Summa Global Advisors

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A Journey That Began a Dozen Years Ago

In the spring of 2004, having just graduated from college, this international student from Hong Kong, desperate to find employment in hopes of remaining in the country, was very fortunate to land a job that, to this date, still makes him feel humbled as there is so much more to learn and grow.

A dozen years have flown by in a blink of an eye, and I have had the front-row of seat of witnessing how the financial service industry has changed, evolved and calibrated to the meet the demands of clients in the 21st century.

The Changes

There have been so many of them over the past decade or so. I would put them into three broad categories.

Business Practice – the term "financial planning" has caught increased attention and gained great momentum in recent years, thanks to the waves of baby-boomers reaching retirement phase. As a result, financial advisors or firms that only focused on asset or money management quickly saw clients head for the exit and go with advisors who offer a more comprehensive approach. Terms such as "money management" and "wealth management" have become synonymous with financial planning, at least from the client's perspective.

Clients have learned and are taught to look for advisors who, not only need to be knowledgeable, must have their best interest in mind when giving advice. Professional organizations such as the CFP Board and the CFA Institute adopt stringent codes of ethics and require their members abide by them. Such requirements have placed many dually-registered advisors in an awkward position.[1]

Financial Products – most investors have little trouble explaining what a stock, a mutual fund, or a bond is, but *exchange-traded-funds* (ETFs), despite their growing popularity and dominance, still make certain investors scratch their heads.

If we think of eggs as individual stocks—Apple, Intel, Costco, etc.—and we put a dozen of them in a carton: that is mutual fund in a simplified form. ETFs simply change the materials used to make the carton, from cardboard to transparent plastic: you can see all the eggs inside.

ETFs' popularity stems from the ultra-low cost structure as well. Unlike mutual funds, sales charges are absent on ETFs, and some of the industry-leading products offer jaw-dropping super-low expense ratios (see table on next page).

Regulations – ever since the Financial Crisis, the financial industry has not seen a day without relentless pressure for more regulations and scrutiny. Scandals such as Bernie Madoff's ponzi scheme have only added fuel to the fire, pushing Wall Street to *unpopulandia*, losing out to Congress.[2]

The Dodd-Frank Act, responsible in creating various reforms, agencies, and rules, is the "most extensive revision of U.S. financial regulation since the 1930s," according to a 2010 survey by the International Bar Association's Task Force on the Financial Crisis.[3] The Dept. of Labor's recent announcement of the fiduciary standard on retirement advice, while its intentions were good, is not comprehensive enough and may create unintended consequences whose cost would likely be borne by the general public in the end.[4]

TICKER	FUND NAME	ISSUER	EXPENSE RATIO	AUM
SPY	SPDR S&P 500 ETF Trust	SSgA	0.09%	$180.84B
IVV	iShares Core S&P 500 ETF	BlackRock	0.07%	$73.13B
VTI	Vanguard Total Stock Market Index Fund	Vanguard	0.05%	$60.41B
EFA	iShares MSCI EAFE ETF	BlackRock	0.33%	$59.10B
VOO	Vanguard S&P 500 Index Fund	Vanguard	0.05%	$45.61B
AGG	iShares Core U.S. Aggregate Bond ETF	BlackRock	0.08%	$37.87B
GLD	SPDR Gold Trust	SSgA	0.40%	$37.44B
VWO	Vanguard FTSE Emerging Markets ETF	Vanguard	0.15%	$36.24B
QQQ	PowerShares QQQ Trust	Invesco PowerShares	0.20%	$35.16B
VEA	Vanguard FTSE Developed Markets ETF	Vanguard	0.09%	$33.35B

Top 10 ETFs by assets under management.
Source: ETF.com

"Terms such as 'money management' and 'wealth management' have become synonymous with financial planning..."

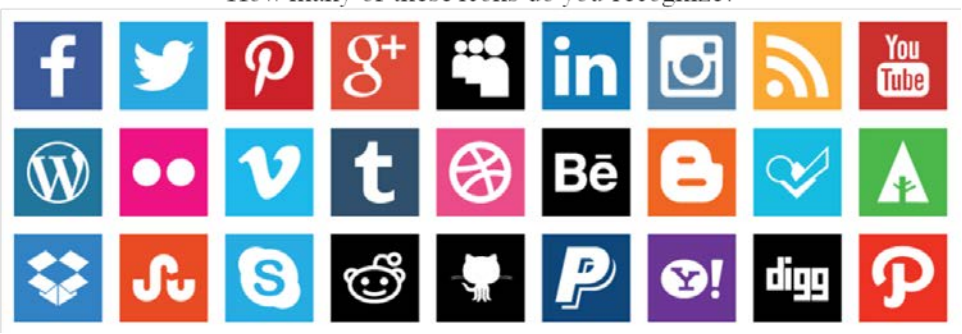
The Market – another lingering issue of the Financial Crisis, professional and individual investors alike have grown very keen on what central banks' chiefs have to say and do not say. In retrospect, the Fed's interventions during the peak of the crisis were absolutely necessary to avert a much worse scenario, but they may have left the "medicine" in the patient longer than desired, lessening the effectiveness over time. Central banks' mission is to ensure the underlying financial system remains safe and sound, and to provide measures to stabilize it during tumultuous times. For those of us who study finance, earnings should be the key that drives the stock market. Sadly, news outlets are spending more time covering and dissecting Ms. Yellen's speeches than the state of corporate earnings.

The Evolution

Human nature is one of creativity and adaptability. If we stopped innovating, the world may just as well stop spinning! So what has the financial services industry done or evolved in response to the changing landscape?

Communication – the internet has revolutionized the way people in the 21st century communicate, interact and socialize. Even though our industry sometimes travels at the speed of a mammoth (thanks largely in part to compliance requirements), advisors both large and small cannot afford to ignore these trends and risk being left behind. Email and websites are merely starters; social media presence and use of smart devices are growing exponentially; webinars, screen-sharing and video-conferencing capabilities have diminished the need for physical meetings and scheduling conflicts.

How many of these icons do you recognize?



FinTech – the latest buzz word in the financial industry that could be traced back to the inception of credit cards and ATMs of the 50s and 60s.[5] More well-known names in recent history include PayPal, GoFundMe, and Lending Club. Many new start-ups continue to attract vast amounts of funding like a giant magnet from venture capitalists focusing on three major areas: consumer lending, payments and

business lending.[6]

RoboAdvisor, also known as automated investing, is a computer program that invests, reviews, and rebalances your investments for you, taking the emotional bias out of the equation. The investing public can utilize these services with a small beginning balance and low (sometimes even no) management fees, although access to an actual human can be very limited (read 5 critical differences between financial advisors and robo advisors[7]). Many traditional advisors, ourselves included, are beginning to warm up to automated investing as part of their service offering (we are working on making this available soon).

"The internet offers a wealth of information, but not every piece is correct."

The Calibration

It is no doubt that advisors who realize the importance of these game-changing technologies and embrace them into their practice will be better positioned to serve and meet the demands of the current and future generations. Think of traditional stores such as JC Penney losing out to innovative retailers like Amazon.com.

FinTech developments such as RoboAdvisor can help the younger generations get started and feel comfortable with saving and investing, a critical factor to retirement planning. Other service providers' offerings can improve advisor efficiency and enhance client experience. (See infograph at the end: Nuts and Bolts of Summa Global)

The value proposition of an advisor has now shifted to the expertise he or she can bring to the relationship, to create, implement and oversea the client's long-term financial plan, not to the ability of outperforming the market. Advisors, therefore, must constantly make themselves better by acquiring new knowledge through trustworthy sources, attending industry seminars, keeping abreast with latest changes in regulations and applicable law, and being willing to utilize technology to their advantage.

The internet offers a wealth of information, but not every piece is correct. It is also the advisor's responsibility to educate their clients, helping them separate facts from fiction. Professional research articles, academic studies, newsletters are but a few of many ways advisors can enrich and empower clients' lives.

Moving Forward

There is no secret sauce in our industry, and we truly believe in the benefits of being transparent about our business practice, our investing philosophy and our commitment. Ultimately, we are here to serve you with a single goal: to make your financial life a carefree one.

Footnotes:

1. *The Wall Street Journal*. "Dually Registered Investment Advisers Blur the Broker-Fiduciary Line." http://on.wsj.com/1FLMerE
2. WSJ/NBC News Poll. Aug. 3, 2014. http://graphics.wsj.com/wsjnbcpoll/#?ele=sec34_ele4
3. *The Financial Panic of 2008 and Financial Regulatory Reform*. http://bit.ly/1T3i88N
4. *InvestmentNews*. "10 unintended consequences of the DOL fiduciary rule." http://bit.ly/28SpA6x
5. *Forbes*. "The Evolution Of Fintech." http://bit.ly/28PW1nc
6. *Inc*. "Why Fintech Is One of the Most Promising Industries of 2015." http://on.inc.com/28XJ5cC
7. Full article at https://lnkd.in/dSmDzmY