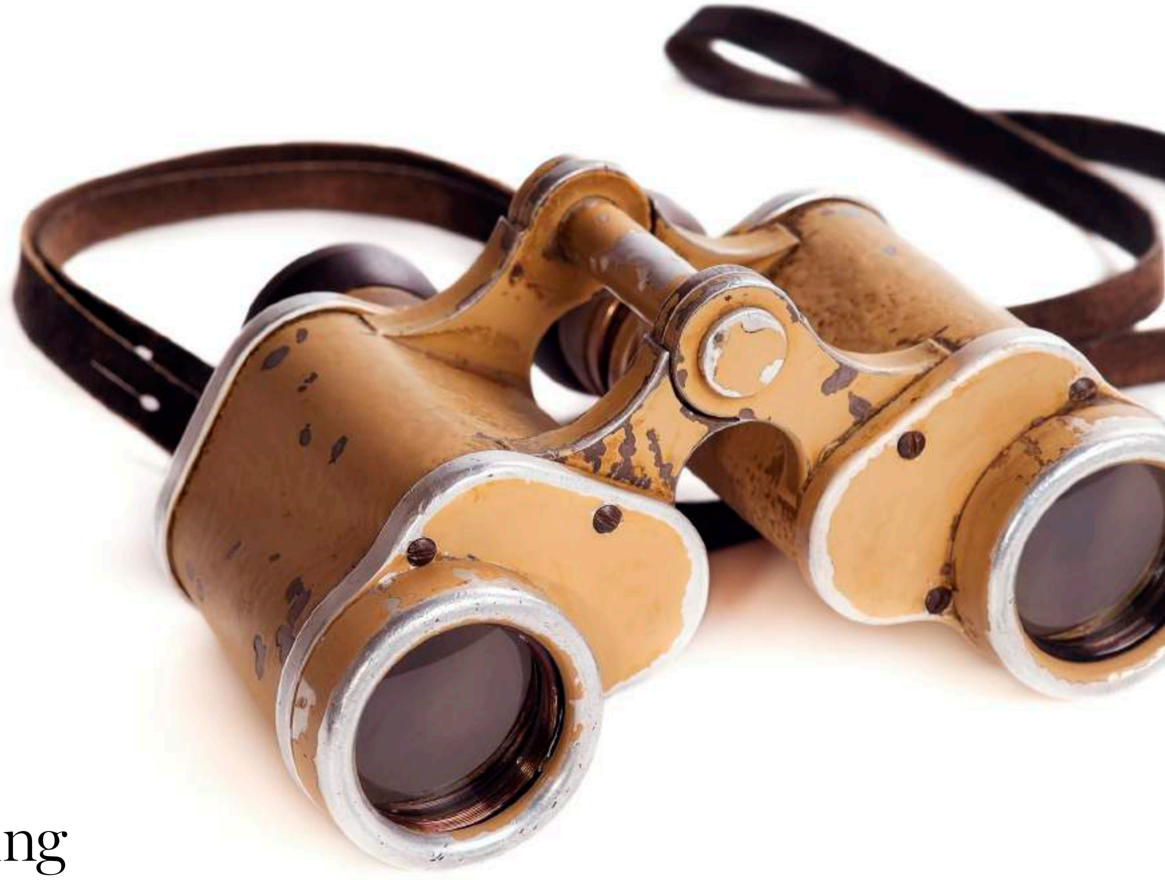
Simply following a tax-conscious approach is easily worth 0.50%-0.70% to the typical mass affluent client. To true high-net-worth families, the recognizable impact and value added is worth even more. And to all, the personal interaction that goes into a household financial plan's creation and monitoring is worth at least another 0.50% in fees over and above the work of running the portfolio.

It's a bittersweet comment on the industry that the financial plan — the human element of wealth management — evolved as a way to entice prospects to sign over the assets into a portfolio service arrangement. At this point, it's more accurate to say that for many planning-oriented advisors, the portfolio is simply a compensation vehicle. Outsourcing the portfolio and its associated fees to a third party is the next logical step. And since pure-portfolio players now exist, the opportunity has shifted to favor those who bring value-added services in a no-frills bundle. With robo at the table, that basic truth becomes explicit to all.

What Clients and Prospects Actually See

You might be surprised how little your current clients would object to automated services. Many may even be surprised that you aren't doing it already. They know that when you invest for them in a mutual fund, ETF or SMA, you're not selecting every share of stock, personally. Automated advice is simply another tool that you use to serve them.

Most advisors hate to admit that their clients don't care whether the stocks in their portfolio are selected by the person on the other side of the conference table or an algorithm from Silicon Valley. But if performance is good enough to justify the cost, all your clients need to know is that you did enough due diligence to trust the long-term numbers. Some might even be flattered to hear that their satisfaction matters so much to you that you've reached beyond the office and are paying industry leading partners to deliver better outcomes. Others may simply applaud your business sense in automating tedious chores that are better suited for a computer.

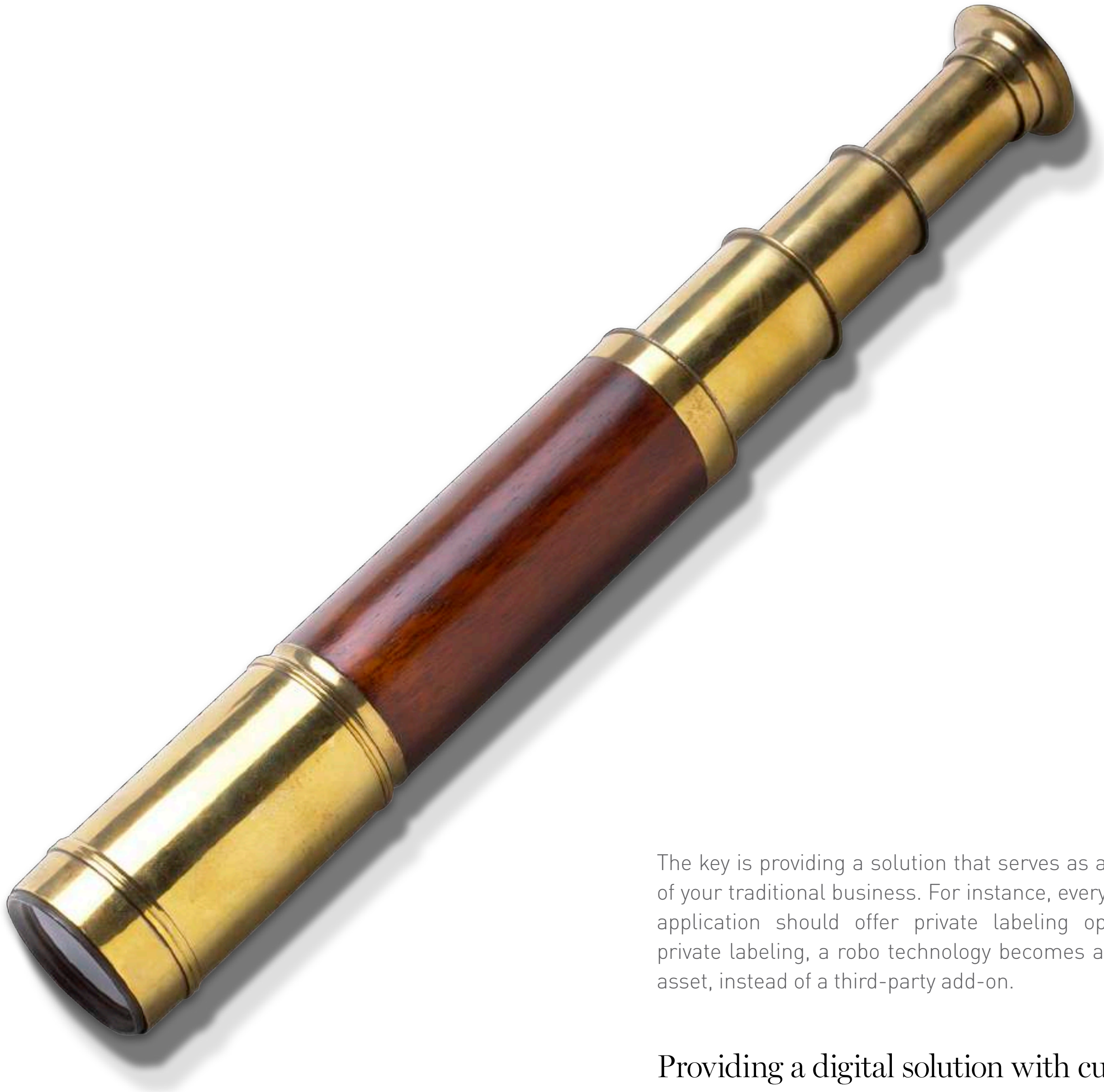


Implementing Robo Technology

How to Get Started

No modern wealth management transition should be all-or-nothing. At least since the 2008 crash, reasonable people have craved flexibility. They want at least one emergency escape route if the world changes too fast for the strategic plan to adjust. Any advisor who wants to experiment with robo-enhanced practice can start on the onboarding side: new clients go straight into the new portfolio framework, populating their own forms online before they meet you face to face. You can even use this as a marketing angle to reach Millennials and other high-tech / low-touch prospects. If nothing else, this is a viable way to provide low-risk demonstrations of what your advice would look like and to explain how you earn your fees.

From there, you scale with success. The right platform can get you up and running in days if not hours. It's just a matter of making sure the system integrates into yours – preferably with custom branding options for one seamless client experience.



The key is providing a solution that serves as an extension of your traditional business. For instance, every technology application should offer private labeling options. With private labeling, a robo technology becomes a proprietary asset, instead of a third-party add-on.

Providing a digital solution with custom branding allows you to strengthen your perceived value with a cohesive investing experience.

Long after every fund in the portfolio has been sold, replaced and forgotten, the client's bond with you will determine whether they stick with you in the market's challenging years. World-class performance is the price of admission, but for truly affluent clients your relationship is the foundation. Offering a competitive portfolio continues to demonstrate your value, and with a robo in your pocket, you can do it without wrecking your margins.

A Changing Industry

Position Yourself for Success

Even if you're comfortable with the status quo, demographic realities signal a lot of disruption on the horizon. High-net-worth Baby Boomers and their parents still represent 63% of the nation's wealthy population and those households are in the process of transferring $18 trillion to the next generation of clients. The advisors who can offer the emerging investor a service framework that aligns with their mindset will benefit from dynastic account retention, as well as accelerated new asset flows from younger clients fleeing incompatible relationships elsewhere.

The investment advisory business is also in midst of a generational transfer. Today 22% of wealth managers are already in their 60s. These older advisors are generally less comfortable with technology solutions like robo advice. Yet by the end of the current decade, the landscape will have shifted with a growing number of Generation X and Millennial advisors taking their places. These younger competitors will be more like the next generation investors that you're looking to retain, attuned to a world of on-demand, 24/7 service and automation. Younger advisors are being courted aggressively by the pure robo vendors even as we speak.

It's important to be thinking about the future. That means making sure accounts will remain vibrant even if competitive pressure picks up. Account quality and multi-generational account retention are essential. A lot of money is going to be moving in the next few years. Make sure more of it moves toward your practice than away, and it will be an exciting era.

Digital Advice

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For more information please contact:

sales@ftjfundchoice.com

1-800-379-2513 option 5

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