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RESEARCH

Insights

Debrief: Private Client Conference

Perspectives & Key Themes from Wealth Management Executives

May 2023

Recently, SIFMA hosted our Private Client Conference. With two days of presentations and events, we gained insights into top-of-mind topics for wealth management executives. Inside this note, we recap just some of what was seen and heard, including:

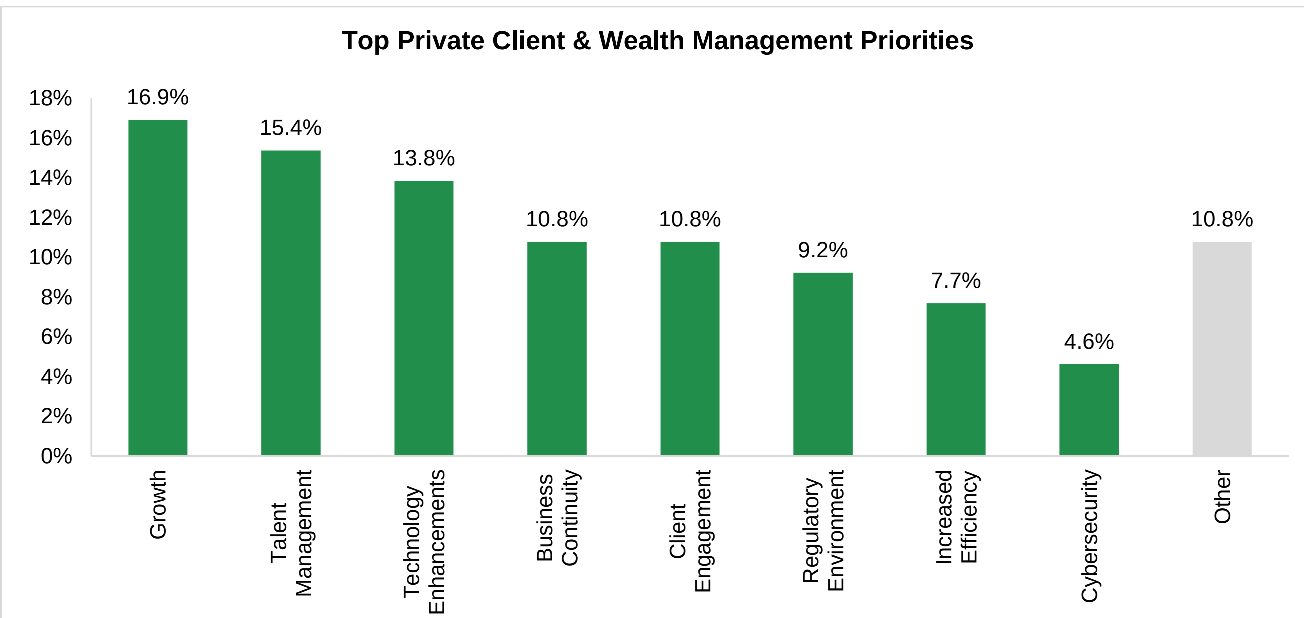
- **The Industry Outlook**: Innovation, technology, and trust drive capital markets. Markets are more complex to navigate, leading to an increase in the demand for advice and satisfaction with advisors; clients' willingness to pay for advice now 60%, +20 pps since 2008. While digital engagement has become a piece of the puzzle for advisors, self-serve only is not even that popular with younger investors (12% Millennials, 23% Gen X); hybrid models offer the best of both worlds. Competitive dynamics and cost pressures increase the need for transformation; 28% of IT budgets are dedicated to digital transformation, +17 pps Y/Y. 37% of advisors are expected to retire within 10 years; succession planning should not be considered unexpected, it is inevitable.
- **The Regulatory Landscape**: Reg BI – needs to be woven into a firm's DNA (the client's best interest is the most important thing); the regulation was a good refresher and a guide to help firms up their game. Remote work – the industry is still trying to figure this out, while the temporary relief allowing firms to remotely examine branch offices expires at the end of 2023; we wait for more information on FINRA's proposed remote work pilot.
- **Market Touchpoints**: This report also includes our pre-conference survey and audience polling results.

Contents

The Industry Outlook

Top Private Client & Wealth Management Themes

To set the scene of the conference, we surveyed[1] attendees and select SIFMA members on the top member-identified priorities for the year. As various perspectives on market themes arose during the week, it was a reminder of the importance of market participants coming together to discuss best practices as well as pain points that the industry must work together to overcome.



Source: SIFMA Insights pre-conference survey

Several member-identified priorities addressed growing the business and talent management (recruiting, training, and retaining):

- **Growth** – In new relationships; helping advisors grow their practice in a thoughtful way while navigating regulatory challenges; drive revenue and manage/reduce costs; build culture; grow AUM; organic growth; obtaining greater share of wallet
- **Talent Management** – Recruiting, finding quality experienced advisors and top talent; training, the next generation of advisors; retaining; licensing and registration

[1] Populated between April 25 to May 1

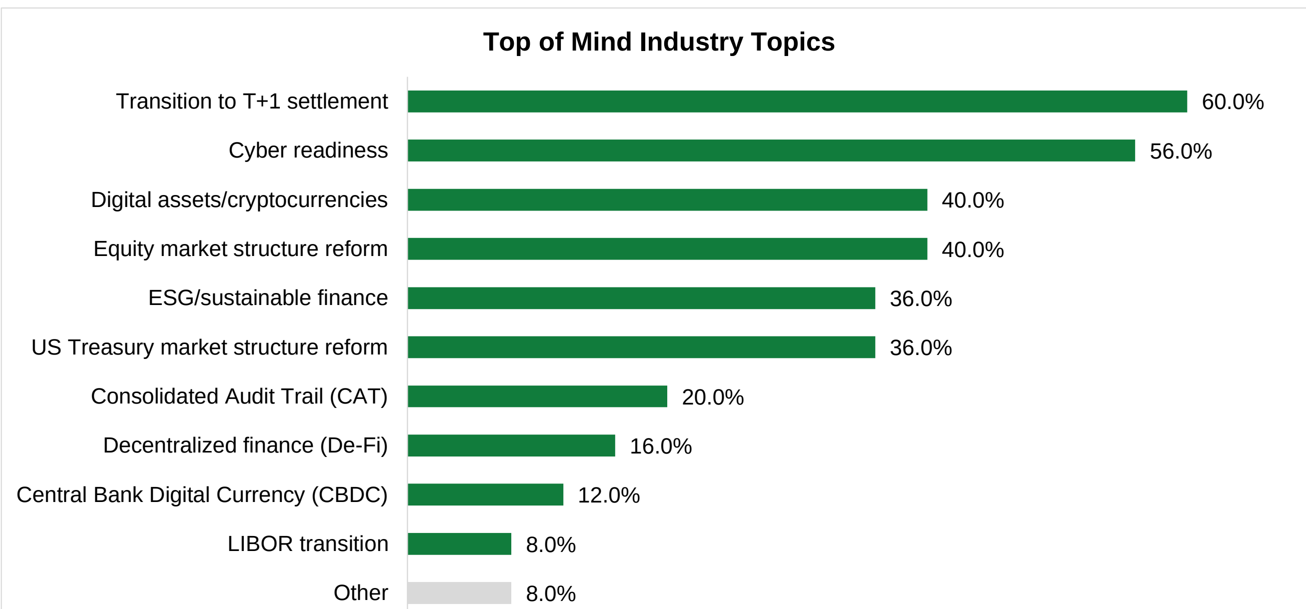
- **Technology Enhancements** – New technology/platforms, implementing and training; CRMs, for compliance, new account opening/servicing, client facing platforms; finding efficiencies, consolidating/rationalize platforms
- **Business Continuity** – Succession planning, for advisors and key firm personnel
- **Client Engagement** – elevated client experience; define digital client strategy; develop the brand; client communication in turbulent markets; deeper engagement; increase/improve digital engagement
- **Regulatory Environment** – Reg BI; compliance
- **Increased Efficiency** – Enhance the ease of doing business with the broker dealer; increase efficiencies administratively and with clients; serve as connectivity for field and home office product groups
- **Cybersecurity** – client account security
- **Other** – Risk management; ESG; digital assets; practice management; scaling advice; complex products; T+1 readiness/awareness

Market Touchpoint: Industry Themes

Our pre-conference survey asked respondents what general industry topics are top of mind for them. Top responses included:

- The transition to T+1 settlement came in first at 60.0% of respondents
- Cyber readiness came in second with 56.0% of respondents
- There was a tie for third place, with both digital assets/cryptocurrencies and equity market structure reform coming in at 40.0%

Survey Question: What industry topics are top of mind for you? (Please select all that apply)



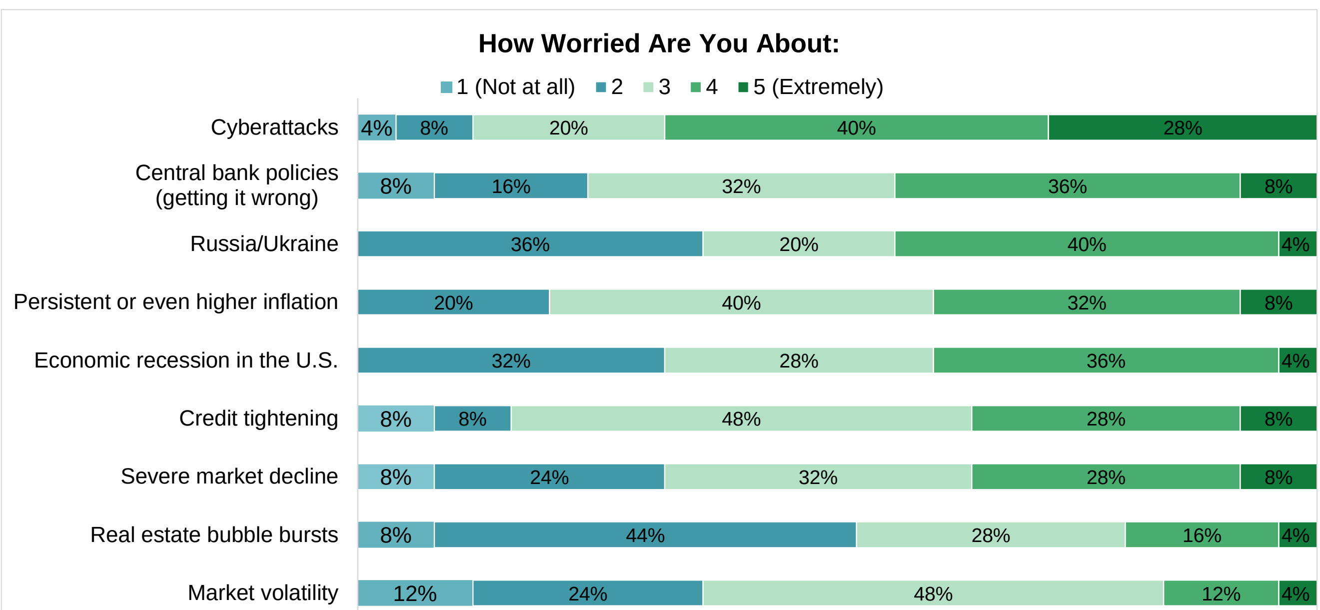
Source: SIFMA Insights pre-conference survey

Market Touchpoint: Macro Themes

Our pre-conference survey sought to gauge respondents' concerns around current geopolitical, economic, and market events and trends. We highlight the following in respondents' perspectives on key concerns, ranking responses by the aggregate level for responses ranked #5 (extremely worried) and #4 (worried):

- Cyberattacks ranked first, with 68% of respondents either extremely worried or worried
- Central bank policies (getting it wrong) and Russia/Ukraine tied for second, with 44% of respondents either extremely worried or worried
- Persistent/higher inflation remained a concern, with 40% of respondents ranking it a 3 out of 5
- Market volatility was one of the least concerning issues, 36% of respondents ranked it a 1 or 2

Survey Question: How worried are you about? (On a scale of 1-5 where 1 = not at all, 5 = extremely worried)



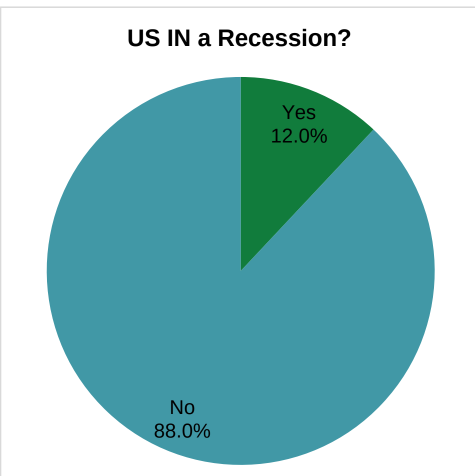
Source: SIFMA Insights pre-conference survey

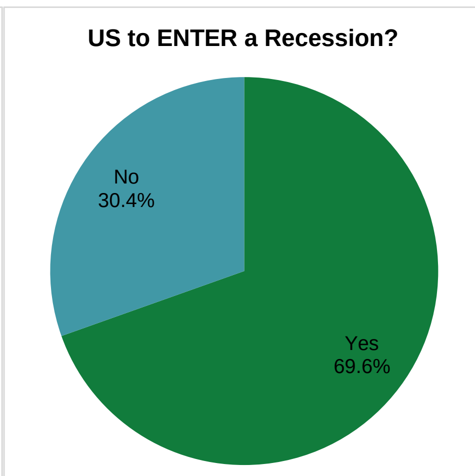
Market Touchpoint: Economic Themes

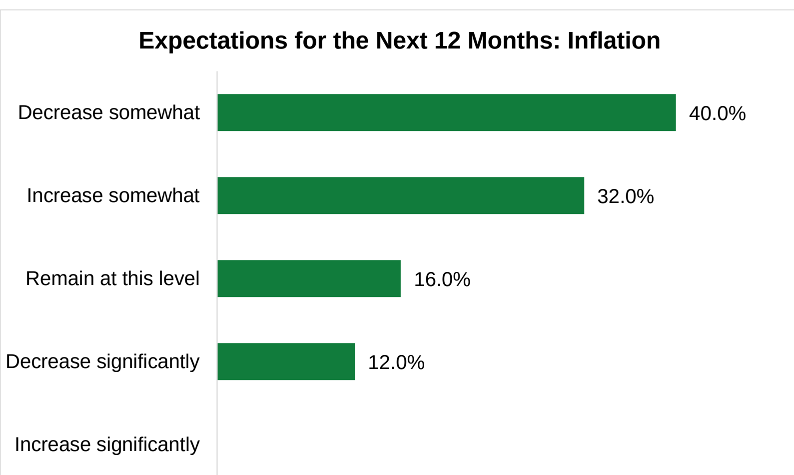
Our pre-conference survey sought to gauge respondents' thoughts around the current economic environment. We highlight the following in respondents' perspectives on key concerns:

- Only 12.0% of respondents believe the U.S. is already in a recession
- 69.6% of respondents expect the U.S. to enter a recession
- As to inflation expectations for the next twelve months, 40.0% of respondents expect it to decrease somewhat versus 32.0% expect it to increase somewhat

Survey Questions: Do you expect the U.S. to enter a recession? Do you believe the U.S. is already in a recession? What are your inflation expectations for the next 12 months?







Source: SIFMA Insights pre-conference survey

Innovation, Technology, Trust

The conference began with a reminder about the importance and benefits of capitalism and the important role capital markets play in keeping it alive. Capitalism increases opportunity and prosperity for everyone, benefiting society in countless ways. However, conditions and events have caused some to re-examine the virtues of capitalism. A speaker noted that the Edelman Trust Barometer found that 56% of people around the world believe capitalism does more harm than good as it exists today (as of 2020). This reflects a lack of trust. People do not see that when capitalism works at its best, it can work for everybody, and it takes intentional leadership to reveal the opportunities brought on by capitalism.

A speaker noted that businesses are rewarded for two things: innovation – good ideas that people want to buy – and relationships, with trust as the root. Trust – in your brand, your values, what you do – is the "lubricant" of good business. Innovation, in turn, brings advancements for societies, for example: airplanes, the Internet, medical developments, etc. These were all just ideas, until capital markets brought them to life.

Business innovation fuels the constant renewal of the economy, in response to market demand. This constant push to evolve drives economic growth and, therefore, increases standards of living for all. As such, capitalism keeps economies prosperous over the long run. Innovation and technology must be coupled with trust.

And trust is the foundation of capital markets. Capital markets also allow people to own their financial future. Retail investor participation has increased – to an estimated 20-30% from 10% historically – and the value of assets has risen, albeit ebbing and flowing over the past year or so. Technology makes the investing experience more accessible and more efficient. This enables people to grow wealth and financially resiliency. Capital markets allow the person making $60,000 per annum to turn that money into $1 million in a retirement account.

Wealth management and private client professionals would not be able to provide the services they do – or positively impact millions of people like in the example above – without capital markets.

Wealth Management Industry Trends

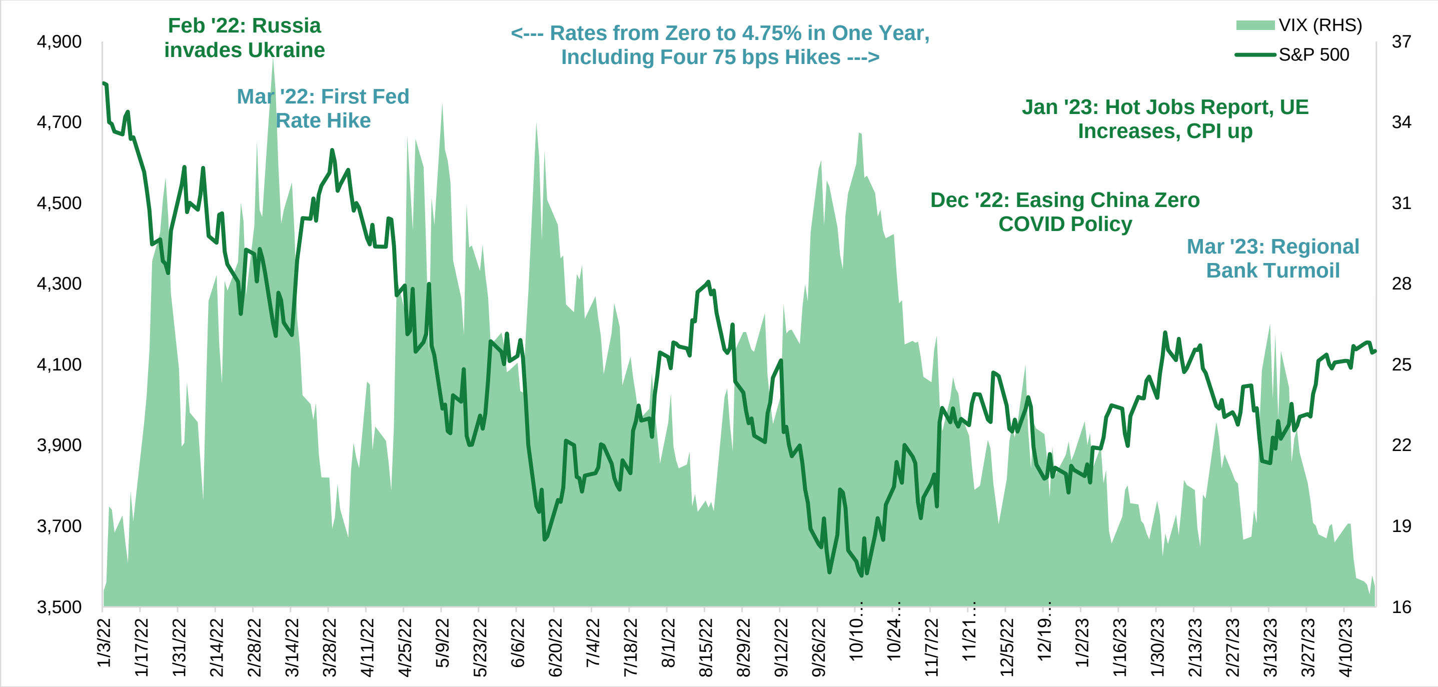
Markets More Complex to Navigate

The days of zero rates and stock prices only going up are over. Since 2022 – when the Fed began raising rates – markets have gone on quite a ride. We saw Russia invade Ukraine, fueling the inflation fire. The Fed undertook its first rate hike in March 2022, ending around a decade of no or low rates. The pace of rate hikes was unprecedented, including a period of four 75 bps hikes in a row. After the most recent FOMC meeting, the Fed Funds rate sits at 5.00-5.25%. We note that SIFMA's Roundtable of economists expect this to be the peak level, to be reached in 2Q23. If they are correct, it looks like we are now at the peak.

Inflation. The Fed. Recession worries. Regional bank turmoil and corresponding credit tightening. In response, the S&P 500 declined 13.1% from the start of 2022 to the end of April 2023. Though we point out that markets are up 16.6% from the October 2022 trough. And we have also seen ebbs and flows in volatility. Digesting all of these factors, investors continue to search for the new normal and appropriate stock valuations.

Simply put, markets are more complex to navigate.

End of Zero Rates & Geopolitical Events Make Markets More Complex to Navigate



Source: Bloomberg, SIFMA estimates

Client Satisfaction with Financial Advisors Has Increased

Given this complexity, the demand for advice and satisfaction with advisors has increased. You only need to look to Cerulli Research for proof: (please see the Appendix for full slides)

- Survey respondents self-reporting as advised stands at 52%, versus 24% self-reporting as self-directed
  - Advised +17 pps since 2009, ~+12 pps since 2019
  - Gap between advised and self-directed now +28 pps, was -6 pps in 2009 (self-directed was higher than advised back then)
- Client satisfaction with advisors 83%, +22 pps since 2009
- Trust and service represent 43% of satisfaction rating (reputation/trust 23%, service 20%)
- Clients' willingness to pay for advice now 60%, +20 pps since 2008

For further proof, prior to the conference, Edward Jones published a survey[2]. The key findings were that "financial advisors (FA) pursue more frequent, personalized engagement with clients as a result of current economic conditions". Highlights from the survey include:

- 76% of their FAs have increased their engagement with clients due to current economic conditions (inflation, market volatility, recent bank foreclosures/mergers)
- Most FAs are communicating with clients monthly, at 44%, followed by weekly, at 42%
- In-person meetings are back, with 38% of FAs surveyed indicating this is the most common way they communicate with clients, followed by 24% for email
- Almost nine-in-10 financial advisors, or 88% of respondents, believe that most of their clients feel financially resilient (able to withstand or recover quickly from difficult financial conditions)

[2] https://www.edwardjones.com/us-en/why-edward-jones/news-media/press-releases/advisors-increase-client-contact

Appetite for Digital Engagement[3]

Over a decade ago, some were concerned that robots – or robo advisors – were going to take over. Some people incorrectly assumed that younger investors would only want to transact on their phones. They incorrectly assumed these investors never wanted to speak with people or pay for advice. These assumptions proved to be myths.

While digital engagement has become a piece of the puzzle for advisors, self-serve only is not even that popular with younger investors, 12% with Millennials and 23% with Generation X. The top response for engagement preferences for opening a new investment account for each age group was meet with an advisor, whether in person or virtual:

- Millennials 33%
- Generation X 34%
- Baby Boomers 48%
- All Ages 42%

Younger generations' use of advice is increasing, opening a new pool of investors for financial advisors. These investors are considered advice seekers. Advice seekers and advisor-reliant investors now represent 58% of total survey respondents (advice seekers 22%, advisor-reliant 36%). This opens an opportunity for advisors to develop relationships with younger investors. Those survey respondents identifying as advice seekers included:

- 43% for ages under 30
- 55% for ages 30-39
- 42% for ages 40-49

The hybrid model appears to present the best of both worlds for advisors. Hybrid brings the best aspects of digital – data aggregation/analysis – with traditional advice – a trusted advisor providing personalized advice to an investor. And this hybrid of digital and advice opens opportunities for advisors to attract younger investors today and grow with them as they increase their wealth and plan for their futures.

At the end of the day, the root of the advisor business is the human element.

[3] Source: Cerulli Research

Moving from Information to Advice

Data is the new oil. How many times have we said that? There is a significant amount of data available today, but it can be overwhelming. The problem now becomes – what do I do with all this data?

Yes, investors can find information on almost anything today. Let us look at a (fictional) case study. An investor wants to purchase an equity ETF that includes only U.S. companies with a dividend yield of 2% or higher. They can go onto etf.com and search under these characteristics, which returns 280 ETFs. In theory, they can research each one, as the platform has data for price, performance, AUM, fees, sector breakout, company weightings, and more for each security. However, who realistically has time to do this for every investment decision? (And this is only for 280 ETFs – there are 2,232 ETFS, of which 1,282 are U.S. specific.)

This is where advice becomes important. Investors need advisors to help them sift through the volumes of data available today. When rating factors important in choosing an advisor, survey respondents indicated the following (Cerulli Research, answers for all respondents):

- **Understand**, 53% – The advisor takes the time to understand the investor's needs, goals, and risk tolerance before making investment decisions
- **Explain** 48% – The advisor explains the financial analysis used in investment decisions to investors in a clear, straightforward manner
- **Evaluate** – The advisor
    - (48%) Constantly monitors investors' portfolios – looking at economic and market changes – and recommends corrections accordingly to address potential opportunities or threats
    - (46%) Assesses the entire financial picture: investments, insurance, credit, etc.
- **Customize** 42% – The advisor provides customized solutions for investment decisions, based on the investor's needs, goals, and risk tolerance

Finally, panelists addressed the intersection between digital tools to assist in sorting through data or investment options and advice. Investment platforms have the technology to show current investments along with a corresponding list of similar investment options. But is this a Netflix-style list or is it an investment recommendation? Panelists noted the importance of adherence to Regulation Best Interest (Reg BI) when utilizing digital tools. After all, the $1 million question is at what point do digital tools become advice?

An Artificial Intelligence (AI) Future?

The buzz word of the year is AI. It has certainly received a lot of attention, and it seems to hold potential. However, many – including a pioneer in the field – have concerns about cybersecurity and the existential risks to humanity. And, of course, there are legal and compliance questions for the industry, not the least of which include data privacy and security.

We began by describing what AI is:

- **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

The industry is currently utilizing or investigating ways for AI to increase efficiencies, reduce costs, and customize advice. Some examples include:

- **Efficiencies and Costs** – compliance; customer service; fraud detection; data processing; and risk management and analytics
- **Customization** – personalized financial planning and advice; portfolio management; research, with text summarization and sentiment analysis; robo advisory services; and trading and investment analysis

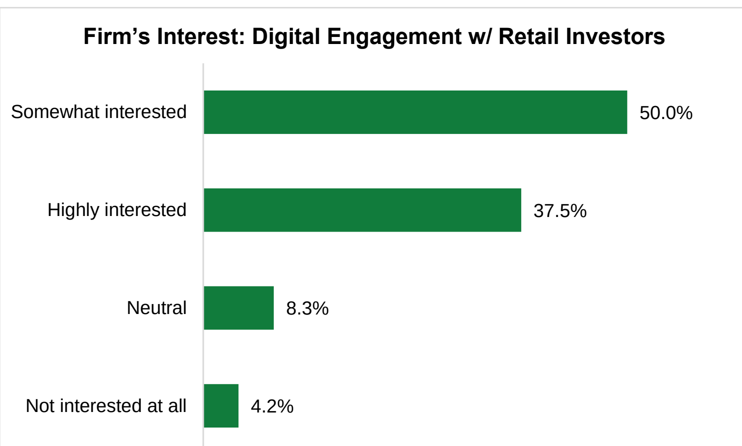
Finally, we cannot leave this section without discussing potential regulatory and legal concerns. SEC Chair Gensler stepped up warnings in March, nothing that "predictive data technologies may create inherent conflicts of interest". There appears to be increased activity in Congress, seemingly a bipartisan issue. In general, the industry appears to be focused on compliance, building a strong governance framework (supervision, oversight) and enabling transparency and disclosure. A panelist indicated that firms should be able to communicate effectively with their clients about the use of AI – how it is used, what data is collected, and how the firm addresses privacy, bias, etc.

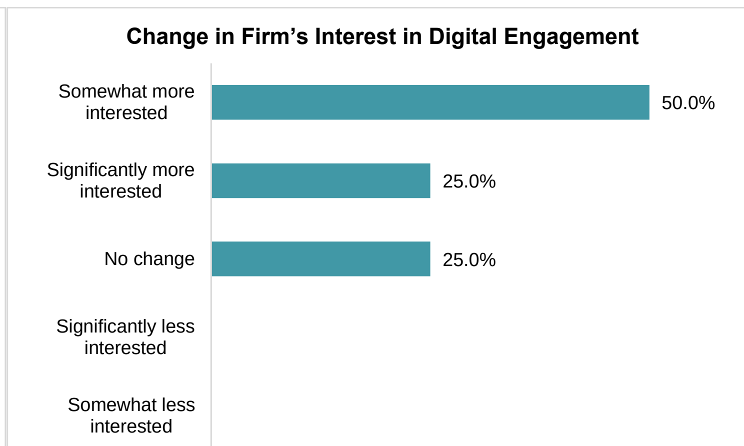
Market Touchpoint: Digital Engagement

We used our pre-conference survey to gauge respondent's views on trends in digital engagement practices with retail investors. We highlight the following:

- 50.0% of respondents indicated they are somewhat interested, followed by 37.5% highly interested
- As to the change in sentiment, 75.0% of respondents noted an increase in interest level – 50.0% somewhat more interested and 25.0% significantly more interested

Survey Questions: How do you rate your firm's interest in digital engagement practices with retail investors? How has this interest in digital engagement practices changed over the last 12 months?





Source: SIFMA Insights pre-conference survey

Digital Transformation

Amidst changes in investor behavior, demographics, and innovations in technology, the wealth management industry is changing. Competitive dynamics and cost pressures increase the need for transformation, and a solid foundation increases the scalability of transformation.

Broadridge's 2023 Digital Transformation survey[4] presented interesting statistics in this area:

- 28% of IT budgets are dedicated to digital transformation, +17 pps Y/Y
- 55% of firms say digital transformation is their most important strategic initiative
- The estimated increase in investment over the next two years was 30% for data analysis/visualization and 27% for cloud platforms/applications
- As to the top benefits from digital transformation, 52% responded customer retention and 44% cost savings

Linking back to the prior section, 65% of survey respondents noted that AI is significantly changing the way we work. As such, survey respondents indicated that the estimated increase in investment over the next two years for AI was 22%. A speaker noted that firms are currently focused on replacing legacy systems to build the foundation for transformative innovations such as AI.

Regardless of specific plans, a speaker noted that firms should get ahead of challenges by using technology to transform. Automation could personalize communications between advisors and clients. Building technology systems that enable personalization at scale could drive advisor – and firm – productivity. The time to act for tomorrow is today.

[4] https://www.broadridge.com/report/2023-digital-transformation-and-cx-studies

Succession Planning: Preparing for the ~~Unexpected~~ Inevitable

An increasing number of advisors are at or approaching retirement age: (FINRA data, as of December 2021)

- 16.3% are age 60 or older
- 8.2% are age 65 or older
- 3.8% are age 70 or older
- And the percentage in each age bracket has increased in recent years

Therefore, within the next 10 years, 37% of financial advisors – controlling $10.4 trillion, or 40% of total industry assets – are expected to retire. Yet, one in four of these advisors are unsure of their succession plan (Cerulli Research). As such, succession – no, not the television show – planning for financial advisors is essential. It is a must have, not a nice to have.

The trigger for a succession plan should not be considered unexpected. It is inevitable. Succession plans offer benefits to advisors, firms, and – importantly – customers. It is a win, win, win. The downside risks can be catastrophic for a firm, as they include having to cease operations. Examples of triggers for enacting a succession plan include:

- An advisor departs due to retirement, illness, disability, or death
- There is a sale of a book of business or firm assets
- There is a reassignment of an advisor's customer accounts.

Given the looming retirements and inevitability of trigger events, regulators are taking interest in firms' plans for successions planning. COVID piqued this interest, as the pandemic accelerated trigger events such as early retirement and (unfortunately) death. In November 2022, FINRA put out Notice 22-23[5], which provides detailed guidance – or a roadmap – for firms and advisors. The regulatory advice offered is to make succession planning a top priority, including an executive leadership priority. Firms could offer centralized business support systems or education and training programs. Firms could even mandate contingency plans.

Regardless of the type of succession plan, the message from the conference was do not wait, plan today.

[5] https://www.finra.org/rules-guidance/notices/22-23

The Regulatory Landscape

Regulation Best Interest (Reg BI)

Panelists noted that Reg BI needs to be woven into a firm's DNA – the client's best interest is the most important thing. Many firms feel that parts of Reg BI were already built into their operating models, but the regulation was a good refresher and a guide to help firms up their game. Panelists noted that firms found it useful to hear regulatory feedback and then address policies and procedures in their businesses accordingly.

FINRA noted that documentation should become routine, not a check-the-box compliance program after the fact. Again, it should be in the DNA of firms. Advisors should be recording the how's and why's of choosing investment options for clients during the investment decision making process. Yes, firms and advisors need documentation, but it should be part of the process. For example, a client was interested in small inclinations and then enrolled in a program later. The advisor recorded the reason behind the actions and the actions themselves in real time. In another example, an advisor sold a client a complex product. The advisor noted that this product was different from other investment product offerings given its specificity. The advisor was instructed to document what would have or could have been done elsewhere with the cash as it recorded this transaction.

Panelists suggested that firms build these types of actions into daily routines. Firms should also offer advisors training on the nuances of the regulation, particularly how to document choices for clients.

Remote Work

In the office. Work from home. Hybrid work schedules. Balancing flexibility and collaboration. What does the new normal for work look like? The industry is still trying to figure that out. Though, panelists noted concern that the industry could lose talent if hybrid schedules were eliminated entirely.

From the regulatory perspective, the temporary relief allowing firms to remotely examine branch offices expires at the end of 2023. What happens when the relief ends? A panelist noted that they hate to lose the ground they gained. The industry improved as result of being evaluated during the pandemic. Technologies allowed systems and procedures to advance. However, panelists noted that some outdated assumptions of what supervision is still exist. Business is just not performed the same today as prior to COVID – it is much more digital. You do not need examiners walking the halls and opening drawers. The drawers are empty.

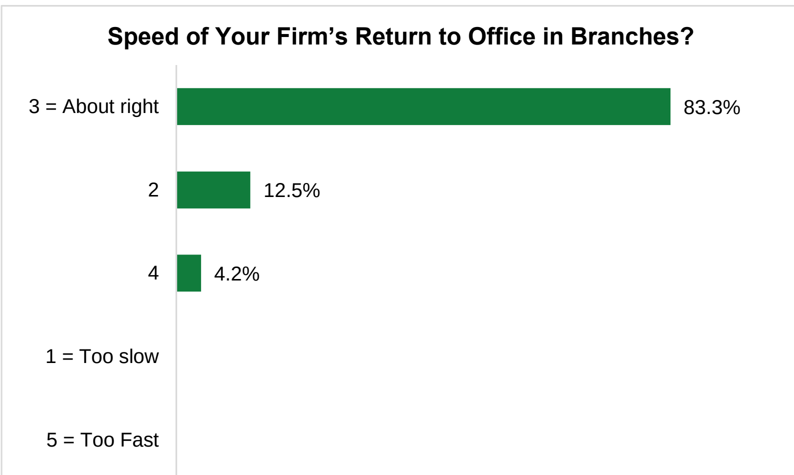
FINRA is looking to gather more information on remote work through their proposed pilot. In April 2023, FINRA re-proposed a rule change to amend FINRA Rule 3110 (Supervision) to adopt a voluntary, three-year remote inspections pilot program to allow member firms to elect to fulfill their internal inspections obligations by conducting inspections of some or all branch offices and locations remotely without an on-site visit to such office or location, subject to specified terms. Still a proposal, we expect to learn more about the pilot in the coming months.

As a panelist noted, regulators have an "extraordinary" opportunity to modernize rules around how systems and controls catch inconsistencies or violations, either digitally or otherwise.

Market Touchpoint: Return to Office

We used our pre-conference survey to gain a sense of how advisors felt about the speed of their firm's return to office in branches. 83.3% of respondents felt the speed was about right (this was an increase from 74.1% in last year's survey).

Survey Question: How would you rate the speed of your firm's return to office in branches? on a scale of 1-5, 1 = too slow, 3 = about right, 5 = too fast



Source: SIFMA Insights pre-conference survey

More on Market Themes

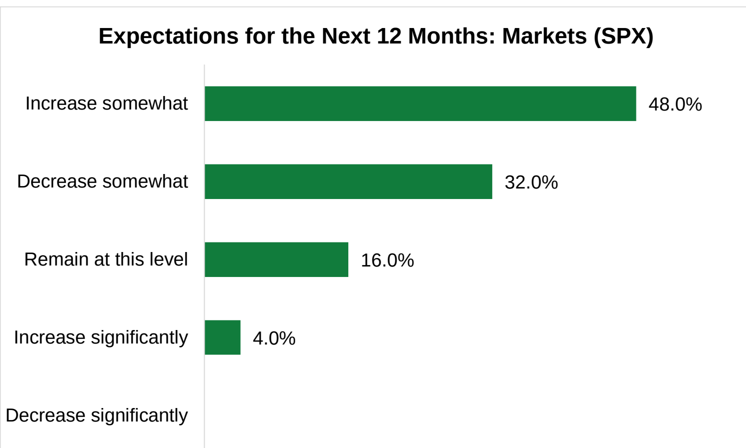
Market Touchpoint: Market Themes

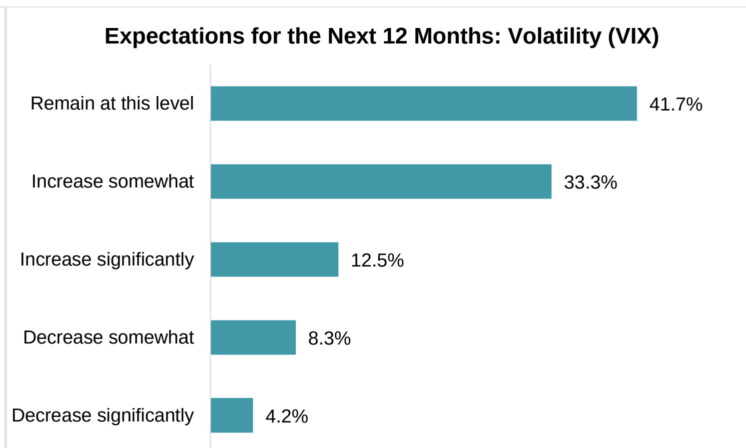
Our pre-conference survey sought to gauge respondents' thoughts around market performance (S&P 500 index price) and volatility (VIX index) trends. We highlight the following in respondents' perspectives on key concerns:

- Markets (averaged 4,169.48 during the survey time period) – Given the many moving pieces impacting markets (the Fed, inflation, regional bank turmoil), the top result for the path of the S&P 500 of increase somewhat, 48.0%, was followed closely by decrease somewhat, 32.0%

- Volatility (averaged 17.30 during the survey time period) – 41.7% of respondents expected volatility to remain at this level, while 33.3% responded increase somewhat

Survey Questions: Over the next 12 months, do you expect markets – in terms of the price of the S&P 500 index – to? Over the next 12 months, do you expect market volatility – in terms of the price of the VIX index – to?





Source: SIFMA Insights pre-conference survey

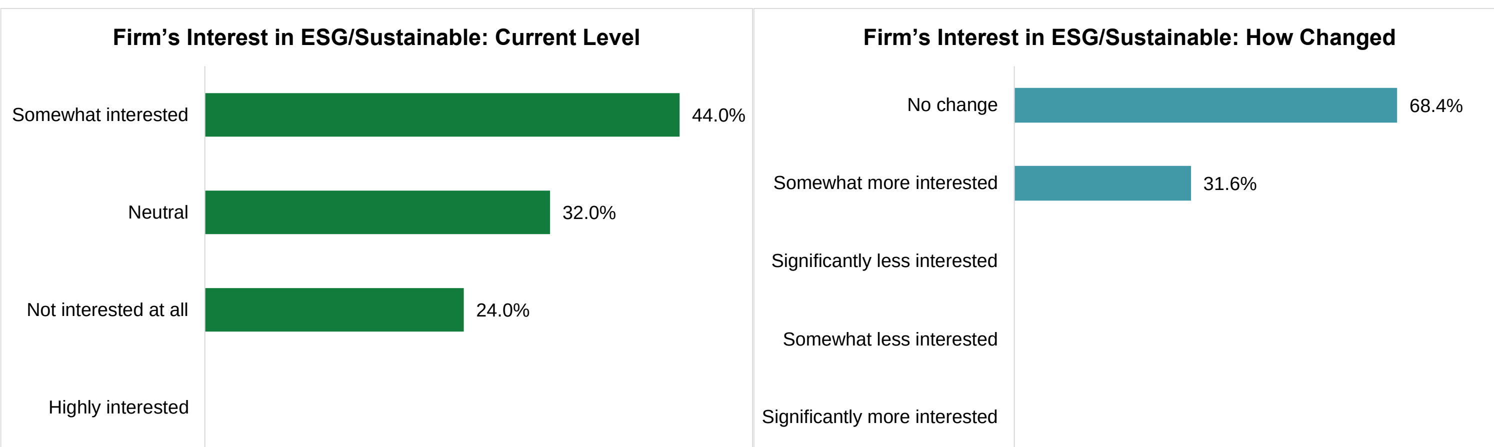
Market Touchpoint: ESG

We used our pre-conference survey to survey respondents on their firm's interest in ESG and sustainability services and product offerings. We highlight the following:

- 44.0% of respondents replied their firm is somewhat interested in ESG and sustainability services and product offerings, with 32.0% neutral and 24.0% not interested at all

- As to how this view has changed over the last year, 68.4% replied no change and 31.6% somewhat more interested

Survey Question: How do you rate your firm's current interest in providing ESG/sustainable products/underwriting? How has your firm's interest in providing ESG/sustainable products/underwriting changed since last year?



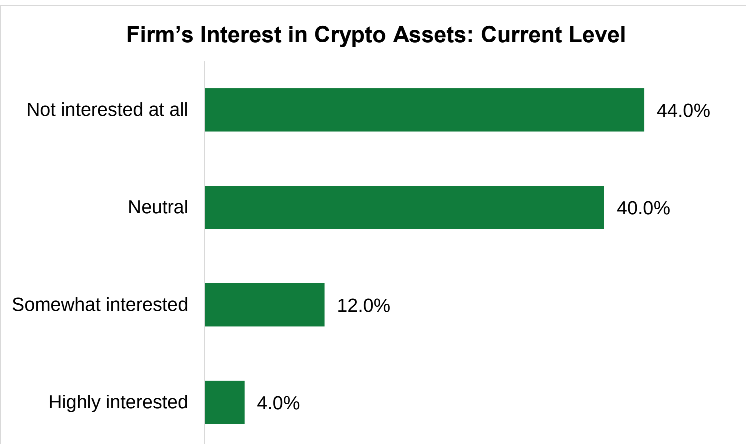
Source: SIFMA Insights pre-conference survey

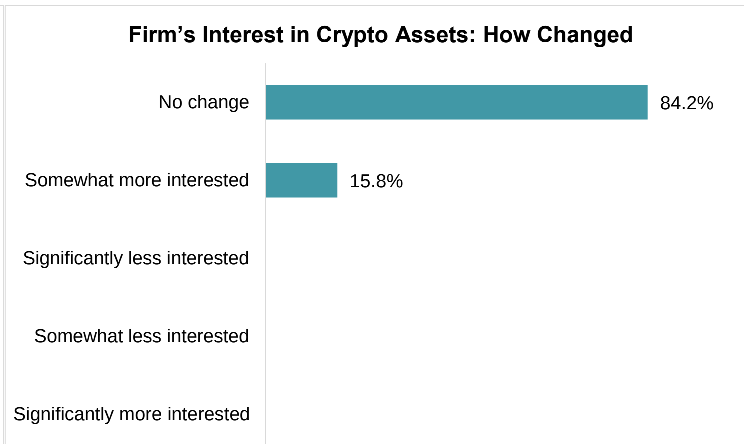
Market Touchpoint: Crypto

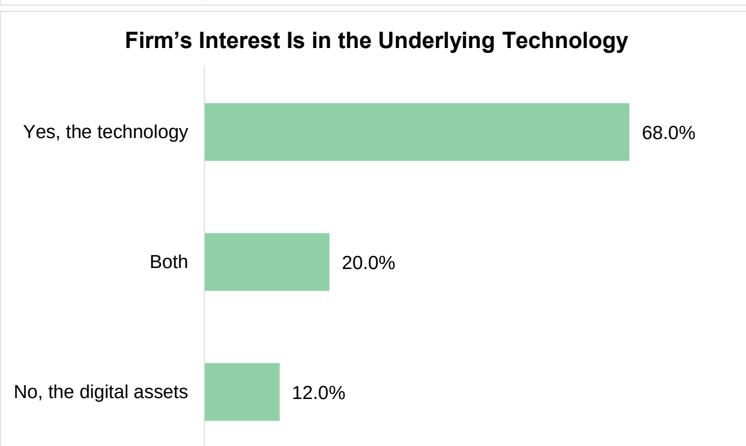
We used our pre-conference survey to gauge respondents' interest in crypto asset investing. We highlight the following:

- 44.0% responded that they have no interest at all in crypto asset investing, with 40.0% neutral to the idea
- This has not changed since last year, as per 84.2% of the respondents
- As to technology or assets, 68.0% of survey respondents are interested in the underlying technology, with 20.0% interested in both the technology and the assets themselves

Survey Question: How do you rate your firm's current interest in crypto asset investing? How has your firm's interest in crypto asset investing changed since last year? My firm's interest is in the underlying technology rather than the assets themselves.







Source: SIFMA Insights pre-conference survey

Appendix: An Industry Disrupted – Insights into the Latest Data and Trends

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

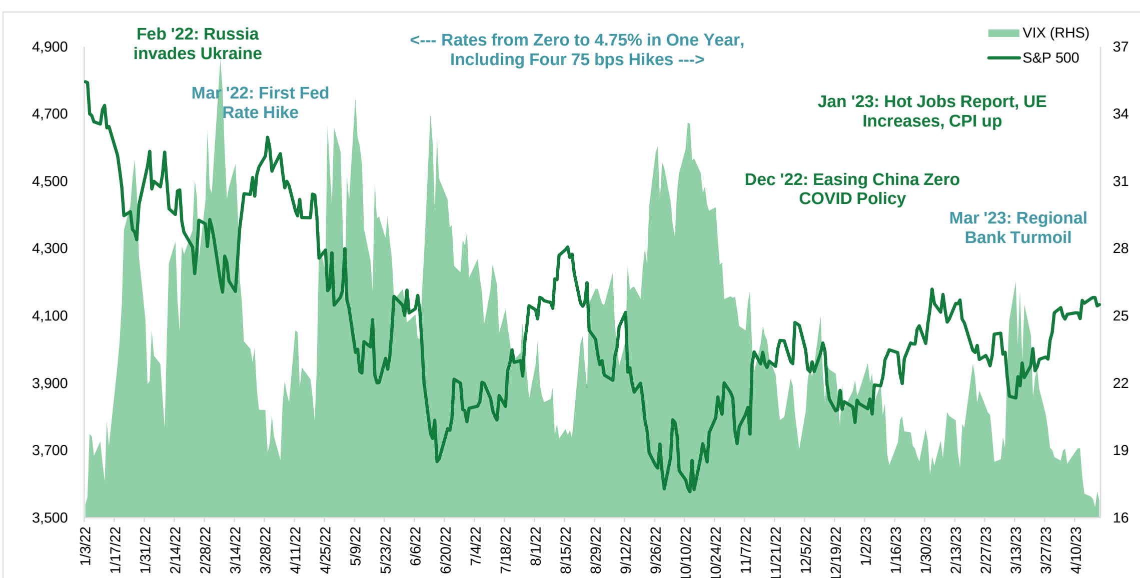
Bharat Sawhney, Partner, Banking SIA Partners

Scott Smith, Director Advice Relationships, Cerulli Associates

sifma PRIVATE CLIENT CONFERENCE

Markets More Complex to Navigate

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



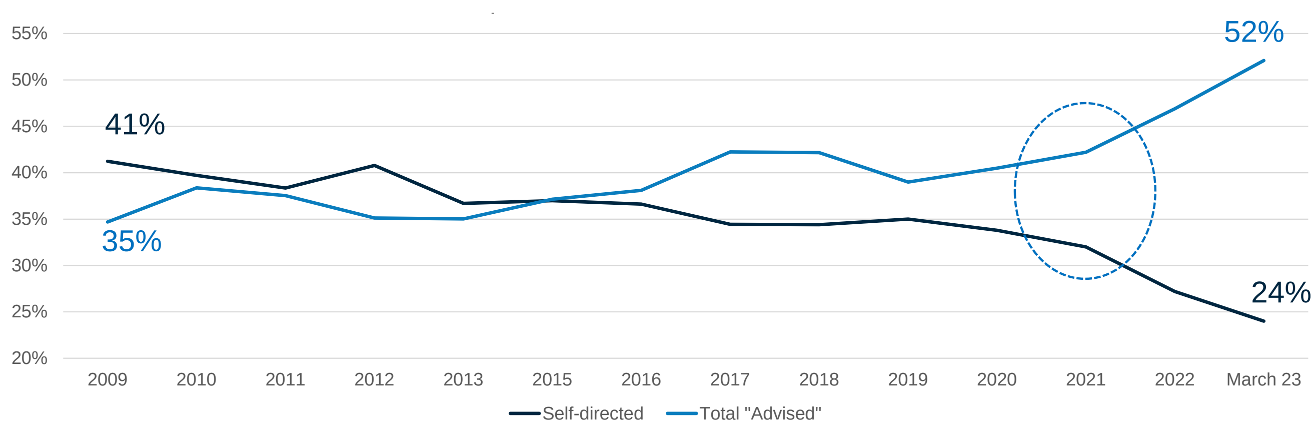
Source: Bloomberg, SIFMA estimates

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

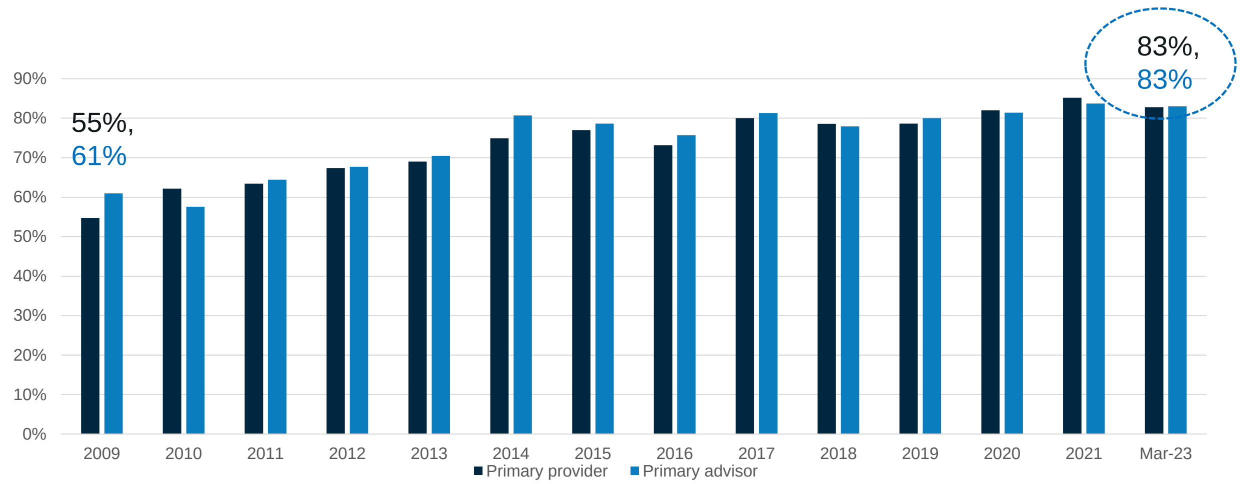
Advised takes off as the market environment changes



Source: Cerulli Associates – households' self-reported financial advice orientation, 2009-March 2003

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

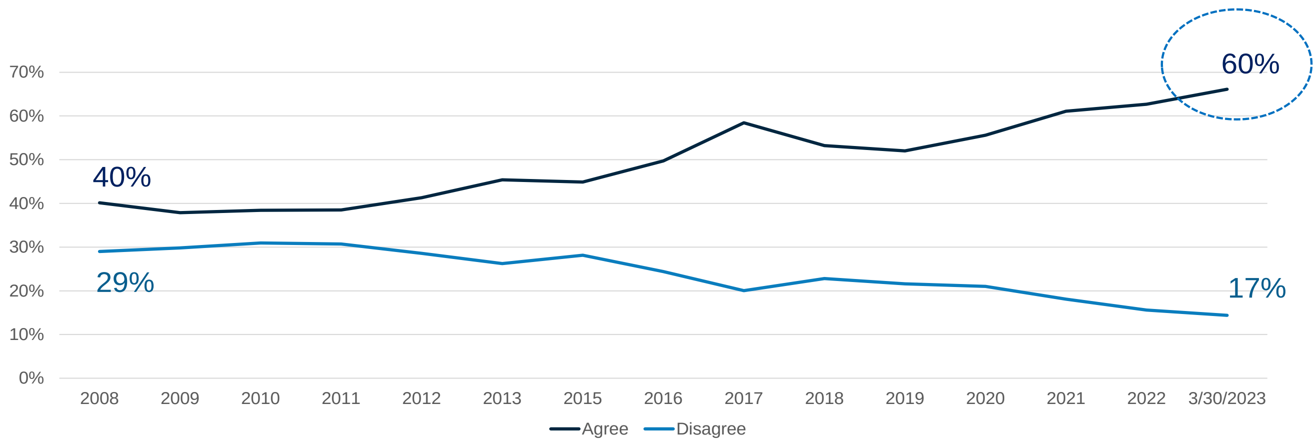
Honesty, dependability, ease of doing business, responsiveness, and knowledge

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%

Source: Cerulli Associates – reason for satisfaction level with primary advisor, 2011-2022

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

"I am willing to pay for advice regarding my financial investments"



Source: Cerulli Associates – willingness to pay for advice, 2009-March 2023

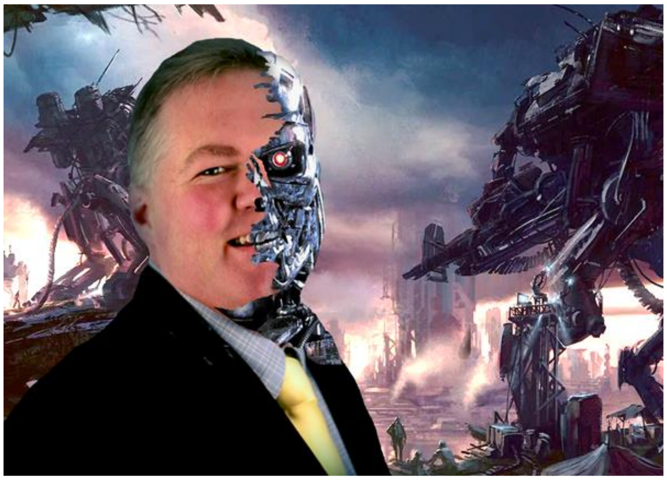
Appetite for Digital Engagement

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



Source: Cerulli Associates

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%**

Source: Cerulli Associates

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%**

Source: Cerulli Associates – behavioral advice segment descriptions, 2023

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%

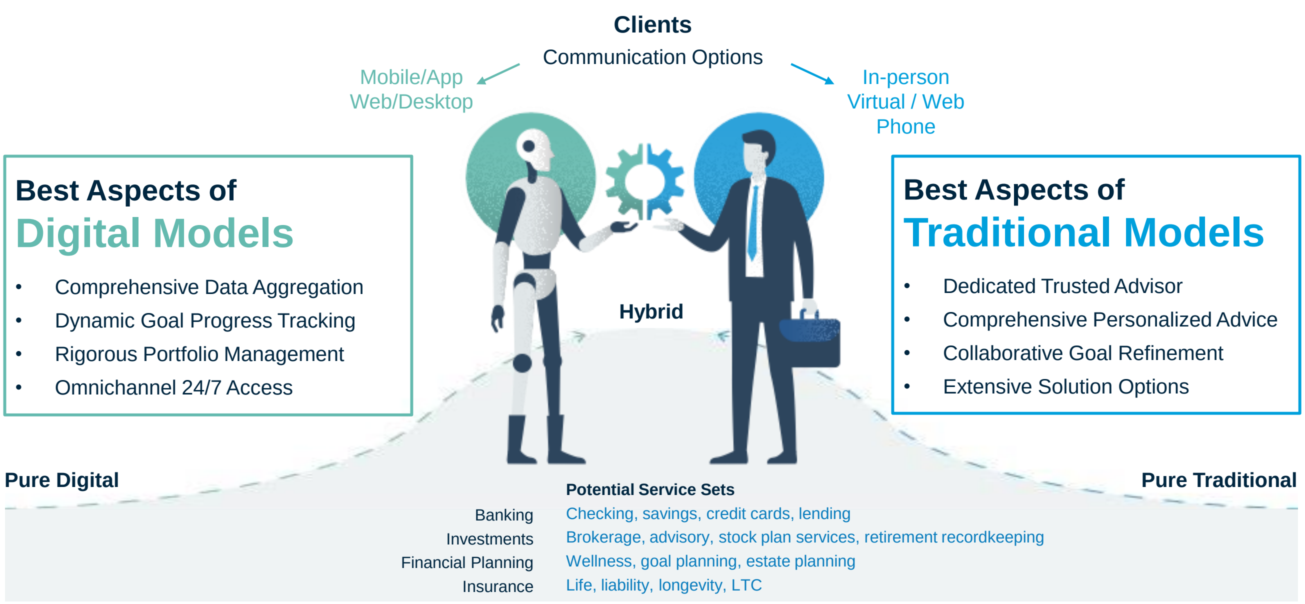
Source: Cerulli Associates

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%

Source: Cerulli Associates

Example: Omni-Channel Solutions with AI Future



Source: Cerulli Associates

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%**

Source: Cerulli Associates

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

Source: SIFMA Insights

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

Source: SIA Partners

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

Source: SIA Partners

Is ChatGPT Going to Replace Us All?

Complement more than replacement ….for now?

Heard on the Street:

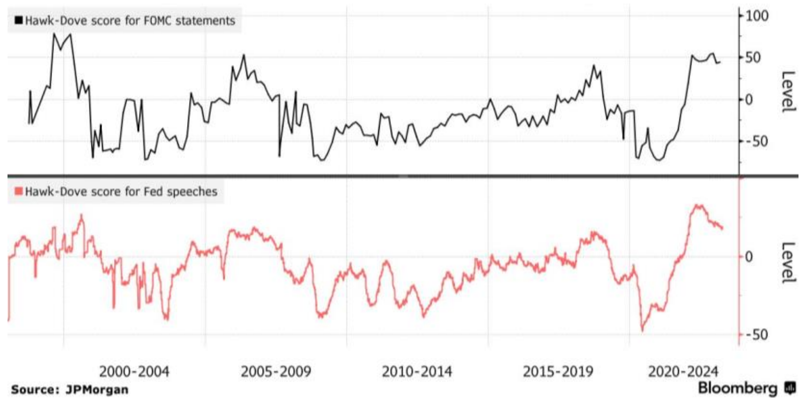
- “The future is human FAs armed with AI to foster trusted hyper-local relationships by collecting data to add personalization”
- Next Best Action + OpenAI on a chatbot for financial advisors
- Using AI to create real-time trade explanations and implications for distribution to FAs who use their models
- 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

Source: Cerulli Associates

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



Source: Bloomberg

Appendix: SIFMA Insights Research Reports

SIFMA Insights: www.sifma.org/insights

- Ad hoc reports on timely market themes
- Market Structure Compendium (annual report)
- COVID Related Market Turmoil Recaps: Equities; Fixed Income and Structured Products

Monthly Market Metrics and Trends: www.sifma.org/insights-market-metrics-and-trends

- Statistics on volatility and equity and listed options volumes
- Highlights an interesting market trend

Market Structure Primers: www.sifma.org/primers

- Capital Markets Primer Part I: Global Markets & Financial Institutions
- Capital Markets Primer Part II: Primary, Secondary & Post-Trade Markets
- Global Equity Markets
- Electronic Trading
- US Capital Formation & Listings Exchanges
- US Equity
- US Multi-Listed Options
- US ETF
- US Fixed Income
- SOFR: The Transition from LIBOR
- The Evolution of the Fintech Narrative

Conference Debriefs

- Insights from market participants into top-of-mind topics
- Pre-Conference Survey Comparison, compares survey results across various conferences

Equity Market Structure Analysis

- The ABCs of Equity Market Structure: How US Markets Work and Why
- Analyzing the Meaning Behind the Level of Off-Exchange Trading, Part II
- Analyzing the Meaning Behind the Level of Off-Exchange Trading
- Why Market Structure and Liquidity Matter

Author

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