



PRIVATE CLIENT CONFERENCE

An Industry Disrupted(?)

Insights into the Latest Data and Trends

Moderator

Katie Kolchin, CFA, Managing Director, Head of Research SIFMA

Panelists

Ken Bentsen, President and CEO SIFMA

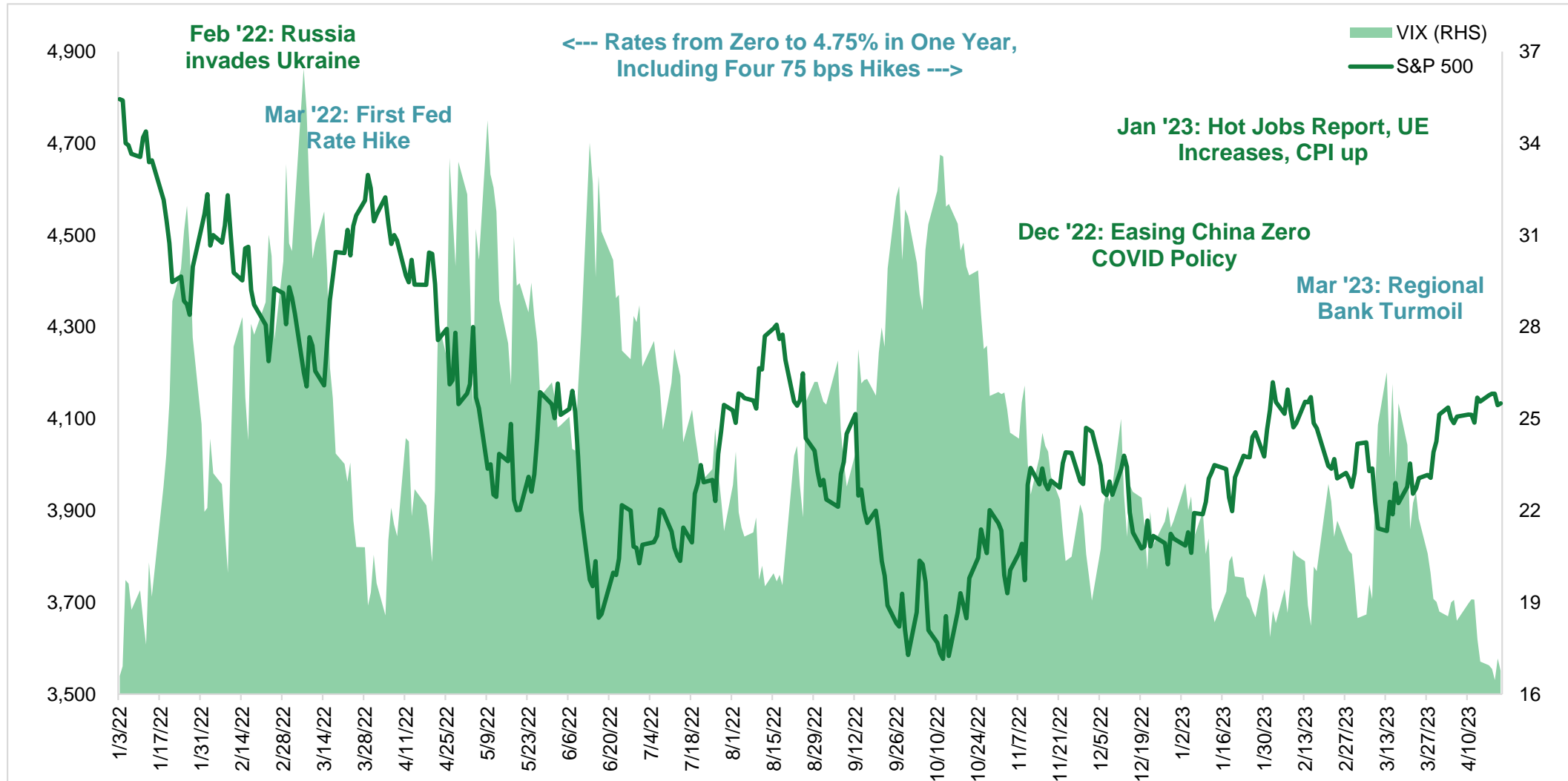
Bharat Sawhney, Partner, Banking SIA Partners

Scott Smith, Director Advice Relationships, Cerulli Associates



Markets More Complex to Navigate

The Fed, inflation, recession, geopolitical events, banking turmoil, valuations...

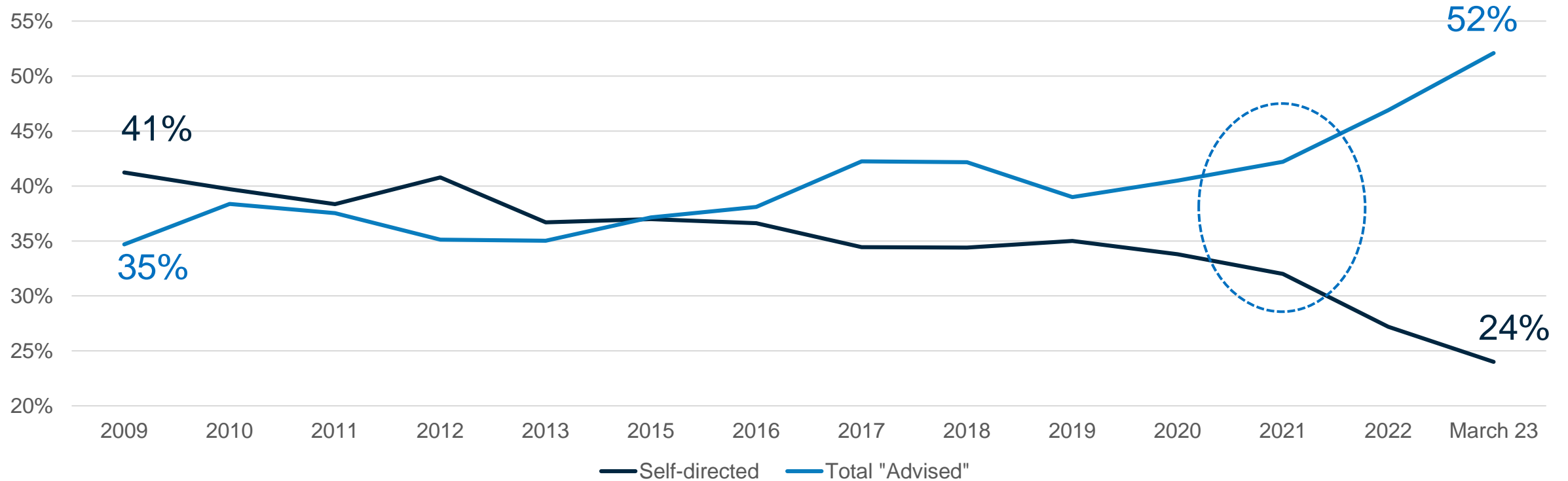


Client Satisfaction with their Financial Advisor

Increasing demand in today's more complex markets
(rate hikes, regional bank turmoil, recession risk, etc.)

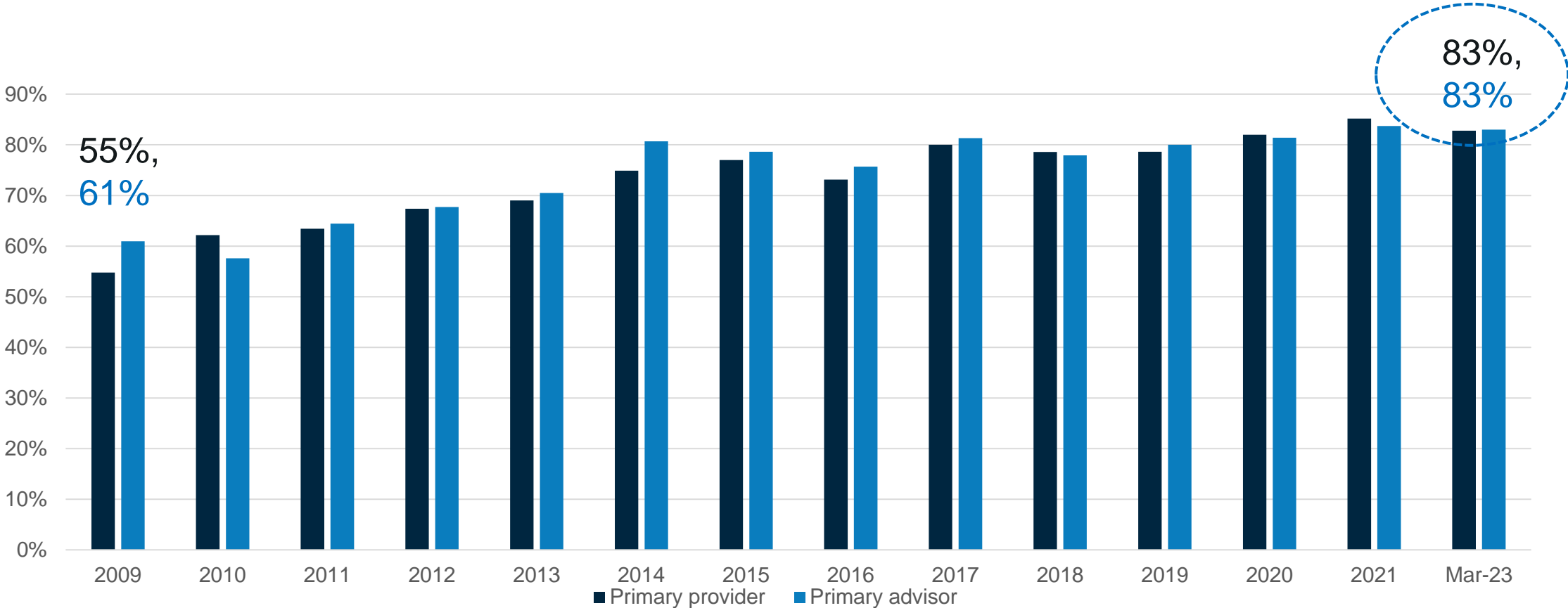
Advisor Use Trending Up Over 14 Years

Advised takes off as the market environment changes



Client Satisfaction with Both Advisors and Firms

Satisfaction and Referral Willingness Have Grown to >80%



Source: Cerulli Associates – satisfied with primary provider and primary advisor, 2009-March 2023 (Top 2 of 7 point scale)

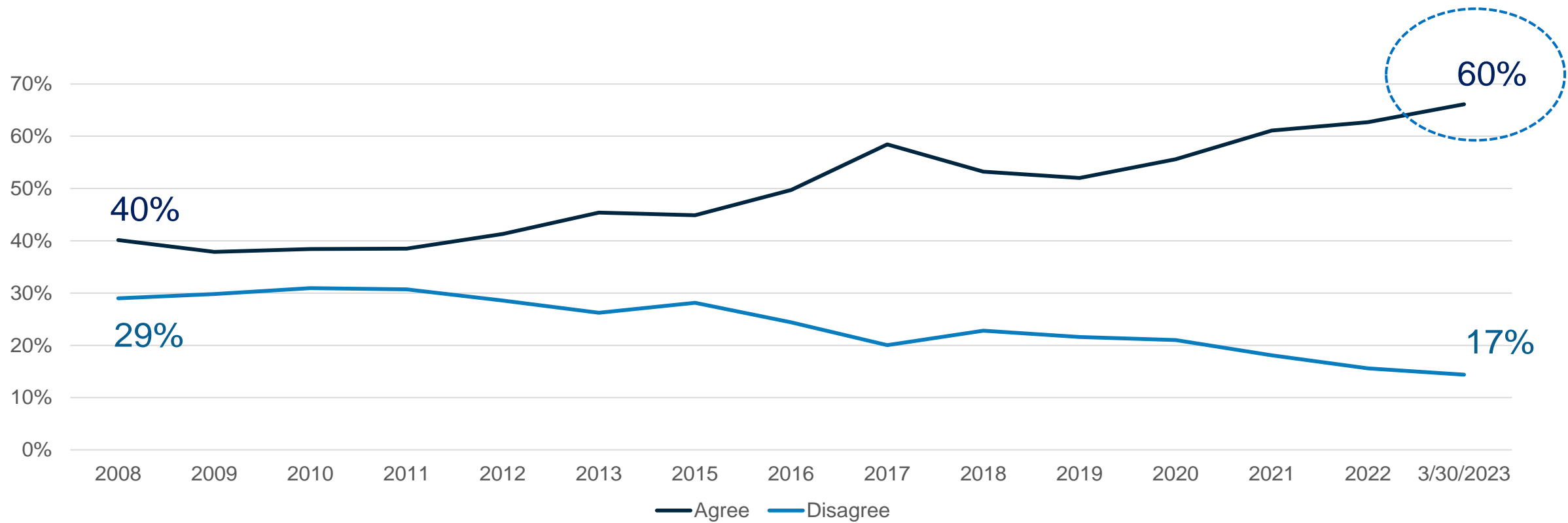
Trust and Service 43% of Satisfaction Rating

Honesty, dependability, ease of doing business, responsiveness, and knowledge

Reason for Satisfaction	2011	2016	2022
Reputation/Trust	26%	23%	23%
Service	25%	16%	20%
Investment performance	12%	14%	14%
Advice	16%	17%	17%
Relationship	18%	19%	16%
Other/No particular reason	N/A	8%	7%
Convenience/accessibility	3%	2%	3%

Clients Increasingly Recognizing Value of Advice – and the Need to Pay for It

“I am willing to pay for advice regarding my financial investments”



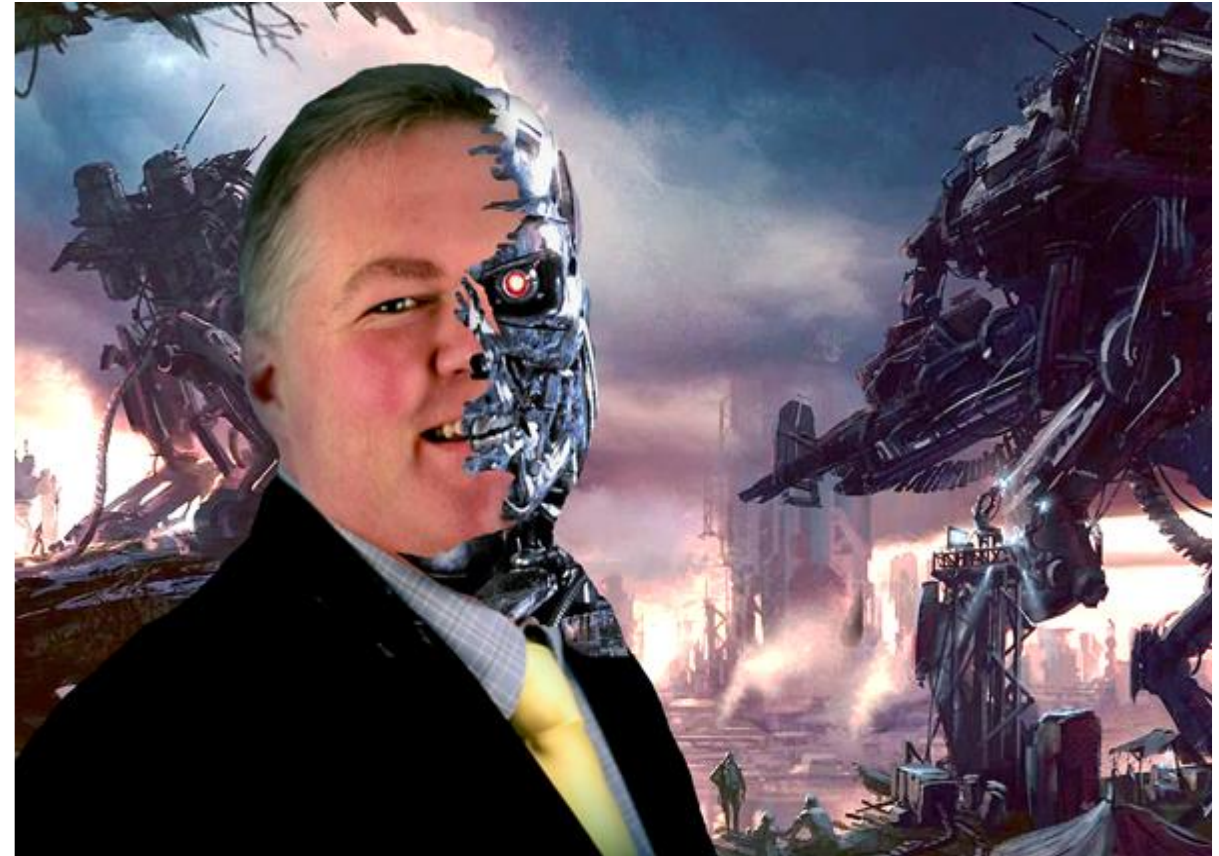
Appetite for Digital Engagement

Younger generations use of advice increasing, opening a new pool of investors for financial advisors in the advice seekers

Myth: Robo-Advisors (Apps) Will Dominate

Back in 2010, it was assumed that young investors:

- Do not want to talk to people
- Think traditional advice is too costly
- Will not trust advisors
- Are unhappy with the advice they are receiving



Data: Self-Serve Only Not Popular Even w/ Younger

Engagement Preferences for Opening A New Investment Account	Millennials	Generation X	Baby Boomers	All
Meet with a financial advisor (in-person or via conference/video call)	33%	34%	48%	42%
Other communication with a financial advisor (e.g., telephone, e-mail, text message, instant message)	23%	21%	17%	19%
Meet with a customer care representative (in-person or via conference/video call)	20%	14%	10%	12%
Other communication with a customer service representative (e.g., telephone, e-mail, text message, instant message)	12%	8%	6%	8%
Use only online tools/resources to do this myself (e.g., a website or smartphone app)	12%	23%	19%	19%

Opportunity: Seekers & Reliant 58% of Total

Common Characteristics	Passive Investors	Self-Directed	Advice Seekers	Advisor-Reliant
Sentiment	Optimistic economic outlook	Little trust in financial providers	Highly optimistic and open to new investment options	Relatively conservative risk tolerance
Value of advice	Cite little value in tools and services	Not willing to pay for financial advice	Most willing to pay for advice	Perceive value in formal financial planning
Involvement	Predominantly neutral responses to most key metrics	Actively involved in portfolio	Seek to balance portfolio involvement and guidance	Little to no involvement in finances
Portfolio control	Buy-and-hold investors	Prefer to retain discretion	Willing to cede discretion	Prefer advisor discretion
Engagement preferences	Little interest in advisor technology use	Open to digital engagement, but not "robo-advice"	Prefer high advisor engagement	Reluctant adopters of digital engagement
Representation in 2021 Affluent Respondent Base	27%	15%	22%	36%

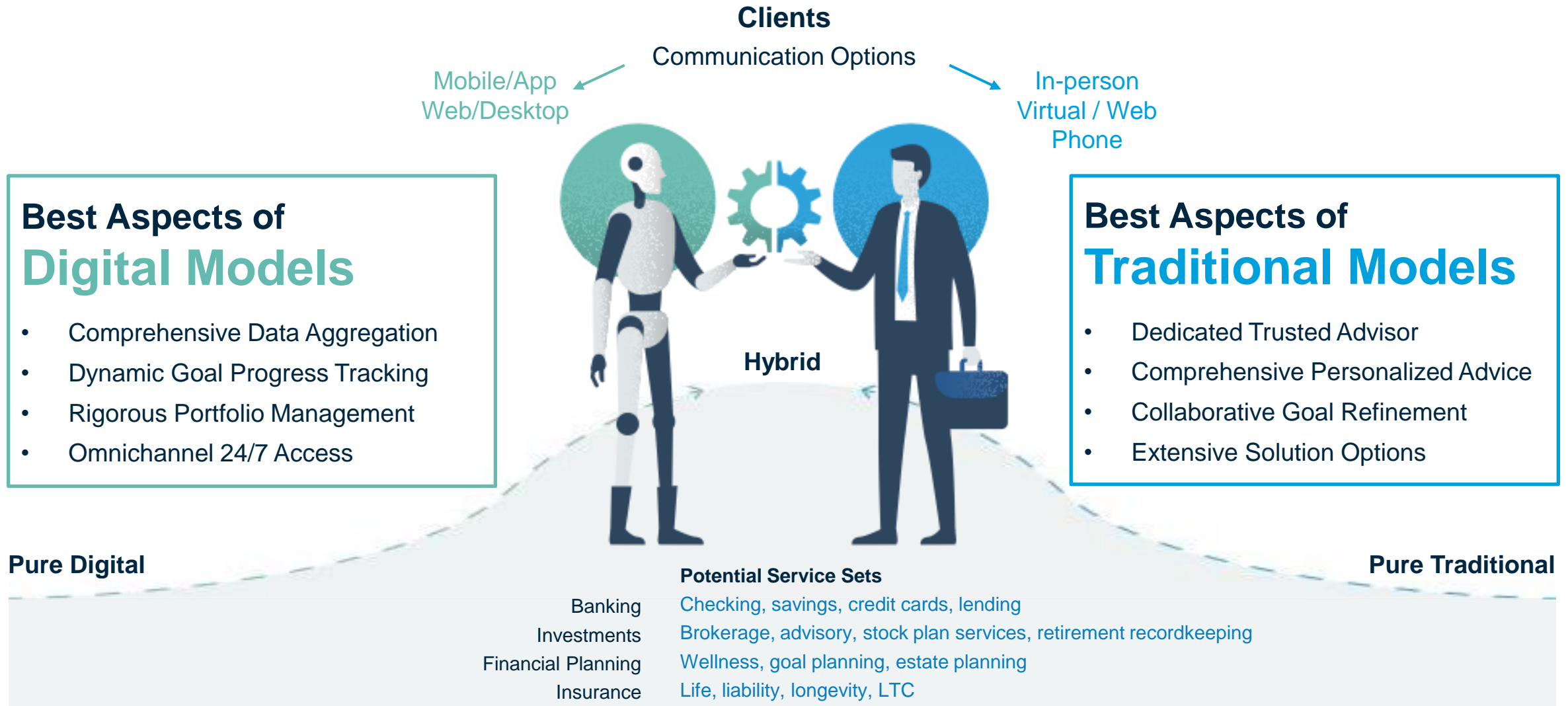
Opportunity: Develop Relationships w/ Younger

Behavioral Advice Segment	<30	30-39	40-49	50-59	60-69	≥70	All
Passive Investor	35%	25%	30%	31%	28%	31%	29%
Self-Directed	8%	6%	9%	18%	16%	19%	14%
Advice Seeker	43%	55%	42%	14%	5%	2%	21%
Advisor-Reliant	14%	14%	20%	37%	52%	48%	36%

Hybrid: The Best of Both Worlds

Most Appealing Features of Advisor-Assisted Digital Wealth Managers (aka "hybrid" approach), 2022	Passive Investor	Self-Directed	Advice Seeker	Advisor-Reliant	All Respondents
Lower costs	43%	45%	29%	44%	40%
Ease of use	40%	45%	40%	34%	37%
Financial planning available	33%	26%	34%	32%	32%
Digital platform combined with human advisor	26%	24%	33%	37%	32%
More services available than a fully-automated online firm	22%	30%	32%	29%	28%
Automated portfolio rebalancing	17%	26%	21%	17%	19%
Combination of passive and active investing	16%	13%	24%	13%	17%
Prefer online to human interaction	18%	17%	24%	10%	16%
Risk profiling and target asset allocation	15%	22%	18%	14%	16%
Tax Loss Harvesting	10%	11%	18%	7%	12%

Example: Omni-Channel Solutions with AI Future



Moving from Information to Advice

There is a significant amount of data available today, but can it be overwhelming?

Understand, Explain, Evaluate + Customize

Factors Rated Extremely Important in Choosing an Advisor	Passive Investor	Self-Directed	Advice Seekers	Advisor-Reliant	All Respondents
Provides transparency in interactions (e.g., nothing is hidden)	19%	70%	56%	80%	56%
Takes the time to understand your needs, goals, and risk tolerance	15%	54%	56%	81%	53%
Explains financial analysis to you in a clear, straightforward way	13%	47%	56%	73%	48%
Keeps an eye on your portfolio / lets you know when there are problems/opportunities	14%	40%	54%	76%	48%
Looks at your entire financial picture (investments, insurance, credit, etc.)	13%	41%	54%	71%	46%
The performance of your investments relative to the overall market	12%	40%	52%	65%	43%
Provides a comprehensive review of your investment portfolio on a periodic basis	8%	31%	54%	69%	43%
Proposes solutions customized to your needs and goals	9%	34%	53%	66%	42%

An AI Future?

Use cases, regulation, and comfort level

What Is AI?

- **Artificial Narrow Intelligence (ANI):** Represents all current AI forms in practice today, even deep learning, enabling systems to only autonomously perform specific tasks for which they were programmed
- **Artificial General Intelligence (AGI):** Will represent the ability of a machine to learn, perceive, and understand, replicating human's multi-functional capabilities
- **Artificial Superintelligence (ASI):** Will be the most capable form of AI and will supersede human capabilities – greater memory, faster processing and analysis skills, quicker decision-making abilities

AI Use Cases

AI can enable financial advisors to provide more personalized and effective financial advice to clients, increase efficiency, and reduce costs. While a lot promise, there is also reason for caution in areas such as data security, privacy, bias and safety.

- Personalized Financial Planning & Advice
- Risk Management & Analytics
- Compliance
- Fraud Detection
- Trading & Investment Analysis
- Robo Advisory Services
- Customer Service
- Portfolio Management
- Data Processing
- Research – Text Summarization, Sentiment Analysis

AI Legal & Regulatory Concerns

It is essential for wealth management firms to communicate effectively with their clients about the use of AI. Clients should be made aware of how AI is being used, what data is being collected, and how the firm is addressing privacy, bias, and other concerns.

- Data Privacy
- Bias and Fairness
- Risk Management
- Transparency and Disclosure
- Supervision and Oversight

Is ChatGPT Going to Replace Us All?

Complement more than replacementfor now?

Not if
you're in
research!

Heard on the Street:

- “The future is human FAs armed with AI to foster trusted hyper-local relationships by collecting data to add personalization”
- Next Best Action + OpenAI on a chatbot for financial advisors
- Using AI to create real-time trade explanations and implications for distribution to FAs who use their models
- ChatGPT and Redtail Speak to generate optional text messages to clients based on past conversations and mannerisms; create drafts of reports by putting in key words

AI Model to Analyze Fed Speeches

JPMorgan economists use ChatGPT-based language to detect trading signals

- Detects tenor of policy signals, rating them on a scale from easy to restrictive to create the Hawk-Dove Score
- Plots the index against a range of asset performances, predicting changes in policy and tradeable signals, ex:
 - Model shows a rise in hawkishness among Fed speakers between meetings
 - Next policy statement was more hawkish
 - Yields on 1Y UST advanced
- Firm plans to expand tool to cover >30 central banks

