

SPECIAL EDITION

Advisor Focus

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the [competitive] landscape

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The Wealth Management industry **will change** dramatically over the next decade.

It's already started.

The biggest threats may not even be on your radar...yet. But, if you look through a wide-angle lens that captures the entire 92 trillion dollar wealth management industry, you can see it.

The digital transformation of the industry will have the biggest impact in the reshaping of wealth management. It will drive consumers to online, self-directed financial planning much as it has

changed the dynamics of the media, entertainment and communications industries. This new digital landscape will touch every individual and every financial institution. It will be disruptive.

It's a threat – or an opportunity – depending on your perception and ability to **act quickly.**

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Business Challenges and Opportunities

1. **Shift from defined benefit to defined contribution plans.**
Over 80% of individuals are now in 401(k) plans, and less than 25% are in defined benefit plans.
2. **Corporate employees are responsible for own retirement plans.**
The result is that 80% of corporate employees are making decisions about their own financial future.
3. **Online brokers and mutual fund companies now offer planning.**
And, 60–70% of the mass-affluent are using them for help in their financial planning.
4. **Banks are moving from on-line budget and expense tracking to investment tracking.**
This is called the personal financial manager model.
5. **Serving the mass-affluent market is gaining appeal.**
The historically underserved mass-affluent are becoming easier to acquire and serve as clients.
6. **Baby boomers are retiring.**
78 million of them. 8,000 boomers turn 60 years old every day.

Technological Influences on Trends

1. **Data aggregation and real-time feeds change online expectations.**
18% of banks have data aggregation, and 60% of banks are in the evaluation process.
2. **Continuously improving information technology and financial services literacy are lowering the barriers.**
85% of target clients are now on the internet, 68% of them use online banking, and 60% of them have broadband to their homes. This allows a whole new family of competitors to approach them.

Technological Influences on Trends (cont.)

3. **Availability of online research.**
This now includes news, charting, watch lists, and screeners. Companies like E*Trade have changed expectations about training and education because their tools for trading include not only stocks and bonds, but areas like futures, ETFs, and commodities. On-line brokers need to simplify trading dramatically, which raises the education and training bar for everyone.
4. **Financial data ubiquity.**
PCs, mobility, browsers, and search engines make financial services information ubiquitous. You can access your financial information at any time, from anywhere.
5. **Web-based, self-service education and acquisition are second nature to Generations X and Y.**
They expect to do everything online, including financial planning.
6. **Next-generation user interface simplifies everything.**
The advances by Google and Apple and technology such as touch screens and voice recognition make everything dramatically simpler and change the rules of the game.

Bottom Line

The greatest opportunities will occur for the largest mutual fund companies (specifically those providing 401(k)s, on-line brokers, universal banks, independent broker dealers, and registered investment advisors.



Opportunities for Advisors

\$250,000

When the number of households using financial planners rises to 33%.

60-70%

Mass Affluents who use broker firms and mutual fund companies as advisors.

75% of CFPs

are over the age of 40; 50% are older than 50.

17%

Percentage of advisors' client base who are younger than 43.

12%

Use financial advisors. This number rises when consumers reach age 65.

Bottom Line

Whoever captures the under-50-year-old mass-affluent segment with self-managed, comprehensive financial planning will likely keep them for life.

Market Players in Wealth Management

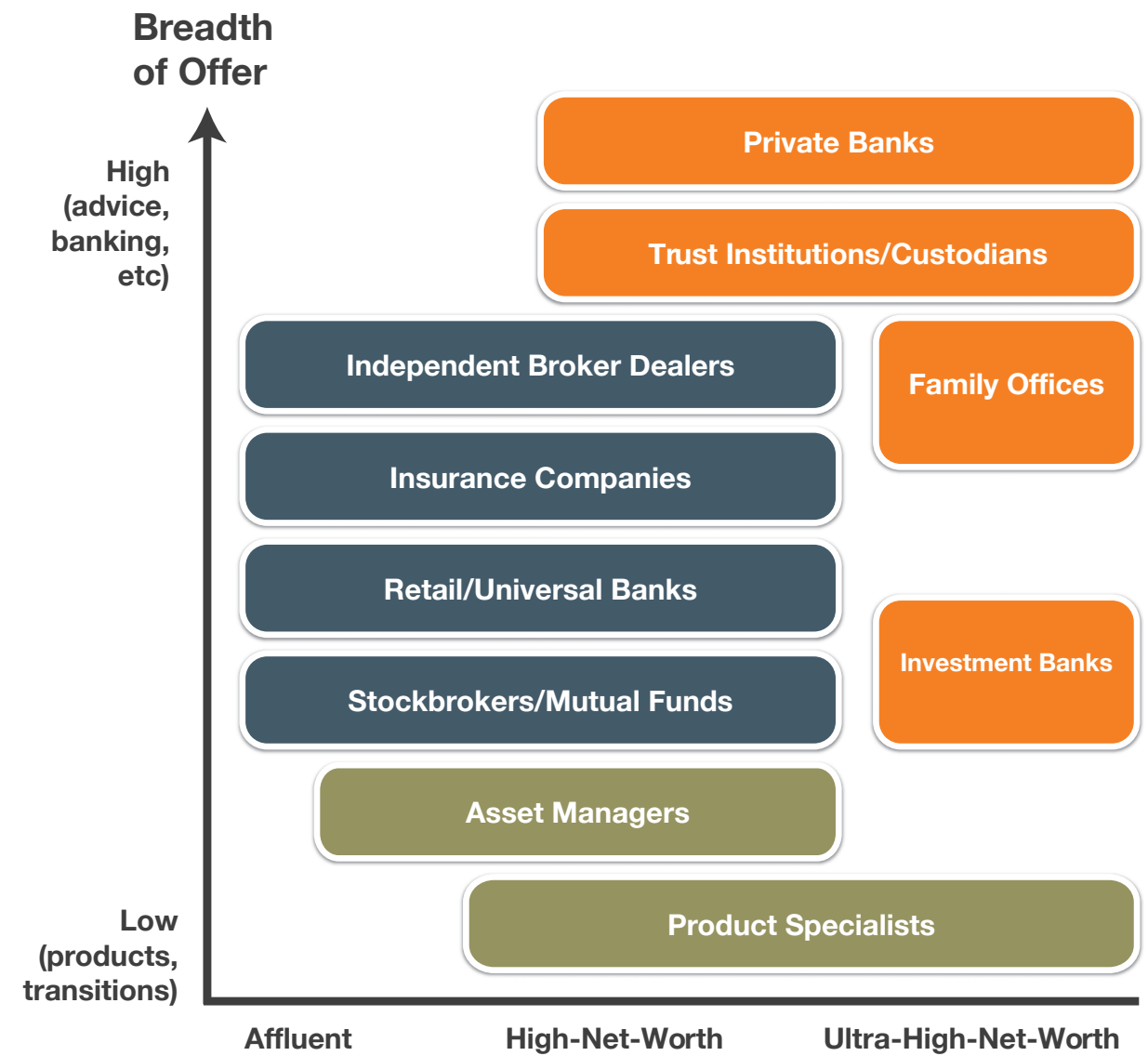


The wealth management universe: large and fragmented.

Bank of America is the biggest player, with only a 3% market share. The most formidable competitors of the future will include banks and trust institutions, brokerage and discount brokers, mutual fund companies, and information and platform providers.

The Transformation

Wave 1: The Initial Delivery of Wealth Management Services



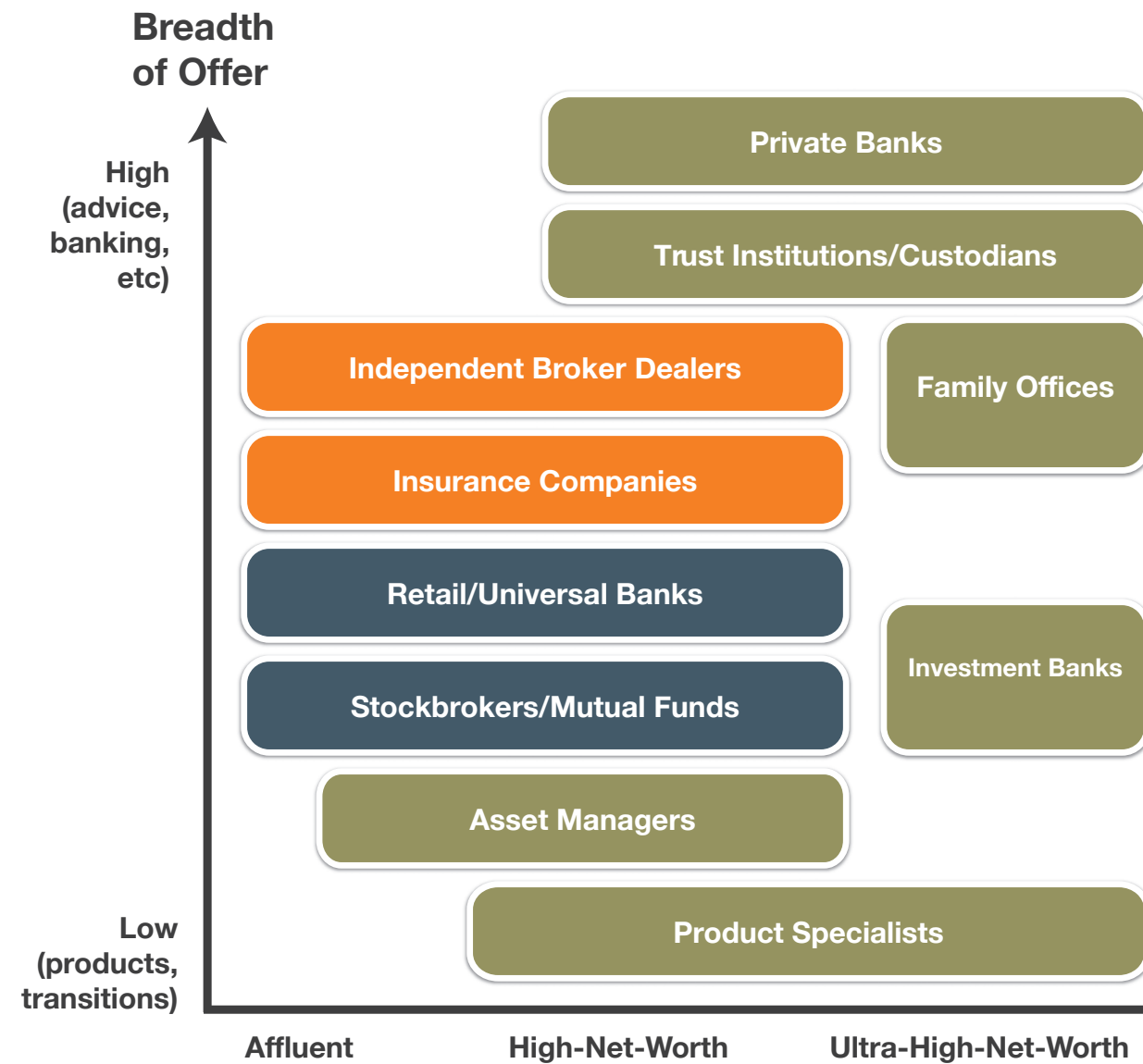
Source: David Maude, Global Private Banking and Wealth Management/ NetGen Consulting

What was happening:

Private Banks, Trust Institutions, Family Offices, and Investment Banks were the first to move aggressively into the wealth management market. Nearly twenty years ago, they invested in sophisticated back-office systems to support the highest tier of high-net-worth and ultra-high-net-worth clients.

The Transformation (cont.)

Wave 2: Wealth Management Evolves



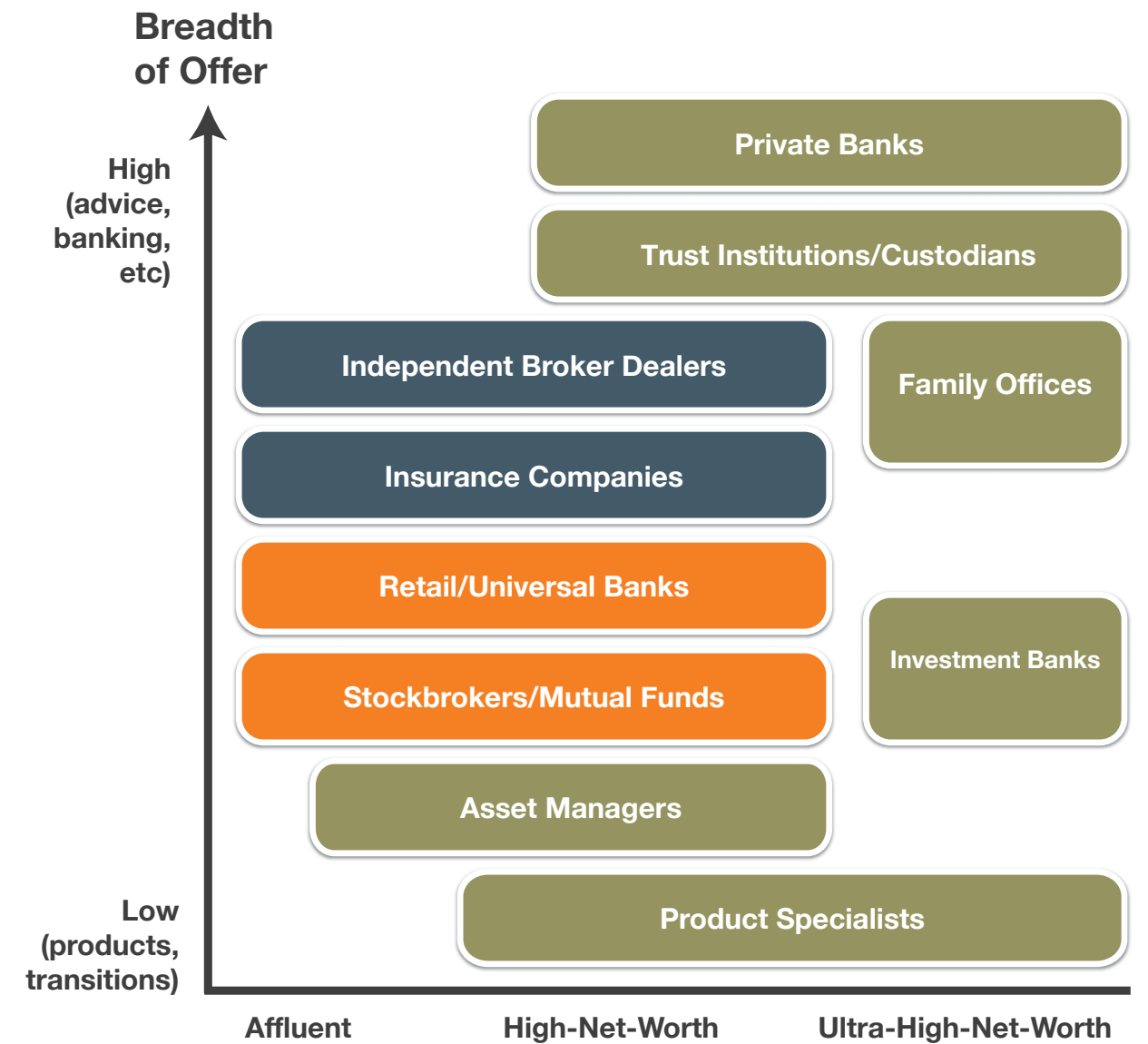
Source:
David Maude, Global Private Banking and Wealth Management/
NetGen Consulting

What was happening:

Personal computers, local area networks, the internet, and desktop software transformed the space. New competitors, including independent broker dealers and insurance companies, emerged. They were supported by sophisticated, web-based software, like eMoney. This was the first time that traditional advisors could give clients a real-time view of their full portfolios, a significant leap forward for the entire industry.

The Transformation (cont.)

Wave 3: The Onslaught of Self-Service Capabilities

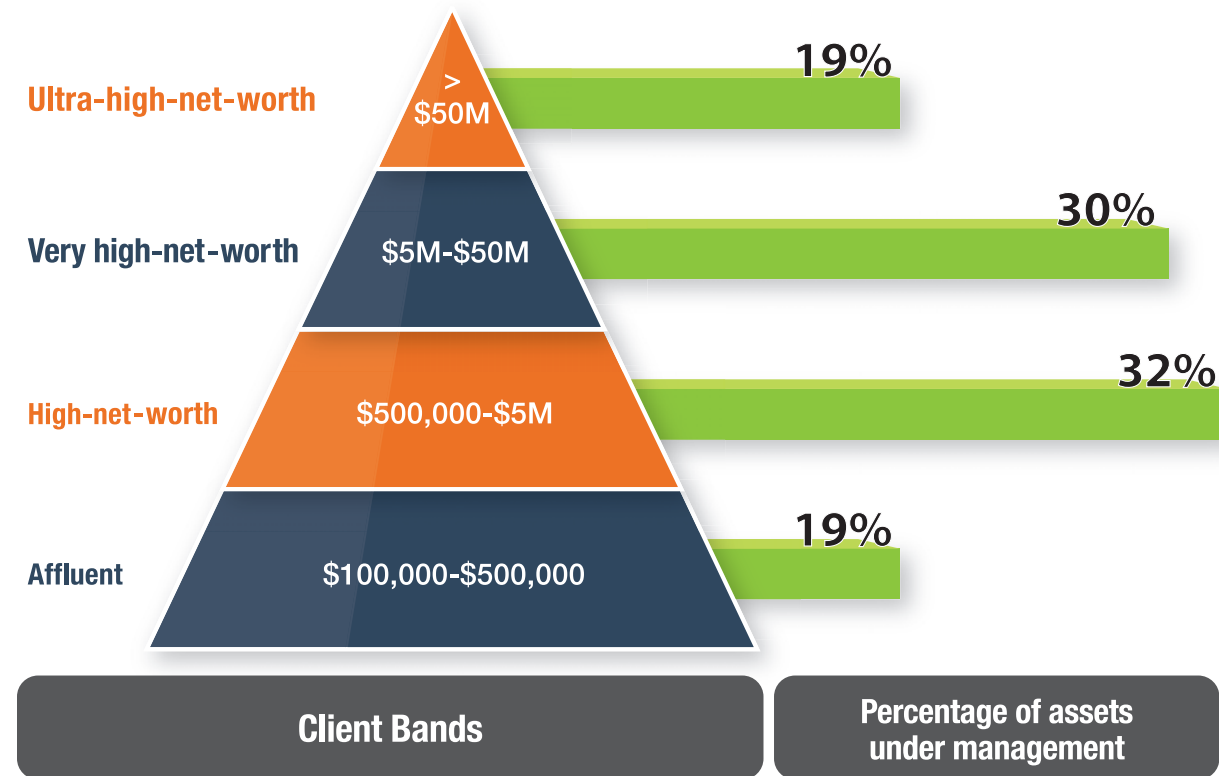


Source:
David Maude, Global Private Banking and Wealth Management/
NetGen Consulting

What is happening:

The recognition that the largest underserved market is among mass affluent and the low end of the high-net-worth band requires a new set of a competencies. In the past many retail/universal banks and stockbrokers and mutual fund companies did not have the talent to offer advice. By building that advice into sophisticated software to enable self-service planning, the universal banks, stockbrokers and mutual funds become the formidable competitors of the future.

Market Segmentation: Assets Under Management



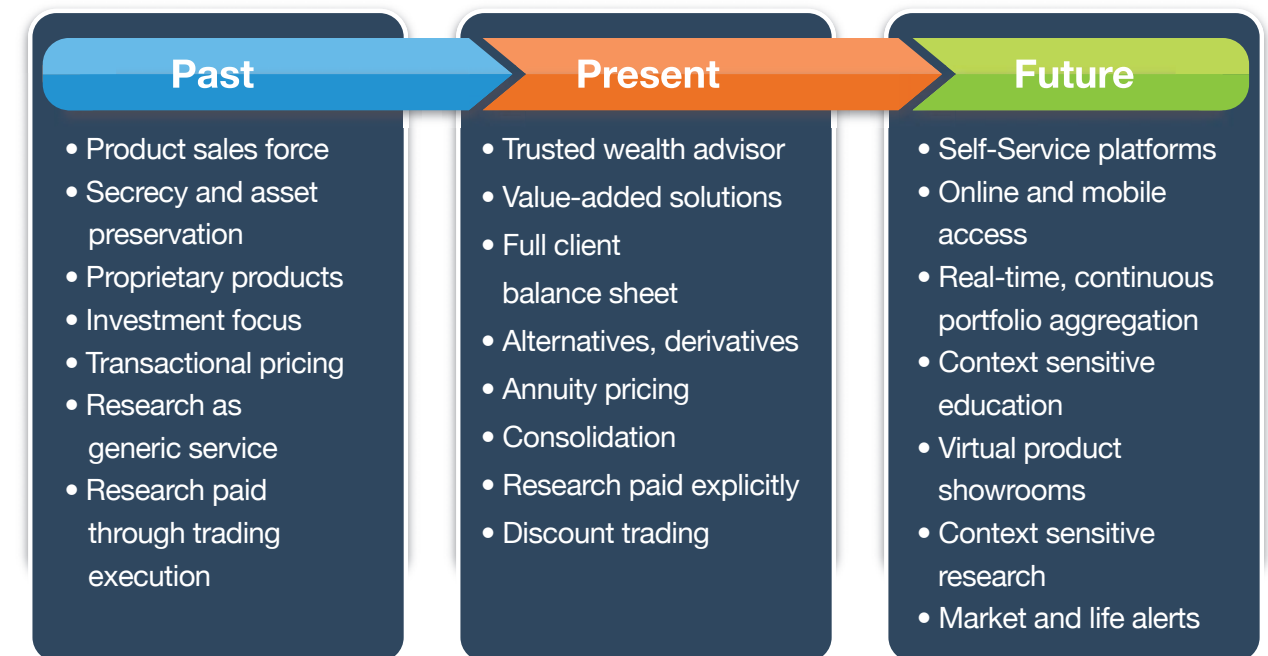
Source:
PricewaterhouseCoopers LLP (2005) Global Wealth Management Survey

Bottom Line:

The ultra-high-net-worth and very-high-net-worth individuals attract all the attention, yet own only 49% of the assets under management. Affluent and high-net-worth markets are dramatically underserved.

The Future of Wealth Management

In 2005 the chairman and COO of Citigroup Global Wealth Management offered his view of the past and present. We have created a third column to indicate where the industry is going. We believe it's about self-service platforms, online and mobile access, real-time, continuous portfolio aggregation. We envision virtual product showrooms, in which people actually move through 3D libraries to compare alternatives. We also see context sensitive research that includes recommendations, as well as market and life alerts.



Source: CitiGroup Wealth Mgmt.

Bottom Line:

Information technology will have a dramatic impact on how individuals research, evaluate, plan for, and procure wealth management products and services in the future.

Market Strategies

When we examine the recent past and look to the future, we see financial institutions pursuing four key strategies.

(These strategies are not mutually exclusive, and each incorporates elements to address cost and differentiation.)



Value chain disaggregation

The disassembly of the historically integrated value chain of research, product, distribution, and client advice.

Business model convergence

The integration of private banks, universal banks, and brokerage firms.

Sector consolidation

This is happening in banking, brokerage houses, and independent broker dealers to leverage their infrastructure, save costs, and extend their geographic reach.

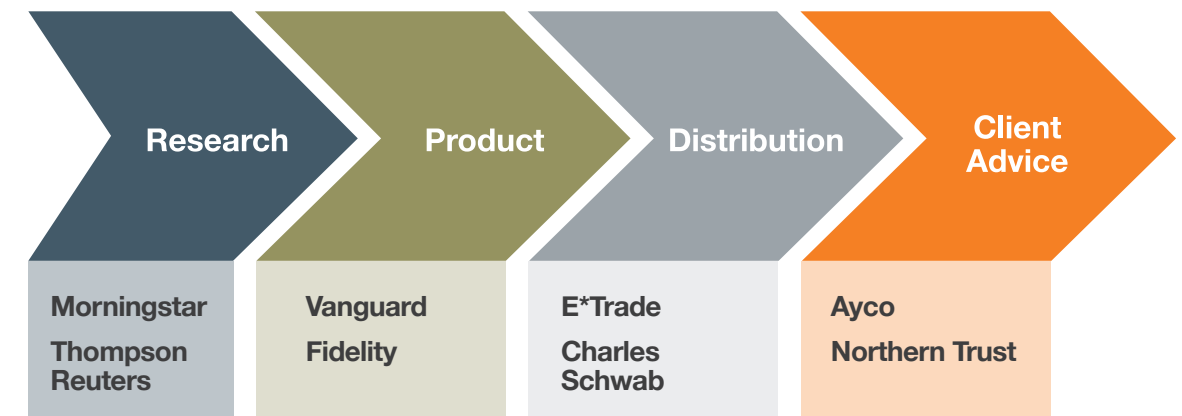
Online self-directed investments

Self-directed investments dramatically lower the costs to serve the mass affluent and the low end of the high net worth segments.

Market Strategies

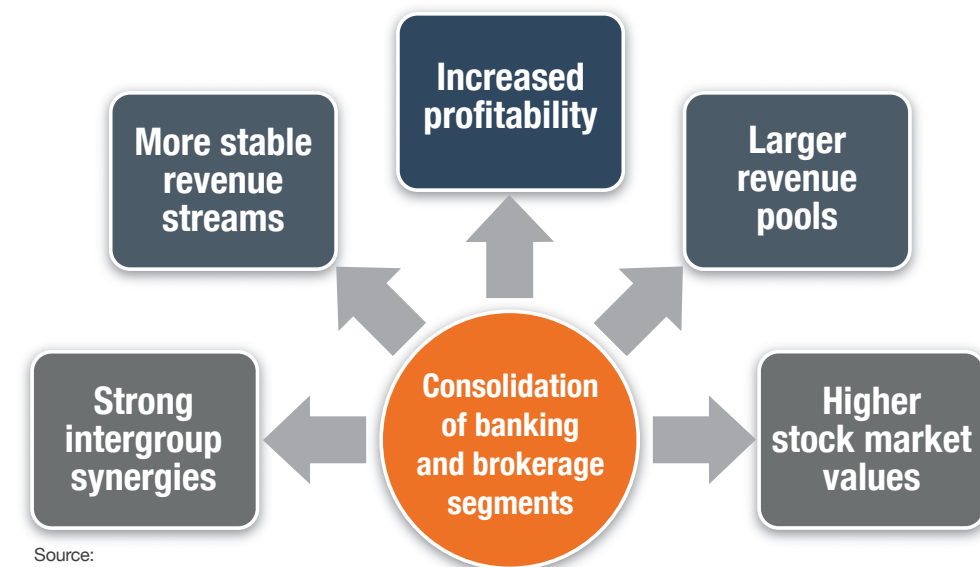
Value chain disaggregation

Value chain disaggregation favors best-of-breed and low-cost providers such as mutual fund companies, independent broker/dealers and registered investment advisors.

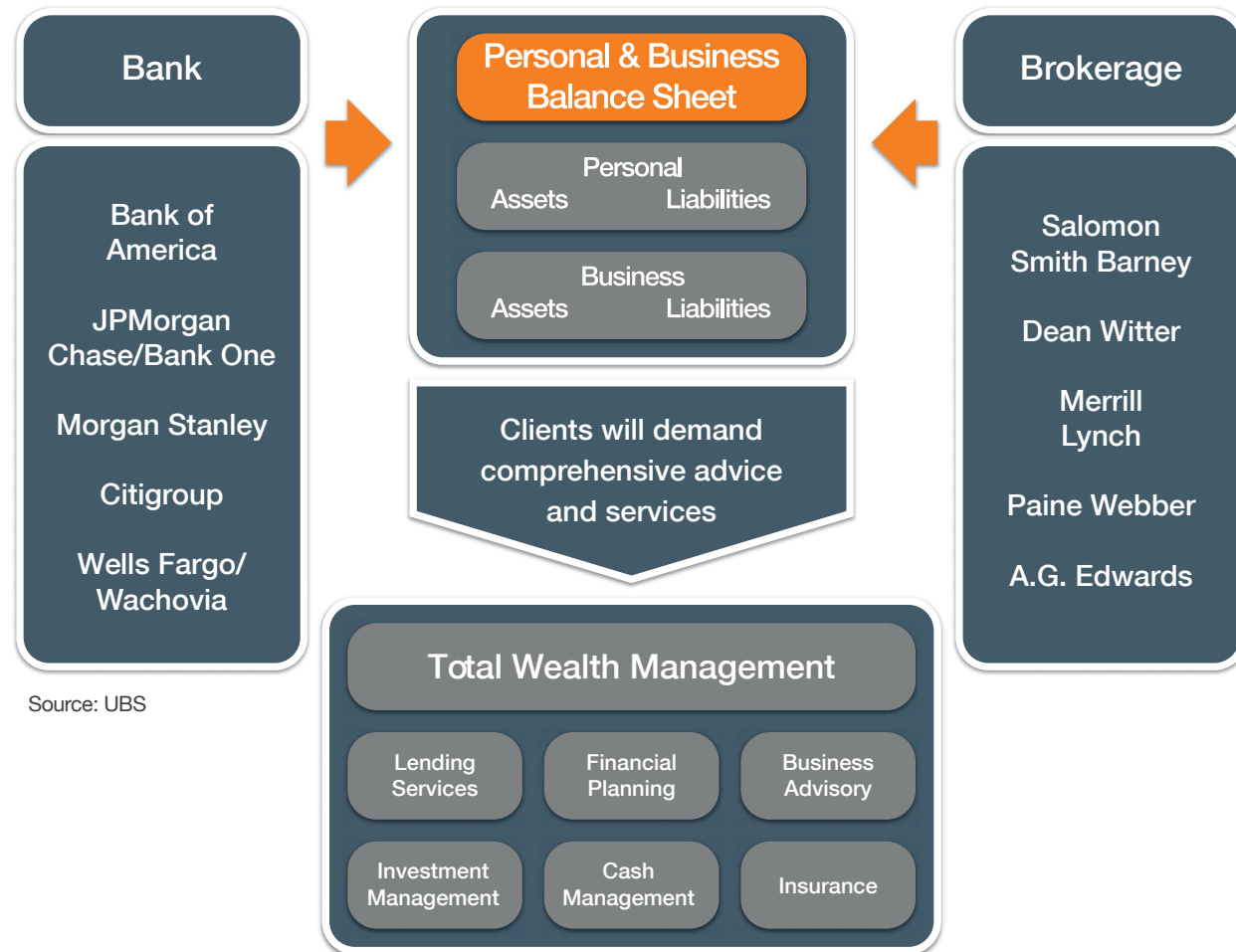


Source:
NetGen Consulting

The advantage of business model convergence is a payoff in five major areas: Strong, inter-group synergies, or cross selling the portfolio; more stable and recurring revenue streams; increased profitability focused on cost reduction and the elimination of redundancies; larger revenue pools; and higher stock market values because of a higher percentage of recurring revenue.



Source:
NetGen Consulting

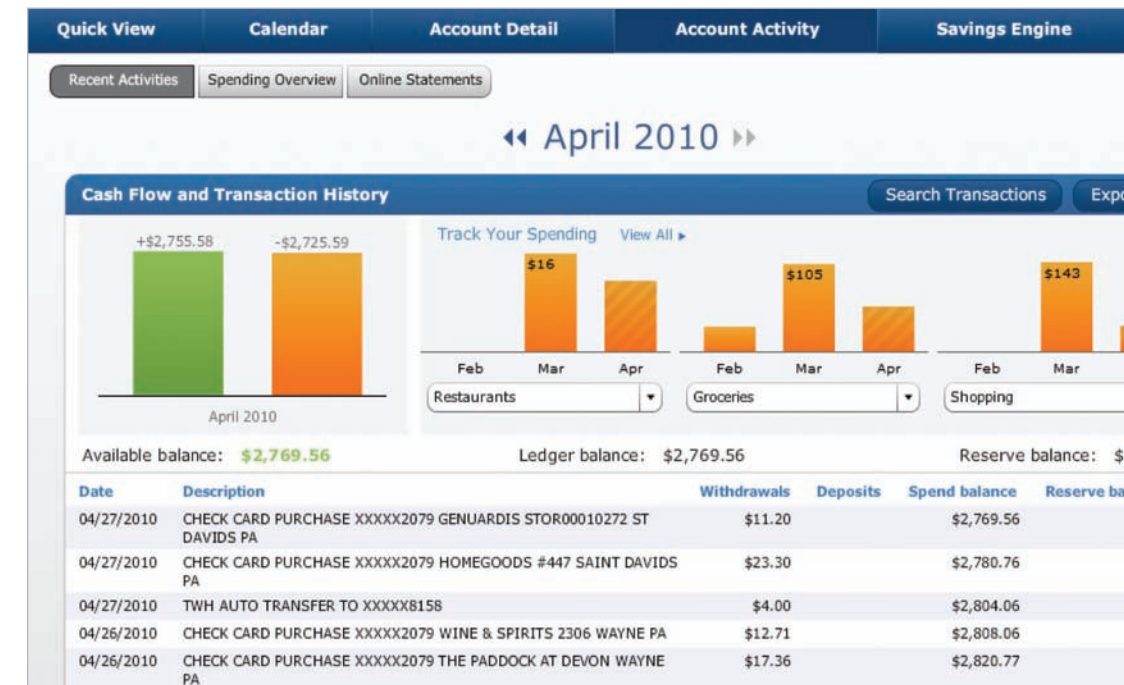


Source: UBS

The banks' and brokerages' convergence model dramatically expanded the range of services.

When the banks merged with the brokers, they created a much more robust portfolio. They could more readily satisfy the requirements of their high-net and ultra-high-net worth clients, both on personal and business levels. These clients demanded much more comprehensive advice and services. Total wealth management required lending services, financial planning, business advisory services, investment management, cash management, and insurance. This was a strategy pursued by Bank of America, JPMorgan Chase, Wells Fargo, Citigroup, and Morgan Stanley. But it wasn't just the big six banks. Even small, regional banks followed this strategy.

Nearly all the top 600 banks pursued a plan that included insurance, trust and custodial services, investment advisory and brokerage services, asset management, retirement planning and vehicle financing.



Source: PNC Bank

Aggregating investment assets is becoming the first step in wealth management.

Personal Financial Management (PFM) software will become the new foundation of expense tracking and investment savings planning going forward. 18% of the banks have already implemented personal financial managers in retail banking, and 60% of banks are investigating making this software the core of their retail product offerings.



- Online, self-directed investment has grown tremendously because of the ubiquity of personal computers, the internet, online research, and dramatic breakthroughs in ease-of-use of investment and trading software.
- Technology lowers the barriers to entry to new competitors.
- Online brokers have changed consumers' expectations about ease-of-use, trading technology, and transaction costs.
- In an age of increasing information and pricing transparency, a world-class financial planning platform will be a critical differentiator for every segment.

38%
more likely for high-net-worth investors to trade online than Mass Affluent.

55%
of people who make over \$100k/year have over \$50k in their online account.

OVER 20%
of these people have over \$100k.

SELF-SERVICE
Online brokers have self-service tools for asset allocation, retirement, education, and tax planning.

DOUBLED
The percent of online, Mass-Affluent investors visiting firms' sites doubled from 2004 - 2008.

Online Banking Opportunities

68 Million

Consumers now use online banking and bill payment.

ONLY 18%

of banks have implemented Personal Financial Management (PFM) software.

60%

of banks are investigating a PFM suite.

87%

of PFM users access their site at least once a week.

90%

of PFM users have over 50% of their expense and investments accounts linked to the site.

76%

of PFM users have over 75% of their accounts linked to the site.

75%

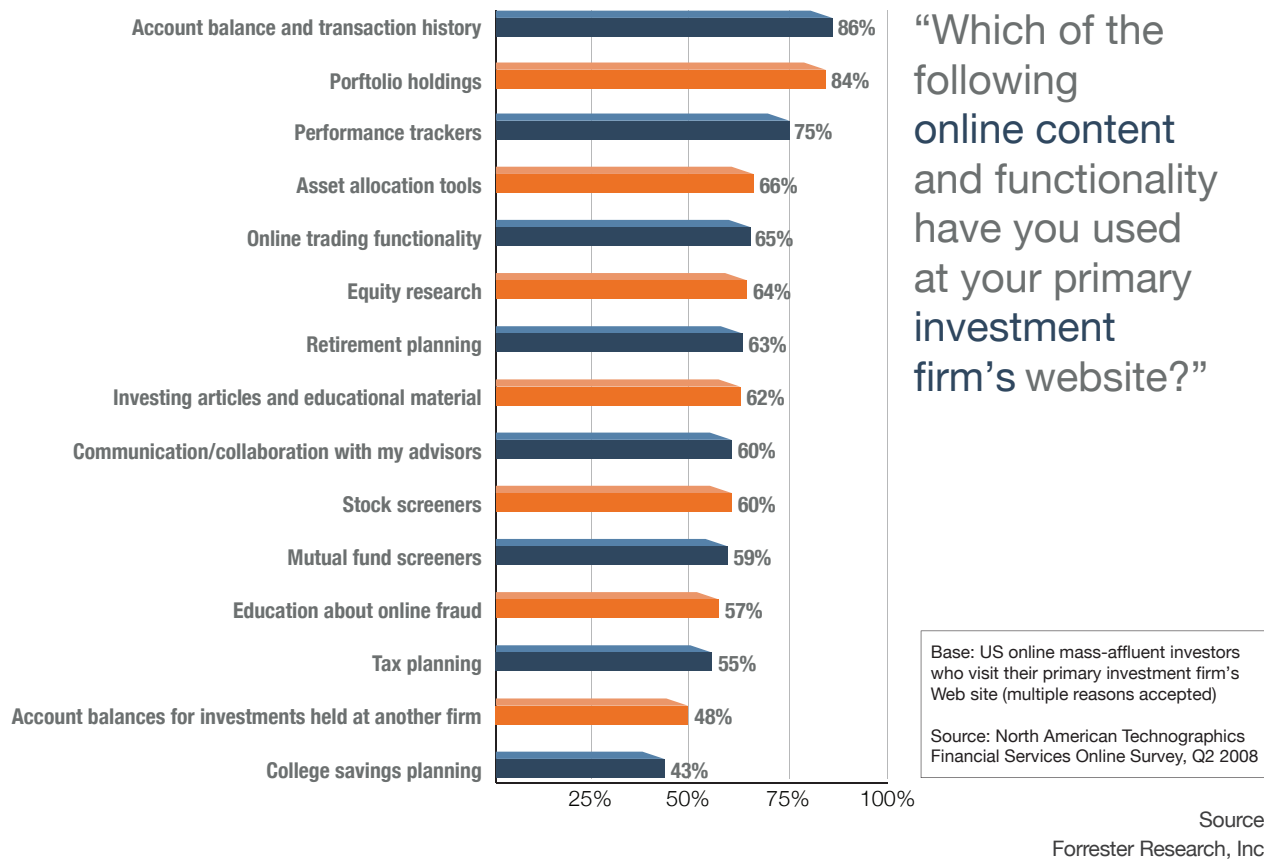
Online banking penetration into households with over \$100k income.



Mutual Fund and DC Opportunities

How online, mass-affluent investors are using online content and functionality provided by their primary investment firm.

Over 60% of the mass-affluent segment use their online broker, defined contribution/401k, or mutual fund provider for portfolio tracking, asset allocation, retirement planning, research, and education.



Bottom Line:

Between 55% and 85% of the things financial advisors have supported predominantly in the past are now being done online by mutual fund companies and online brokers. While the tools they are using might not be as robust as they should be, they’ll get there.

Gen X and Y Financial Profiles

92%

The adoption rate for using the internet for financial purposes.

41%

Expect that DC plans will be their largest source of income in retirement.

70%

of Gen X, and Y’s turn to their parents for financial guidance.

OVER 50%

of individuals 18-24 use online banking.

67%

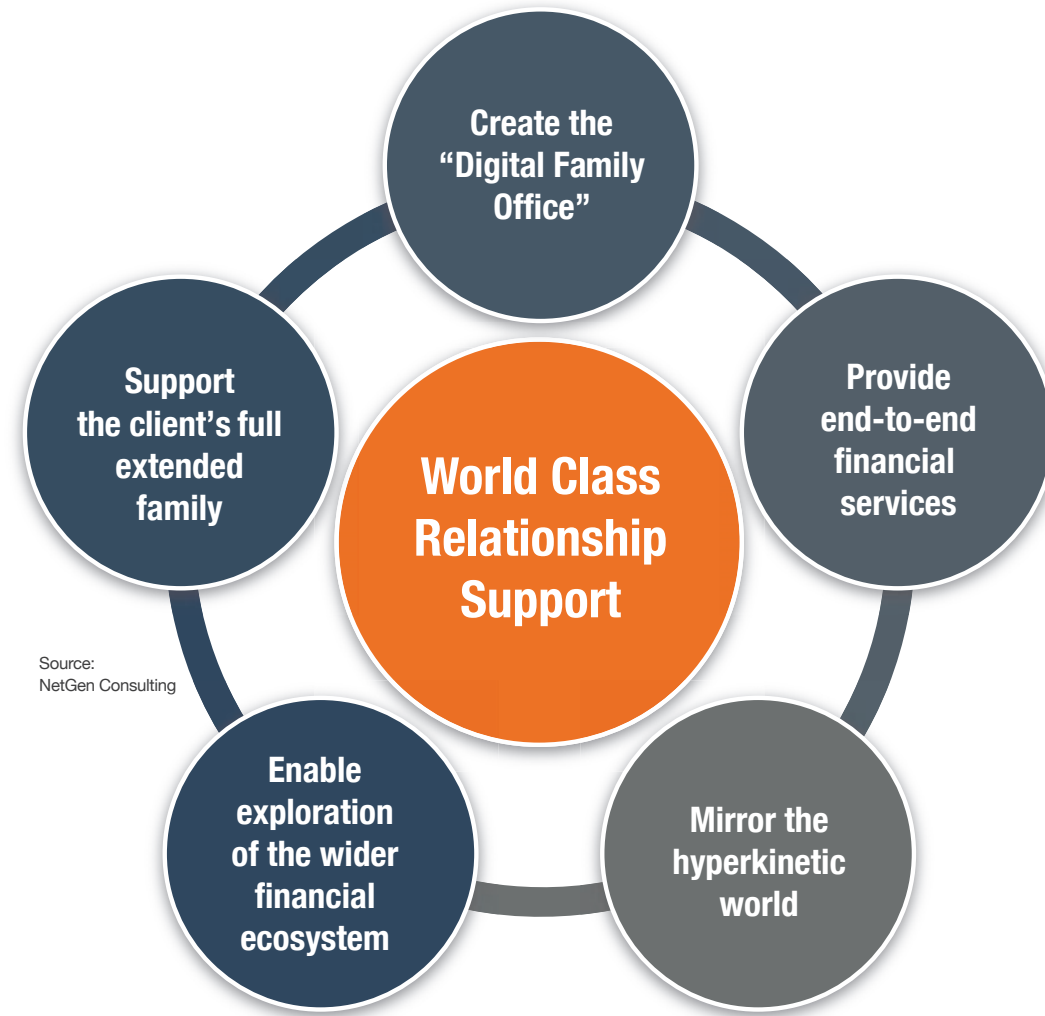
of 401k participants are Gen X, and Y’s.

78%

Are not confident about Social Security.

Bottom Line:

Gen X and Y are between 22 and 42 years old. They are only 17% of the average advisor’s client base, yet they have very different financial profiles than their predecessors. They are also currently putting a great deal of money in motion. Nearly 50% cash out their 401k plans when they change jobs and move that money to different investments.



What do we need to do, then, to meet the challenge?

We need to raise the bar. And support five core competencies that enable advisors to extend their relationships with their clients. The circle at the top is the big idea: create the online family office through software to extend your services to support your client's entire family digitally.

The aim is to provide end-to-end financial services with capabilities

like budgeting and bill pay. You need to become the WebMD of financial services. Next, mirror the hyperkinetic world. We need to have the same look and feel and energy of companies like E*Trade, Trade King, and the online brokers. Then, we need to enable the exploration of the wider financial ecosystem. And when we do not have those capabilities, we need gateway access to the software of other key financial partners.

Finally, we need to support the client's full extended family. You saw just now that Gen X and Gen Y look to their parents for advice. Take advantage of those dynamics. Allow a single site to have different views for all family members, and you will be able to move with the transfer of money into generational changes when they retire. What's the payoff? The center of our circle is world-class relationship support.

Bottom Line:

Financial advisors can preserve and even grow their franchise by raising the bar and extending the range of services they offer. In this process, technology will play a crucial role. The key will be to create a "Digital Family Office" which can support their clients' full extended families and look to the future. By supporting the key competencies required in a time of defining change, eMoney will create the roadmap to that future and help you get there.



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