The Future of Financial Advice

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Major Research Project
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2021

Abstract

In recent years, few industries have seen the magnitude of change that is currently being observed in the financial services sector. Financial advisors have faced challenges with the way they conduct their practices and many are being forced to adapt to the changes shaping the new world of financial advice. Despite this, it remains clear that financial advice is a positive thing for many Canadians. Investors that receive financial advice from a dedicated advisor are approximately four times better off financially than those who don't. Yet, there remains a significant perception issue with financial advice. In a recent study by JD Power, just 19% of retail bank customers say they are 'very interested' in receiving advice and 26% say they are 'not at all interested'. This research will explore potential causes for this perception gap through the lens of trust and use elements of Strategic Foresight to make recommendations to arm the next generation of financial advisors and wealth management firms with options to deliver desirable future value propositions to Canadians.

Special Thanks

- My primary advisor, Michele Mastroeni for your counsel, guidance and the time spent helping me navigate this work.

- MLR and K2 for helping shape my thinking and assisting with editing throughout this project.

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Introduction

Changing human behaviours, breakthrough technology innovations, and regulatory interventions are rapidly shaping the future of financial services in Canada. As a result, the way financial advice is obtained, consumed, and evaluated is changing. Advisors and wealth management firms are being forced to consider how they will deliver value in the future and refine their approaches to meet the needs of a discerning next generation of investors. And in many ways, they have an uphill battle. A relatively small proportion of Canadians are interested in working with a financial advisor despite the fact that "only 39% of retail bank customers are classified as financially healthy (JD Power, 2021 , p. 1)." This research will attempt to uncover some of the root causes fueling the ambivalent attitudes of many Canadians towards financial advice and seek to make useful recommendations to Advisors and Wealth Management firms about how they can evolve their practices to ensure a healthy future for the industry and the financial well-being of Canadians overall.

The first part of this research explores the context of financial advice today and some of the perceptions that exist in the minds of Canadian investors. First, the value of advice is explored, and the history of advisor business models considered through analysis to understand how they have evolved over time. Next, the notion of trust is explored, and a framework is presented to attempt to qualify how trust is earned and lost in the context of financial advice and why it plays such a crucial role in driving attitudes and perceptions. Finally, the current needs of investors are considered through a human centric evaluation of how financial advice performs when it comes to providing desirable value propositions.

The second part seeks to take a future forward approach to thinking about financial advice while attempting to highlight opportunities for innovation. First, primary and secondary trends with significant implications on the future of financial advice are reviewed in detail to provide a frame for how the future might unfold. Next, we speculate on four future financial advisor archetypes that might exist in the year 2036. These archetypes are deliberately extreme to stimulate generative thinking and inspiration on how advice might evolve to meet future client needs. Finally, a set of options are presented that will help advisors begin to purposefully adapt their practices and embrace key opportunities emerging in the sector.

Methodology

This research employs a three-part approach:

1. Secondary research is employed to understand the historical context and current reality relating to attitudes and perceptions of financial advice. Specifically, historical and current advisor business models, the nature of financial trust and investor needs surrounding advice are explored. This examination is essential to frame the challenge that advisors are facing and how trust plays a role in anchoring the advisor value proposition with emerging investor needs.
    a. Historical advisor archetypes are developed through a secondary research review of how compensation models and value propositions have changed over the years. We use four archetypes to illustrate this evolution and explore how investors needs have been addressed by these changes, as well as what new challenges have emerged as a result.
2. Futures thinking is leveraged to attempt to make sense of the drivers, signals, and primary and secondary trends affecting the future of financial advice. Primary trends are trends that have the potential to structurally affect the way financial advice is distributed and consumed. They change the game. Secondary trends have important implications for advice as extensions of an unevenly distributed current reality. From there we speculate on future, rather extreme advisor archetypes based on these trends to provide the groundwork for generative thinking.
3. Finally, strategic recommendations are presented in the last section that advisors and wealth management firms can use to drive their innovation roadmaps and ensure their strategies are robust across different future realities.

Research Questions

How can financial advisors respond to the changes affecting financial advice in the next ten years so that they can offer trustworthy, future-proofed, and competitive value propositions to Canadians?

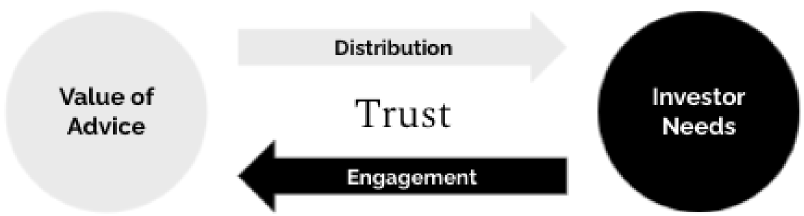
Secondary research questions were also formulated to help guide the exploration:

- What are the challenges with historical advisor business models?
- What are the elements of financial trust and how will it evolve?
- How are client needs and expectations changing around advice?
- What are the emergent trends affecting financial advice and their implications?

Section 1a:

THE VALUE OF FINANCIAL ADVICE

Figure 1a: The Value of Advice



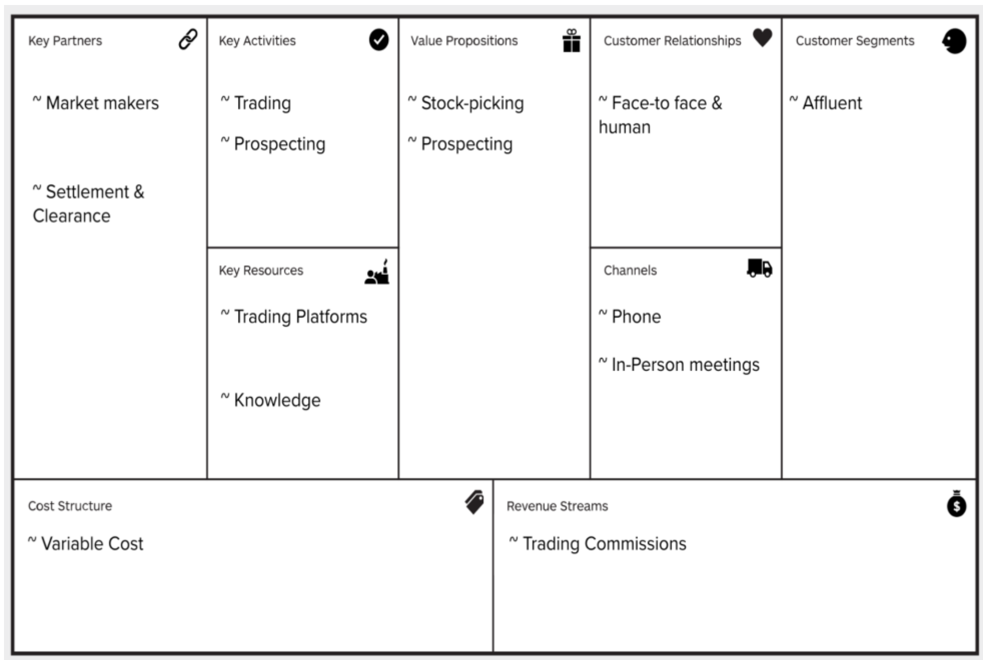
The Value of Advice

Investors that receive financial advice from a dedicated advisor are approximately four times better off financially than those who do not (Montmarquette & Viennot-Briot, 2016). Yet, traditional advisor business models are under threat. In recent years, there has been an increasing chorus of new entrants, journalists, and regulators calling into question the practices of financial advisors and wealth management firms (Biesenbach & Gudmundsson, 2019). Robo-advice, the systematized placement of an investor into a pre-made investment portfolio that is suitably aligned to an investor's financial goals and time horizon, has become a viable alternative with many investors. Firms such as Wealthsimple and Questrade offer a digital, frictionless alternative to traditional advice that focuses on investing basics and has therefore become extremely popular with Millennials and Generation Z investors with more simple and straightforward financial needs. These robo-advisors, along with many journalists and even some regulators, have been putting pressure on traditional advisor business models. Much of the argument has centered around investment performance, fees, and advisors' perceived inability to consistently beat investing benchmarks. In this context, the relatively larger fees paid for human advice represent an opportunity cost. However, when objectively measured in terms of financial well-being, this is a deeply flawed and short-sighted argument. To understand why more investors don't seek out advice and what's at the heart of the perception issue, it is critical to first understand how advisor business models have evolved over time. We'll look at different advisor archetypes and how they delivered value, starting with perhaps the most traditional and well-known type of advisor...the *stockbroker*.

Investment Value: "The Stockbroker"

The *stockbroker* archetype evokes images of Charlie Sheen's character in the 80s Hollywood blockbuster, Wall Street. These types of advisors delivered something that can referred to as *investment value*. Investment value is probably the most traditional, and perhaps antiquated type of value added by advisors. Needing to invest their money intelligently and build wealth, affluent clients and savvy investors often employed these brokers to pick individual investments for them, believing the *stockbroker's* insider expertise would be a good source for stock tips and investment insights (Cappon, 2014). In this business model, *stockbrokers* were traditionally compensated through trading commissions. In turn, these stock pickers did their best to identify investment opportunities for their clients, but because they were commission based, the side effect was often excessive portfolio churn and volatility. In this business model, advisors were evaluated on their stock picking proficiency. Eventually, many savvy investors realized that some advisors could not reliably deliver the market outperformance that was desired. And many *stockbrokers* came to realize that stock picking for their clients could be a risky endevour for their business. Slowly, the value of the diversified stock portfolio and concept of professional, institutional style asset managers emerged, laying the foundation for the invention of mutual funds. This encouraged more and more advisors to shift their practice from simply picking stocks to asset gathering and portfolio construction. We'll call this type of value creation *portfolio value* and it is illustrated through the *asset allocator* advisor archetype.

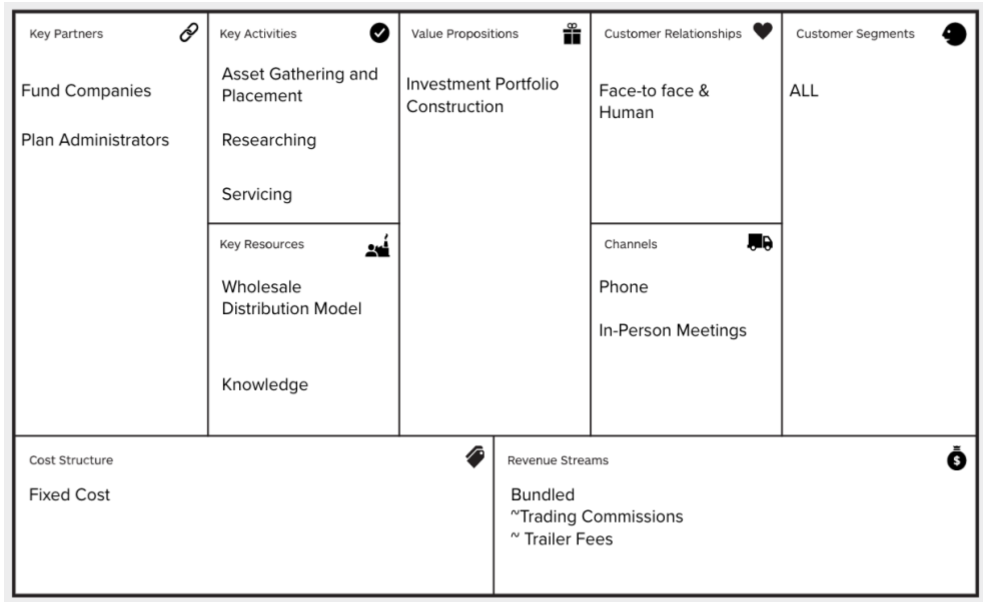
Figure 1b: Business Model Canvas for the "Stockbroker" Archetype



Portfolio Value: "The Asset Allocator"

If the *stockbroker* is about picking the best individual parts, *portfolio value* is about the whole. The *asset allocator* archetype aims to build "a well-diversified portfolio that generates better after-tax risk-adjusted returns net of all fees, suitably matched to the client's risk tolerance" (Pagliaro, Utkus, 2020). Rather than focusing on individual stock selection, in this business model the role of the advisor became about ensuring an investor's basket of stocks work together optimally, where individual investments covered for the weaknesses and bolstered the strengths of others. Investment portfolio construction became a critical pillar of how advisors helped to ensure long term financial success in modern terms. This is because a well-diversified portfolio not only aligns a portfolio to an investor's specific needs and time horizon, but it also mitigates risk through practices like investment portfolio rebalancing. "The primary goal of diversification isn't to maximize returns. Its primary goal is to limit the impact of volatility on a portfolio (Fidelity Investments)." When a portfolio is not well-diversified, it can become over-exposed to certain sectors, geographies, and currencies over time, increasing the level of risk clients will have to endure. In the 1980s and 1990s, many advisors began to adopt an innovation, mutual funds, to provide *portfolio value* to their clients. Mutual funds are essentially a basket of investments assembled and offered for sale by professional asset managers. Each fund is aligned to a specific and defined investment thesis or mandate. Access to these funds allowed advisors to evolve their key activities away from the time-consuming job of picking savvy investments to prospecting for new clients and scaling their business. All they had to do was choose the right funds, and since most mutual funds were only distributed through licensed advisors, this business model became a relative cash cow. Compensation "became a combination of sales commissions and retrocessions (trailing commissions) paid by the manufacturers, the asset managers to the distributors (Cappon, 2014, pg. 1)", the advisors. This allowed the *asset allocator* to earn revenue from up-front sales commissions and residual commissions from the asset managers (or mutual funds). Although this was a lucrative business model for the advisor and investors initially reaped the benefits of professionally managed portfolios, this profit model eventually created a tension between the advisor and the investor. How could the advisor truly act in the best interest of the investor while also essentially being a salesperson for the mutual fund company or investment manufacturer? To compound the issue, the fee structures were often opaque and bundled, leading to low transparency for investors into what they were paying for the service they were receiving (Banerjee, 2013). Despite the apparent conflict of interest with respect to compensation and the bundling of fees, many advisors still focus on *portfolio value* today. However, several regulatory changes and industry innovations have paved the way for a consistent migration to a newer type of value creation.

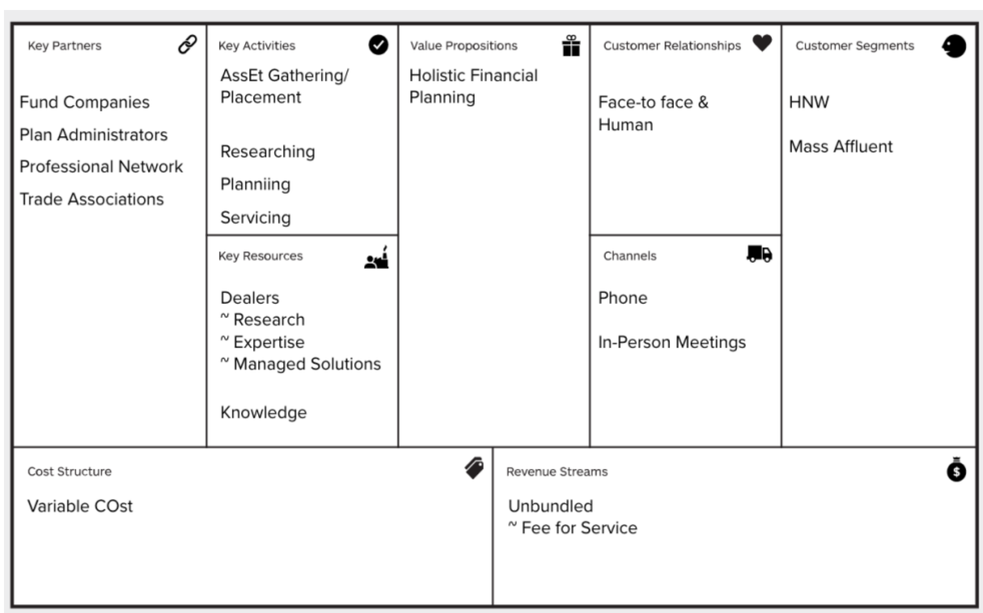
Figure 1c: Business Model Canvas for the "Asset Allocator" Archetype



Financial Value: "The Holistic Planner"

"Fifty-one percent of surveyed advisors stated that there will be an increased focus on holistic financial planning within their practices moving forward. Younger advisors (under 40) are four times more likely than older advisors (over 55) to believe that the main value they provide to clients is holistic financial planning (Broadridge Financial Solutions, 2020)." Regulatory and market pressure, combined with new industry innovations like Exchange Traded Funds (ETFS) have forced wealth management firms and advisors to consider different business models for the services that they provide. Financial value "assesses an investor's ability to achieve a desired goal. A portfolio does not stand on its own. It is in service to one or more financial goals, such as retirement, growth of wealth, bequests, education funding, and liquidity reserves (Pagliaro, Utkus, 2020)." There has been a shift over the past few years away from *portfolio value* alone, to *holistic-financial planning* and that shift has often been accompanied by a shift in compensation from "commission-based" to "fee-based" (Schriver, 2019). In the latter, the compensation to the advisor is almost completely unbundled from the investment product and trading process, instead investors negotiate a fee up front for advisory services they receive. Although fee transparency would seem like a good thing; "clients want and appreciate advice but have often resisted paying for it explicitly. Strangely enough, they have preferred to pay for it indirectly, through higher asset management fees." Moreover, "some people in the investment industry have warned against the banning of trailing commissions and deferred sales charges because of the risk of an "advice gap" forming (Heath, 2019)." The logic being that not everyone will be able to afford a separate fee that was previously subsidized largely by mutual funds and asset managers. To differentiate their practice, many advisors have adopted more complex value propositions to justify the explicit fees that investors must pay. These more complex value propositions often include planning activities such as estate and trust preparation, tax optimization, and budgeting. At the heart of this model is the customer relationship. It involves enhanced advisor activities which are more time intensive to deliver and require more dedication and expertise on the part of the advisor. And this has been translating into value. According to a recent JD Power study, "overall customer satisfaction increases 235 points (on a 1,000-point scale) when customers are offered advice/guidance that completely meets their needs (JD Power, 2021)." Despite the positives of the more involved approach financial value brings, the *holistic financial planner* has a practice that is ultimately more costly to run and harder to scale. As a result, many advisors are attempting to move upmarket to focus on only the most profitable customers. This has provided a low market entry point for many digital first businesses to offer new value to underserved investors. However, as enticing as these new entrants are, they struggle to deliver a human-centric fourth type of value, *emotional value*.

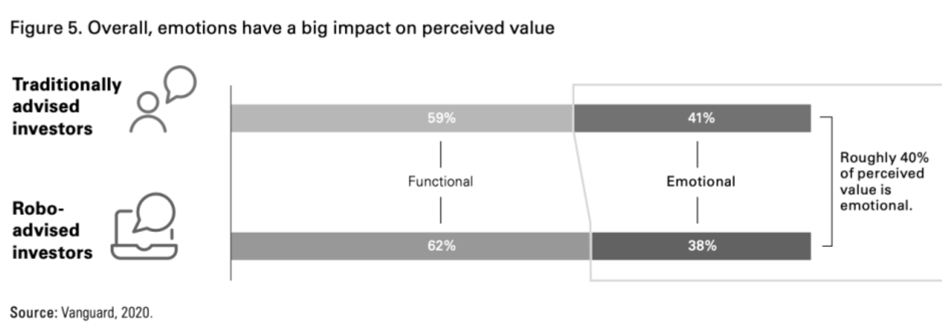
Figure 1d: Business Model Canvas for the "Holistic Planner" Archetype



Emotional Value: "The Trusted Financial Partner"

The trus*ted financial partner* is not a separate archetype in and of itself, but rather it represents a quality, *emotional value*. In combination with any of three previous models, emotional value can represent the very best of what today's financial advisor might provide. In other words, no top-tier advisor can thrive on functional attributes alone; great financial advisors bring a quality that can best be described as peace of mind. They allow their clients to sleep soundly at night knowing their financial affairs are in good hands. Emotional value can be loosely defined as "the investor's own sense of confidence, the investor's perception of success or accomplishment in financial affairs (Pagliaro, Utkus, 2020)." This is no trivial matter. In fact, emotional value makes up approximately 41% of perceived value when it comes to financial advice. Furthermore, as students of behavioural economics will note, commitment bias, "describes our tendency to remain committed to our past behaviours, particularly those exhibited publicly (The Decision Lab, 2020)". The implication for investors and the services financial advisors provide is profound. Explicit financial commitments between an investor and advisor form an emotional bond that once established, becomes almost hard-coded. The implication is that in times of market volatility, investors with an advisor are more likely to stay the course and stick with their financial plan, rather than panic sell. And "research has shown that missing out on the best trading days has a huge impact on long-term returns, as they often follow the worst days. Using market data going back to 1930, Bank of America found that an investor who missed the S&P 500 index's best 10 days each decade would have a return of 91% compared to a 14,962% return for those who stayed invested (Stevens, 2021)." This combination of a trusting relationship that provides guidance and expertise during turbulent financial and even personal times is critical for successful long-term investment. So it's no surprise that some wealth management firms have begun combining the holistic financial planning approach with approaches designed to drive emotional value because they recognize how it contributes significantly to long term positive financial outcomes for investors, while benefiting advisors as well.

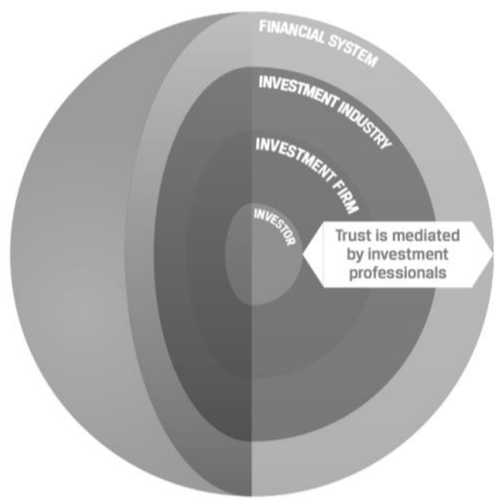
Figure 1e: Emotions Play a Role in Advisor Value Creation



Is Value Enough?

The evolution of financial advice shows us that the ways in which value has been slowly evolving along with the needs and expectations of consumers. The financial crisis of 2008 and the Dotcom bubble of the early 2000s exposed the unsavory underbelly of what many had suspected for years; that many financial institutions and professionals had created and manipulated financial systems almost solely for their own gain, calling into question the trustworthiness of an entire sector.

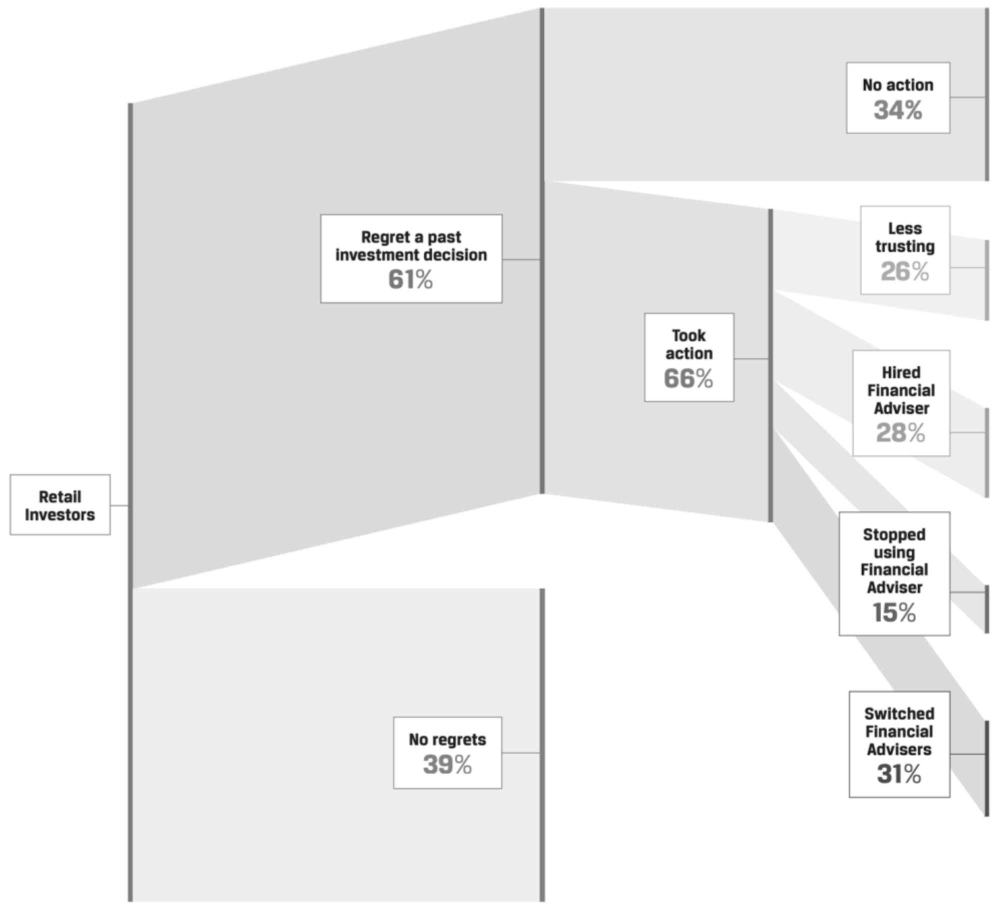
Figure 1f: Layers of Investor Trust



Source: CFA Institute, 2020

Although a broader exploration is beyond the scope of this research, financial advisors (those who mediate trust) were not spared this inquisition. And despite the clear evidence supporting that advisors help investors achieve better outcomes, much of the public remains unconvinced by the data. In a 2021 study, only 39% of retail bank customers are classified as financially healthy, and yet there is still a widespread hesitancy to seek financial advice (JD Power, 2021). The role of regret may play a role in the apathy towards financial advice. Among retail investors, 61% say they've regretted a past investment decision and 66% of that group took action. When unpacking the action that was taken, it is interesting to note that 26% became less trusting, 15% stopped using a financial advisor and 31% switched financial advisors. Only 28% took that action of hiring a financial advisor suggesting that investors may have less tolerance for poor decisions when they are at least partially made by a financial advisor, rather than the investor alone.

Figure 1g: The Role of Regret in Trust



Source: CFA Institute, 2020

In the next section we will explore the idea of trust in the context of financial advice (trust mediated by investment professionals) and how these different advisor business models in the previous section may have helped fuel the fire of apathy amongst retail investors.

Section 1b:

The Role of Trust in Financial Advice

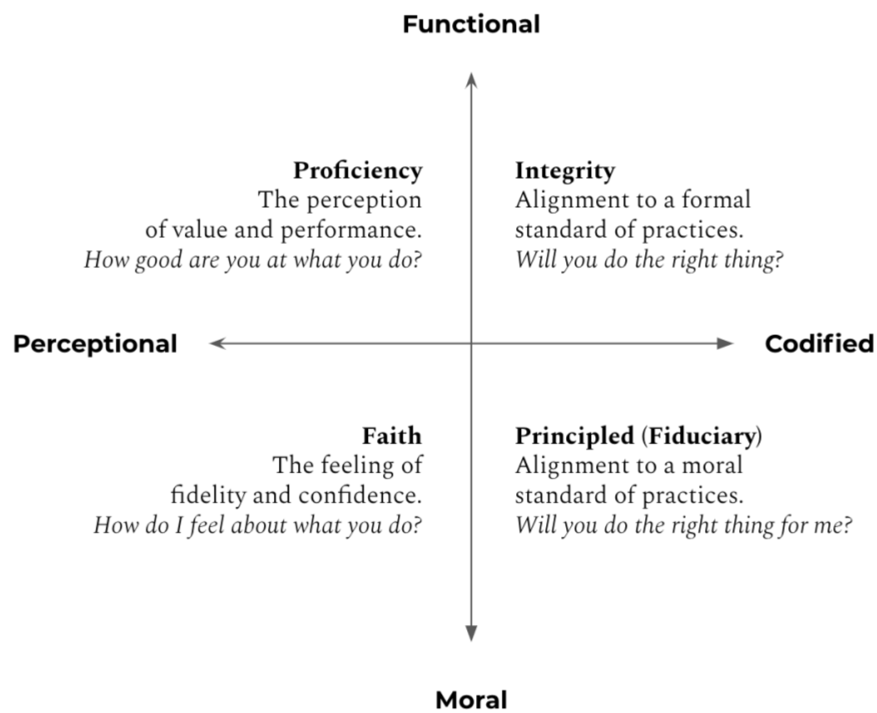
Figure 1h: The Value of Advice

THE ROLE OF TRUST IN FINANCIAL ADVICE

Trust has always played a central role in financial services. After all, who would knowingly lend their hard-earned money to an institution that didn't warrant it and consistently demonstrate it over time? Where there are expectations, vulnerability and risk, there must be trust. Since the beginning, western financial systems have been developed and optimized with trust in mind. From the gold standard system, the issuance of share certificates, the decentralized banking system in the United States and modern digital authentication, trust has always been seen as a foundational pillar of an effective financial system. "A common view of trust would suggest that it is concerned with an individual's willingness to accept vulnerability on the grounds of positive expectations about the intentions or behaviour of another in a situation characterized by interdependence and risk (Ennew, Sekhon, 2007, p. 62)" But trust cannot be taken for granted. In fact, trust is the biggest barrier to obtaining and sustaining financial advice in the 21st century. In a study by the CFA institute, elements associated with trust made up all but one of the top attributes for investors to consider when hiring a financial advisor (Fender, Stammers, Urwin, Preece, 2020). Equally as important is that most investors feel strongly that trust is something that must be earned, in some cases constantly over the course of a relationship. In fact, 46% of investors feel that trust is something that needs to be earned and maintained over time, while only 29% feel that once trust is earned an advisor can be given the benefit of the doubt.

To add further complexity, trust is problematic to define in objective terms, therefore it is difficult to measure and improve. If there is variability in the definition of trust, it becomes exceedingly difficult to link it to business measures that can help define organizational priorities and performance. And even if we can make the connection to trust empirically, how do we know that we are accounting for all the elements that make up a trustworthy relationship? A framework for financial trust is needed. To explain how trust can be demystified in the context of today's financial system, this section puts forth a model for financial trust that consist of four attributes. These attributes help to explain the critical foundational conditions that allow trust to flourish or cause it to break in the context of advisory relationships. To attain a flourishing future where investor needs meet compelling advisor value propositions, trust is essential.

Figure 1i: Towards Understanding Financial Trust - Four Attributes



Proficiency: *How good are you at what you do?*

Proficiency is perhaps the most talked about aspect of financial trust in the current media today. It refers to an advisor's aptitude when measured against investor's expectations of value. When the *stockbroker* archetype was dominant, an advisor's proficiency was measured primarily against the performance of the individual stocks or securities that they selected for their clients. The problem for advisors that offered stock selection as their primary value proposition was that they lived and died on performance. As stated earlier, the commission-based profit model motivated many advisors to trade more frequently than needed, even if it would have been more profitable and less expensive for the client to stay the course. Investors, having little else with which to evaluate a *stockbroker's* value eventually realized that they weren't getting the benefits they might expect. And to their credit, many advisors realized that picking winners in the financial market was unpredictable, and no easy feat.

Figure 1j: Trust and Performance

Source: CFA Institute, 2020

As advice evolved and the *asset allocator* model became more prevalent, advisors shifted their focus from researching and executing trades, to building diversified portfolios of stocks and securities that would best achieve specific investor-centric outcomes. In this model, instead of selecting individual stocks, advisors partnered with asset managers (such as mutual fund companies) who would perform the day-to-day trading activity based on predetermined fund mandates. These institutions provided the size and scale to allow advice to be offered to many more potential investors, giving them access to professional money management in a way they never had before. Advisors eventually evolved away from security selection to become asset gatherers and could often be thought of as independent sales teams for the asset management firms. Since the emergence of the *holistic financial planner*, more emphasis has been put on the attainment of client life goals and performance has been increasingly seen as a means to an end and only part of the equation. In this new reality, credibility has become increasingly important with "73% of both retail and institutional investors say(ing) that credentials are important for creating a trusted relationship (Fender, Stammers, Urwin, Preece, 2020)." For many contemporary financial planners in Canada, this has meant that the attainment of the CFP (Chartered Financial Planner) or CIM (Certified Investment Manager) designations have become table stakes, if not yet a regulatory requirement. Vanguard Research called this *functional trust* and found in 2017 that factors relating to *proficiency* accounted for about 17% of overall trust (Madamba, Utkis, 2017).

Integrity: *Will you do the right thing?*

Integrity can be thought of as perhaps the most straightforward element of financial trust. Expectations are explicit and codified (e.g., Laws) and an advisor's behaviour must consistently align to these codes. These codes show up in different ways, but they share the common trait of providing the governance or boundaries within which financial advisors and wealth management firms must play. In other words, *integrity* measures how consistently an individual plays within the rules of the game. The most obvious manifestation is that the advisor must work within the standards of the law and the practices befitting their occupation. But *integrity* may also show up in other ways. For example, an advisor may have a predefined service level agreement which they have shared and discussed with the investor up front. If the advisor's behaviour is not aligned to what was agreed; if they are not as accessible as they might have promised or are failing to communicate with clients in moments of need when they promised they would, this becomes an *integrity* issue. And this is important, since research by Vanguard has shown that ethical trust, as demonstrated through integrity and fiduciary duty (principled trust; explained in the following section) represented about 30% of overall trust (Madamba, Utkis, 2017).

The issue with *integrity* is that the advisor may act in accordance with the law or an agreed set of standards, but that still may not be in the best interest of the client. Coming back to the *asset allocator* archetype, advisors often failed to have transparent conversations with clients about fees. "In 2021, 42% of investors remain concerned about hidden costs when working with their wealth manager, suggesting there is scope to improve transparency (Nanayakkara, Wightman, Birkin, Lee, 2021.)" As previously mentioned, many advisors would get up-front commission compensation from mutual fund companies for selling their products, plus a pre-set trailing commission (paid weekly or monthly based on the amount of assets on the fund), all funded by higher fees charged by the mutual fund companies. To many investors, advice seemed like a free service, but it was something they were paying for through higher management expense ratios. It also allowed advisors to often skirt the conversation about how they were being compensated, and for what services.

> "With the over-regulation of society, what Todd Langford has observed is a shift from, "Is this moral?" to "Is this legal?" Right and wrong take the backseat, and the question of an action's legality becomes the priority in decision-making. One example is shopping carts and parking spaces. We've likely all experienced the thrill of finding a parking spot and realizing that a shopping cart has been left there, essentially eliminating the space. Is it legal to leave the shopping cart wherever you want? Yes. But is it the considerate thing to do? (Elizabeth4TC, 2019)."

In many cases, moral rules have been converted into regulation; such has been the case with advisor fee disclosures in Canada. So, it can be said that *integrity* is becoming more important, but it may also be making trust more binary. Advisors themselves have been on the receiving end of several regulatory enhancements, but an unintended consequence may be that if the behaviour is not specifically addressed in a formal and codified way, advisors may feel like they are operating within the rules of the game. The critical reality is that *integrity* on its own has not been enough to safeguard trust across the industry.

Principled: *Will you do the right thing for me?*

Although *principled* trust also relies on a code, this type of trust differs in that it is not a formal set of rules. Instead, investor expectations are based on norms and perceptions which form the pillars that inform decision-making and judgment. For example, there has been a recent trend in the private sector towards purpose-driven leadership. Brands like Patagonia have exposed that their purpose and intent beyond the sole objective of driving revenue. An environmentally conscious consumer might align to these values and make a purchasing decision based on criteria over and above quality and price. They might also consider whether the materials in their product were ethically sourced, or what might happen to the product at end of life and the corresponding environmental impact. In the context of financial advice, there has been a lot of dialogue about advisors taking on a fiduciary responsibility. In other words, advisors should not only be operating within the parameters of what is allowed, but they should also act in a *principled* way. This means putting the investor at the top of their decision-making hierarchy. This issue of fee disclosure once again illustrates this. Fee-disclosures have recently been regulated in Canada, effectively moving the categorization of this activity from *principled* trust to *integrity*. Despite the regulatory enhancements, past advisor behaviour around disclosing fees (or failing to do so) has resulted in a significant portion of the investing public remaining skeptical of hidden costs. Furthermore, there have been efforts to codify elements of the advisor value proposition in some jurisdictions such as the United States by seeking to formalize the role of the advisor as a fiduciary with defined obligations to not only follow the law, but also act in the best interests of the client as the utmost priority. Technology also has a significant role to play in trust and with the emergence of innovations such as blockchain powered smart contracts, we can expect this trend of codification to continue.

Faith: *How do I feel about what you do?*

The final type of trust might be described as the "the willingness to rely on an exchange partner in whom one has confidence" (Moorman et al. 1993)." This might include the investor's willingness to say "the advisor is my advocate," "provides a sense of relief," or "makes me feel my portfolio is important (Madamba, Utkis, 2017)." According to Vanguard research, emotional trust or *faith*, made up the largest component of overall trust, accounting for 53%. Faith can be described as "intangible aspects of the relationship between the investor and financial advisor that bring about positive feelings or sensibilities in the investor. The critical distinction that separates faith from the other types of trust is that it is distinctly emotional and affect plays a critical role. Taking an example from another sector, Airbnb realized they had to bridge a large trust gap to ensure that customers had faith in their dual-sided platform by effectively conveying the experience both parties (visitor and host) were likely to receive. When they first started out, they realized that there was a hesitancy from visitors to adopt the platform, partly due to of the low-quality images often posted by hosts to advertise their accommodations. To assist in developing *faith* in the platform, Airbnb hired professional photographers at their expense to take pictures of hosts' accommodations and quickly realized that the results were far more positive when prospective travelers could visualize the quality of their stay. The ability to see their experience in vivid color, coupled with the social proof provided by host scores were enough to motivate many prospects to take a chance on the platform.   To reinforce the trustworthiness of the platform, they exposed their matching process in simple and powerful terms (*proficiency*), offered customer support anytime, day or night (*integrity*) and a provided a bevy of cancellation options (*principled*). This can be applied back to financial advice too. In previous research work with top-tier, successful financial advisors, it was consistently observed that these advisors rely on much more on *faith* as a core lynchpin of their relationship; something innate that is embedded in their value proposition to investors. Rather than speaking only to products, process and performance, they frame their conversations with the end goal of inspiring confidence, peace of mind and a feeling that an investor's financial future is in good hands. We might call this the emotional component of the advisor value proposition.

Section 1c:

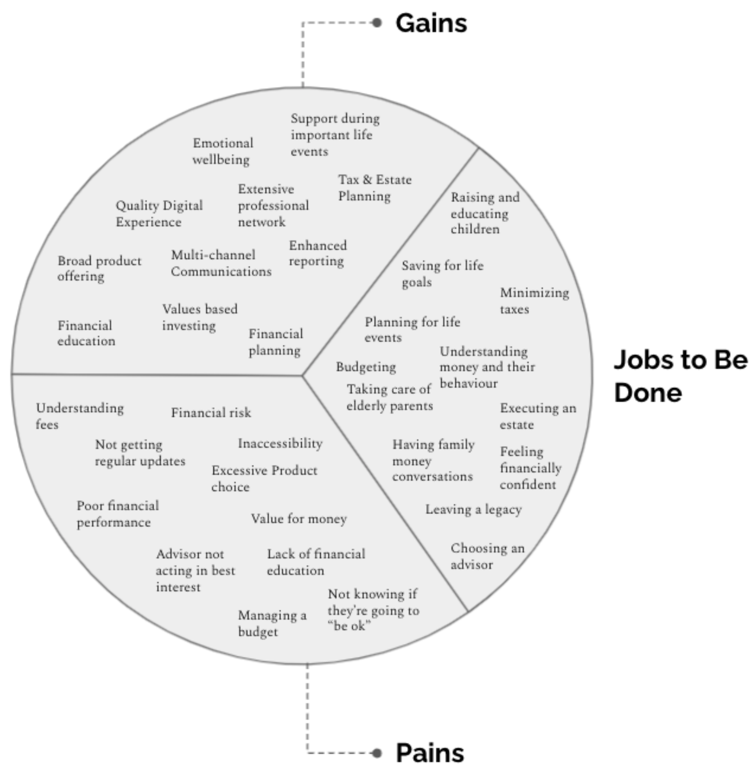
UNDERSTANDING INVESTOR NEEDS

Figure 1k: The Value of Advice

UNDERSTANDING INVESTOR NEEDS

Driving the shift by many advisors towards a more holistic financial planning model are changing client needs. There are indications that many of the products and services advisors used to rely on for value creation, clients are now expecting for free (Nanayakkara, Wightman, Birkin, Lee, 2021.). For example, the emergence of free stock trading platforms such as Robinhood in the US has put pressure on advisors to continue to justify the value that they provide. Although many of the previous revenue generation activities advisors offered is now commoditized, there are indications that clients are willing to pay more for enhancements of the advice experience. For example, 49% of investors would pay more for increasingly personalized and specialized products and services. Furthermore, 53% those that have positive experiences are willing to pay more for enhancements to the client experiences surrounding advice.

Figure 1l: Value Proposition Canvas (Customer Profile): Financial Advice



The trend is even more pronounced in high-net worth segments. These innovations may take the form of enhancements to the product offering, the experience surrounding advice or the network of services that an advisor may offer. For example, more than ever, investors are expanding the types of products and asset classes they have with the emergence of alternatives. A 2020 survey by Connection Capital found that 87% of private investors surveyed were planning on maintaining or increasing their allocation to alternative investments over the next 12 months (Milinchuk, 2021) . These alternative asset classes may include private equity offerings, cryptocurrency, NFTs and derivatives to name a few. Meanwhile, more and more investors are expecting tailored and personalized services from their advisors. Demand for support during critical life stages is also growing with more investors expecting services like estate planning and tax optimization as part of what their advisors are offering. The next stage of this evolution may involve intertwining the concepts of wealth and health as part of an enhanced and combined value proposition as more advisors build more non-traditional networks and recognize the importance of financial security on mental and physical wellbeing. The implications for advisors are important. Many will need to seek out partnerships that can help them extend their professional networks and suite of offerings, perhaps partnering with competitors or seeking to specialize in a specific client niche to ensure they succeed. In addition to the types of services that investors are beginning to expect from their advisors, the way they choose to engage is also changing thanks in part to the stiff tailwind of the coronavirus pandemic.

The COVID-19 pandemic has accelerated the adoption of less conventional channels for financial advice. More than ever, clients are willing to consider digital channels as a cornerstone of how they want their advice delivered. Migrating at least some of the value delivery to digital certainly has some benefits for advisors, but investors as well. For example, digital interactions may offer the opportunity to have more frequent, less involved interactions with advisors. Millennials and Gen X both expect to use more digital tools in the future with their advisors, with 78% and 56% respectively strongly agreeing this is the case (Nanayakkara, Wightman, Birkin, Lee, 2021.). This has tremendous implications for financial advice. First, we are about to experience one of the largest transitions of wealth in history over the next few years. Advisors that are proactive about adopting digital channels are meeting this emerging need head on and will likely have a better chance of securing relationships and assets with the next generation. When considering how emerging needs are changing with relation to the types of advisor services that investors value, digital innovation will be a critical supplement to the delivery of financial advice, with more investors than ever expecting to receive a hybrid of advisor-led and digital-led advice in the future. The addition of digital channels may also have implications to the advisor cost structure. More specifically, migrating at least some of their processes to digital should allow advisors to generate cost efficiencies and either pass along savings to investors, or offer greater value in return. Many of these savings would likely accompany enhancements in investor empowerment and self-service capabilities that shift at least some of the traditional advisory activities back to the investor. However, running counter to much of the innovation and continuous improvement associated with digital is the feeling of a loss of personalization. In fact, 57% of millennials and 41% of Gen X respondents either strongly agreed or agreed that their relationship with their advisor has become less personal over the last three years. Advisors who are embracing the digital revolution will have to walk the line between the increased transparency, flexibility, and cost efficiency of digital transformation, and the personalization provided by in-person advice delivery. There are also strong preferences for how advice will be delivered amongst age groups. Mass affluent investors are relatively split amongst their preference for digital-led, hybrid or advisor led, but only 6% of ultra-high net worth investors prefer the digital-led channel. However, the expectation of a hybrid model is relatively consistent across wealth segments which underscores the importance for advisors to embrace a digital future. When it comes to data sharing, investors are more likely to be willing to share their personal data with wealth managers than with any other occupation but that skews strongly to data around personal goals and financial objectives and gets less certain when it comes to sharing information about spending habits, transactional data, and non-financial data such as mobile GPS-location data (Nanayakkara, Wightman, Birkin, Lee, 2021.). However, it must be acknowledged that without a compelling reason to do so, investors may be justified in their hesitation to share specific data types. It is up to the advisors of the future to negotiate these attitudes and mindsets and clearly communicate how data will be used and the value it provides. It remains to be seen how likely investors will be to participate in an open ecosystem of data sharing.

Another of the most interesting trends in the financial sector in recent years has been the emergence of sustainable investing and the incorporation of environmental, social and governance (ESG factors into investment decision-making. More than ever, investors are looking to make their money matter. In fact, 76% of investors think it's important to integrate ESG parameters into their investment decisions (Livingston, 2021). However, a chasm between investor needs and what advisors are offering is quickly widening. While a vast majority of investors think it's important to incorporate these factors, only 28% have been offered sustainable investment solutions by their advisors and advisors who are slow to get onboard with ESG investing are at risk of being left behind. As previously mentioned, it is no secret that we are about to experience a huge transfer of wealth in Canada. "Approximately $1 trillion in personal wealth will be transferred from one generation to the next in Canada between 2016 and 2026, according to estimates, with roughly 70% of that in the form of financial assets (Manulife, 2021)." What serves to further accelerate this shift is the fact that investors interested in sustainability issues are more than twice as likely to be looking to switch advisors in the next three years compared to those without sustainable investing ambitions (Nanayakkara, Wightman, Birkin, Lee, 2021.). If advisors were already in dire need of connecting with the next generation, this has added further fuel to the fire, but also presents a window of opportunity for advisors who need a reason and mutual topic of interest to connect with Millennials. One advisor stated, "I got into this as a business building opportunity, with the idea that Millennials are more interested in this area, so I was exploring this as a way to develop business (Phase 5, 2020)."

Another interesting purpose related finding that has implications to financial advice is that the need for sustainable investing solutions goes up with client assets under management. It is striking that "just in the last 12 months, climate change has not only climbed the agenda of 24% of the mass affluent population but also among 46% of ultra-high net worth clients (Nanayakkara, Wightman, Birkin, Lee, 2021.)." Advisors looking to move upmarket and find more lucrative profit pools may have the opportunity to specialize in providing sustainable investing advice, or curate an ecosystem of partners to offer an array of solutions both younger investors and high-net worth individuals covet.

Finally, it's interesting to note that despite the clear appetite for sustainable investing by a majority of investors, many advisors may feel their clients are only moderately interested because quite simply, "their clients aren't asking about it (Phase 5, 2020)." More research is required to fully understand why this is the case, but it might be due to an inherent vulnerability from both parties. Advisors could feel vulnerable speaking about something with which they're not familiar. One advisor responded "I haven't done any homework on it. I have a challenge articulating what would be included or not." Meanwhile, investors may also be experiencing vulnerabilities about raising the topic to their advisors. Take the case of Alberta for instance. An advisor stated "people shy away here, because they think SRI means they would shy away from the oil and gas industry. They still want to support that because they are proud Albertans." It's not hard to imagine how an investor living in Alberta, or other regions with a strong affinity towards oil and gas, who want to add sustainable criteria and their personal values into their investing process would be nervous about exposing their beliefs to their financial advisor for fear of reprisal. It is no surprise then that investors who are not offered sustainable solutions may choose to switch advisors or forge ahead without advice.

Section 2a:

Forces Shaping the Future of Financial Advice

Open For Business

With the extensive innovations in Fintech, Wealthtech and Insurtech over the past few years, as well as the possible emergence of *Open Banking* and *blockchain* technology there are huge opportunities for traditional financial firms. Open Banking can be described as the ability for users to authorize seamless, technology enabled sharing of transactional and personal information between institutions (see *Mint* and Account Aggregation below). This would break down switching barriers for clients, provide new avenues for competition from new entrants to previously inaccessible areas (such as payments) and create new opportunities for specializations across the industry. *Decentralized finance* uses blockchain technology to facilitate peer to peer transactions that can bypass traditional intermediaries such as banks or payment administrators. One example is the emerging ability to use blockchain enabled smart contracts to streamline and standardize insurance claims processing while reducing fraud.

Signals

- RBS and HSBC have both created their own challenger banks in Bo, Mettle and Kinetic. These new banks may soon introduce their own marketplaces or simply become easy integration platforms for third party services.
- Intuit's *Mint* offer account aggregation which allows users to see all financial transactions across all their institutions in one place.
- Portag3 is a large Canadian venture investor in Fintech. Owned by the financial conglomerate, Power Corp, Portag3 actively seeks to foster partnership between Power's incumbent businesses and the start-ups in Portag3's venture portfolio.

Implications

Incumbent organizations are beginning to realize that strategic partnerships with FinTech's allow them to move with the speed and creativity of a technology startup, but with the power of people, knowledge, and network of established financial institutions. And regulatory shifts have made it easier, with open banking proposals under consideration in North America and already in place in Europe with major success. "Open banking usage in the U.K. doubled in 2020. It powered 6 billion calls through FinTech APIs and more than 4 million consumer transactions, according to the Open Banking Implementation Entity (Rajan, 2021)."

Extrapolations

Financial service providers will be a complex, connected web of providers. And much of this may be mistake-proofed and streamlined through blockchain technology. Moreover, startups will target behind the curtain and help incumbents quickly modernize their legacy platforms. To facilitate the customer experience, affiliations and memberships models emerge that offer consumers access to an ecosystem of services in exchange for their fees.

Countertrends

- Re-bundling of Financial Services
- Process externalization
- De-centralized finance (Defi)
- Data privacy & security

STEEPV Categorization

Social	Economic
Technological	Political
Ecological	Values

Private On Purpose

In the absence of meaningful government and regulatory changes, an increasing body of leaders are embracing new business goals, objectives, and measures of success to complement traditional economic priorities and they are calling on their peers to do the same. We are seeing the rise of purpose-driven leadership in the private sector.

Signals

- Private sector leadership actively engaging on social issues.
- Institutional asset managers embedding Environmental, Social, and Corporate Governance (ESG) integration and shareholder activism in their philosophies.
- Rise of ESG goals and triple bottom line embedded in future-fit business models (e.g., Tesla, Patagonia).
- Increasing collaboration and mutual accountability between firms to take a stance on material ESG factors (e.g., Larry Fink).

Implications

A proliferation of future-fit business models designed to achieve economic prosperity while also advancing collective causes will be a main feature of successful businesses in the next 15-20 years. Investors will recognize that firms that embed ESG factors into their mandates are also the best candidates for long-term investment. Consumers will expect that the brands they support align to their values and lead from the front on important socio-economic issues.

Extrapolations

We will see organizations take greater responsibility for non-economic outcomes, with increased consumer, regulatory and competitive pressure to operate in a purpose-driven way. Businesses will move away from doing good as a ‘bolt on’ solution and begin to focus on embedding the triple bottom line into their business models.

Countertrends

- Re-bundling of Financial Services
- Process externalization
- De-centralized finance (Defi)
- Data privacy & security

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The Influencer Economy

As the influence of social media accelerates and the accessibility of investing becomes more and more frictionless, two worlds are beginning to converge. Social norms drive much of human behaviour, and we inevitably look to others to inform our decisions. This has implications for investing on many levels, such as how we time purchase/sell decisions, and the levels of risk individual investors and asset managers are willing to entertain in their choices.

Signals

- The meme stock short squeeze, featuring Reddit fueling speculative training of securities like GameStop, AMC, and Blackberry.
- Commonstock, Public.com, Doji and others have started targeting the social opportunity in the US, and how to crack social media.
- Emergence of 'influencers' on platforms such as Tik Tok that are providing stock tips and financial advice and using social proof as validation of their credentials.

Implications

The implications of the meme stock craze are profound and far reaching. Facing the possibility of increased volatility and less-predictable markets, new regulatory intervention is being called for to restrict mass manipulation of the markets and safeguard risk. Moreover, it is likely that the number of sources that investors rely on to make investment decisions and choices will become larger and more complex than ever.

Extrapolations

Social trading becomes the ultimate form of 'impact investing.' Social proof will become a more important element than ever as it relates to investing, and advisors will have to consider how to demonstrate proficiency over and above their experience and credentials. Wealth management firms also will have to consider how to tap into the enormous audiences offered by social media in a meaningful way. Investors will come to expect trading and investment advice for free and look to advisors to provide true value-added services that are aligned to their needs.

Countertrends

- Regulation and censorship of social media platforms.
- Calls for regulatory intervention to mitigate mass market manipulation.

STEEPV Categorization

Social	Economic
Technological	Political
Ecological	Values

ESG Everywhere

"The Toronto-based Responsible Investment Association (RIA) 2020 RIA Investor Opinion Survey of 1,000 Canadian investors found that only 28% had been asked by their financial services provider if they're interested in RI. However, 75% said they wanted their advisor to inform them about investments that aligned with their values (Livingston, 2021, pg1)." Values based investing is nothing new, but with the onset of the coronavirus pandemic in 2020 we have seen a watershed moment in investing that incorporates ESG (Environmental, Social and Governance) risks into their investment process. And if advisors don't get onboard, investors are willing to do it alone.

Signals

- "Assets under management in RI on behalf of individual investors more than doubled within two years, rising to $882-billion as of Dec. 31, 2019, from $435.7-billion on Dec. 31, 2017 (Livingston, 2021, pg. 1)."
- "The share of RI assets managed on behalf of individual investors rose to 28% of the total RI market from 20% during those two years."
- Assets under management in designated sustainable retail mutual funds have increased to $15.1 billion from $11.1 over the previous two years, representing 36% growth.

Implications

The implications of the shift towards ESG investing mean a reorientation of how value is communicated and delivered in financial services. Advisors are not talking about sustainable solutions because "Most people will steer clear of topics they don't understand (Livingston, 2021, pg. 1)." Investors may not be willing to request sustainable solutions explicitly to their advisor for fear of value judgements, so there has been an increase in DIY investing in ESG. Furthermore, "Millennials are almost twice as likely as Boomers to believe that companies with good social and environmental practices are better long-term investments (RIA, 2016)" and women are twice as likely as men.

Extrapolations

The best advisors will ensure they are building significant knowledge about ESG investing and topical issues that their investors may be interested in. The best will fit this into their mission and purpose, knowing that invested capital can accelerate systemic change. Informed advisors can use these topics to appeal to cohorts of the population to which they haven't effectively catered previously, such as younger generations and women.

Countertrends

- Populism and regionalism.
- Continued dominance of neoliberalism.
- Population growth and the lack of sustainable development in developing world markets.

STEEPV Categorization

Social	Economic
Technological	Political
Ecological	Values

Better Together

Many new entrants that initially gained a foothold by providing a better offering in financial services (payments, budgeting, safekeeping, lending etc.) in one specific area have begun to expand the number of products and services they provide. Firms such as Wealthfront, Wealthsimple, Robinhood are moving into adjacent spaces to offer digital first value propositions that cater to a broader variety of needs while stepping up to compete with incumbents more meaningfully.

Signals

- Launch Of Wealthsimple Trade and Robinhood Cash/Debit.
- Attempted acquisition of Plaid by VISA.
- Credit Karma, used to do credit checks alone, but now offers their own products.
- Payments company Square pushed into the stock trading industry last year.
- SoFi, starting with student loan refinancing, has now launched investment and lending offerings.

Implications

The continued digitization of many aspects of the wealth planning and insurance sectors will force advisors to either compete or adopt some of these solutions as part of their value propositions. Some advisors may continue to move up market to cater to a more affluent segment, but exceptional digital experiences will become the norm, rather than the exception. Advisors will have to entertain hybridization strategies to be successful in the future.

Extrapolations

Advice in the future will continue to be distributed through a spectrum of digital and human experiences, but many "nice to haves" today will become expectations in the future. "In fact, today, 37% of clients who prefer advisor-led relationships plan to use more digital tools in the future (Nanayakkara, Wightman, Birkin, Lee, 2021.)". Advisors must actively build networks with complementary fintechs (such as Willful for estate planning) to expand their ecosystem of services with both human-first and digital partners. Many advisors may also consider breaking down geographical restrictions to achieve scale in niche offerings that cater to micro-segments of the investor population.

Countertrends

- Data privacy and security.
- Bundling of Financial Services markets.

STEEPV Categorization

Social	Economic
Technological	Political
Ecological	Values

Secondary Trends

Secondary trends have important implications for advice as extensions of an unevenly distributed current reality. They differ from primary trends in that they are not structural, system level changes, rather they represent how organizations might adjust their operations and value propositions to deliver more effectively on emerging customer needs.

Virtual Visibility	As a result of the pandemic, one in two wealth clients also plans to engage more with their advisor virtually moving forward (Nanayakkara, Wightman, Birkin, Lee, 2021.). Age is a key differentiator here, with millennials twice as keen as baby boomers to receive advice virtually. Self-service and empowered decision making amongst clients is also up.
Alternative Assets	The way clients invest and in what asset classes is changing. Alternative assets such as cryptocurrency, NFTs and derivatives are becoming more popular with investors expecting to diversify the financial products they use from an average of 4.1 product types today to 5.5 by 2024 (Nanayakkara, Wightman, Birkin, Lee, 2021).
Wealth Is Health	Health and Wealth are a harmonious pair. The pandemic has sharpened the need for an integrated, health-oriented approach to wealth management. This will require advisors to hyper personalize and connect data sources to help form part of a bigger, wellness-oriented approach.
Behavioural Finance	Some advisors are incorporating their understanding of human psychology into their practices. Integrating knowledge of human biases such as recency bias, commitment bias and loss aversion into their service offering, they strive to enable better client outcomes.
Data Democracy	Client data is increasingly being shared amongst a bevy of service and product providers via solutions such as account aggregation and legislative evolutions such as open banking. Countertrends such as cybersecurity and data privacy make the innovation landscape uncertain.

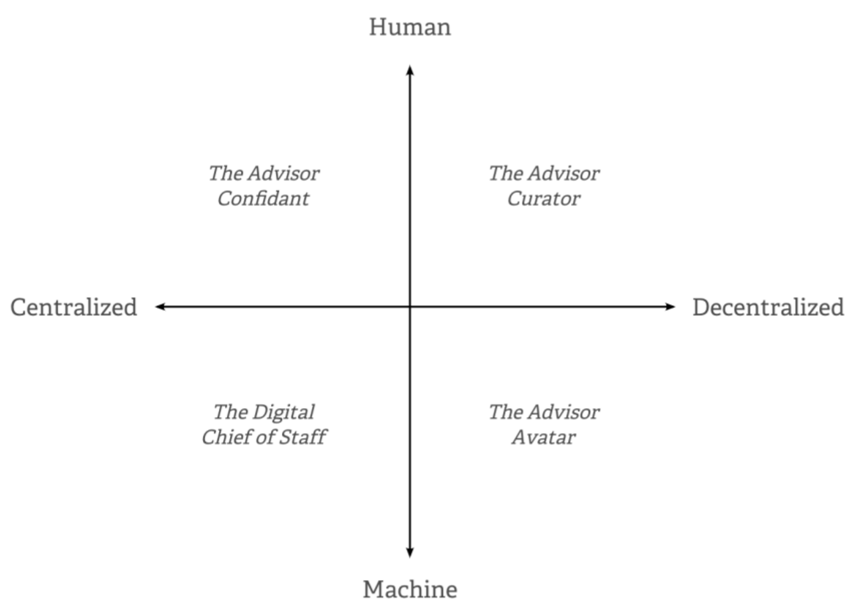
Section 2b:

FUTURE ADVISOR ARCHETYPES

Introduction – Future Advisor Archetypes

In this section we speculate on four future financial advisor archetypes that might exist in the year 2036. They were generated using a 2x2 method, featuring critical uncertainties relating to the degree of centralization we will experience in financial services in the future and the mix of human vs. machine interactions. These archetypes are deliberately extreme to stimulate generative thinking and inspiration on how advice might evolve to meet future client needs and are presented within the construct of a fictional future trade publication, *Advisor Executive Magazine*.

Figure 2a: 2x2 of Future Advisor Archetypes



ADVISOR EXECUTIVE MAGAZINE

Spotlight: The Emergence of the "Advisor Confidant"

September 1st, 2036

In 2036, the emergence of a new type of financial advisor has firmly taken root. Beyond the fact that providing financial advice itself isn't straightforward anymore, with the emergence of the "Advisor Confidant", expectations for being able to know and advise on just about anything have firmly taken hold. Society has gradually evolved away from the rampant materialism and "always on" nature of roaring 2020s, and more toward striking a productive balance between humans and technology. It is now more commonplace for individuals to understand the implications of the “attention economy” and consumers and users are more discerning in their choices. In response, brands seeking to win market share and success relative to their peers have had to take more judicious and long-term approaches to win the hearts and minds of consumers. Purpose-driven leaders and momentum around decarbonizing the planet have accelerated this shift in how firms pursue their marketing strategies and for individuals, success is no longer only about money or fame. It’s about an integrated approach to how one lives their life, and this requires a multidisciplinary approach to managing decision-making and staying true to the goal. The most successful financial advisors have realized that the meaning of currency has also changed along with public perception. Now more than at any time in the last 150 years, money (or representation of wealth) has stopped being the pinnacle of success for individuals, but now it is merely an exchange of value that helps one achieve the experiences, goals, and presence that they strive for in their lives. The *Advisor Confidant* is the predominant archetype to evolve in this world in response to these trends. They have a role almost like that of an agent for a professional athlete, while working on retainer like you might with a lawyer. If the *Advisor Confidant* could have a unifying slogan that would universally capture the gist of their perspective on what they do, it would be something like “Wealth is Health.”

These advisors have realized that money is a means to an end and merely an important component of an integrated system, unique to each person, that forms part of the happiness equation. The *Advisor Confidant* has taken the notion of customer experience to the next level. Take the example of an investment banker who works 70 hours a week to bring in close to a seven-figure salary. While certainly a lucrative career choice, the *Advisor Confidant* knows this is not a sustainable choice and works with their client to present more balanced approaches to achieving life’s goals. It’s about understanding needs at a deeper level - what makes an individual tick and crafting bespoke approaches to servicing these clients. The *Advisor Confident* represents a centralized approach to money management where almost every transaction and life decision is validated and ratified as being consistent with the long-term plan. These advisors know humans and understand how money is integrated to build approaches that drive successful client outcomes. They know that they can take advantage of commitment bias to make goals explicit and hold their clients accountable to them. They are deeply immersed in their clients' lives and understand the complexity of the decisions they must negotiate, being intimate with social, emotional, and rational factors. The best of these advisors is almost considered an extension of the family; a chief of staff through which all decisions are made. This however has implications for the customer segments that these advisors target.

The *Advisor Confidant* has a small book of business. In the early 2020s, successful advisors may have had up to five hundred clients, but the high touch, intensely relationship-based orientation of the business model means the client base for this type of advisor are much smaller, typically around twenty-five to fifty clients. However, the depth of coverage is much greater. Clients in 2036 have realized that it is a wasted opportunity to not use money as leverage to achieve broader goals, typically around sustainability and philanthropic niches. The *Advisor Confident* must be well informed on environmental, social and governance matters; they must deeply understand how every client wants to use their money to achieve greater things and be able to provide compelling and bespoke solutions to achieve those goals. They have a select few asset managers and partners that they work with and trust that have an array of solutions to fit the niche-oriented needs of their clients. In this model, trust is gained and maintained through *proficiency* on non-financial matters as well as *faith* - the feeling of fidelity and confidence. These advisors understand affect theory and have designed service models that are oriented to make their clients feel safe, secure, and confident in the ability of their advisor. However, despite all the benefits of this deep personalization, niche orientation and the abundance of human connection, there are drawbacks to the evolution of this business model as well.

Since this is a relationship-based, high-touch business model the coverage of advice is narrower. Complex FinTech and Wealth tech offerings have gulped up much of the mass market creating a greater disparity between those who might have the opportunity to have human advice, and those who are forced to work with a digital, mobile first solution. The re-bundling of financial services that started in the early 2020s has now seen FinTech and Wealth Tech firms diversify their business models into many adjacent spaces and offer connected closed ecosystems of services that allow one to frictionlessly manage their financial goals from their couch, all on autopilot. This re-bundling has seen many of the challenger firms fail. Only a few successful digital firms with a firm grasp on the mass market and mass affluent segments have succeeded. For the most simple and basic financial needs, Google and Amazon have become the dominant players. Despite the evolution and innovation inherent to these businesses, they still suffer from the distrust of many who have been scarred by the perceived misuse of their data at the expense of consumer well-being. In the eyes of the investor in 2036, if you have a human advisor, you've really made it.

ADVISOR EXECUTIVE MAGAZINE

Spotlight: An Interview on Advisors as Curators

September 1st, 2036

Financial advice has seen tremendous change in the last 15 years. Now that we are one third into the twenty-first century, we are firmly experiencing an established, decentralized influencer economy. Long gone are the days of investors seeking sole individuals to manage all aspects of their money. Investable assets can be literally anything and everything as blockchain, cryptocurrency technologies and integrated platforms have made almost anything of value divisible. While this is a far cry from the centralized nature of the 20th century financial systems and there are clearly tangible benefits, there are also growing pains as well. We spoke to a few individuals to understand the value they get from this new ecosystem of services, their advisors and why they think this is the right solution for them.

How do you think advice has changed over the last 15 years?

Eric: "I think there's been a realization that financial advice is no different than any other type of advice. If you want to seek the perspective and opinions of others you don't just go to one person. I think most people have realized that certain people have very specific superpowers that make them great at what they do and excellent sources of information. There needs to be a degree of humility surrounding that though and advisors now are recognizing more and more that networks that they enable and ones outside of their direct influence are going to be key structural elements that enable how people make financial decisions."

Jean: "With my advisor I pay a subscription fee to access his platform. My monthly subscription is directly tied to the level of services that I receive and the accessibility of their third-party providers on the platform. All my personal data is shared amongst the providers that I engage with, but it is all controlled by me. I have the premium subscription model which means I get a meeting with my advisor or someone from his team every month to comb over all aspects of my financial life. For example, last week I needed to find a new auto policy. My advisor's associate connected me with a firm that offers smart contract bidders on the Ethereum blockchain for auto insurance. I literally had to enter the specifics of the policy I wanted and chose the lowest bidder with the best credit rating. What I like about this is the insurance claims process (should I have an accident) is literally hard coded into the contract. No adjudicators, or loopholes. So that means I know I'm protected.

How has the nature of how you engage your advisor for advice changed for you?

Eric: "Since the COVID-19 pandemic I've almost exclusively engaged with my advisor virtually. Sometimes I miss the personal contact, but I find generally this works better with the way advice is delivered these days.

Tell us more about that…

Jean: "Well, the value of advice is not only my advisor and his team, but the network and platform they have curated. It's almost like going to a great art exhibit at a museum that has been curated specifically to your taste. In any given month I could be interacting with many different organizations or entities about *services that I require, but they have all been carefully selected by the firm, but the advisor works for...I guess it's called the financial dealer.*

Eric: And I would add that some of these approved institutions are also traditional incumbents. When open banking legislation was approved in the mid-2020's, many banks began to evolve their business models and now offer their services in direct competition with more boutique providers, offering the customer more choice and transparency with respect to how their information is being used. The big difference for consumers is you're not trapped in the bank's ecosystem and being forced proprietary products.

And what about investing specifically? How has that changed for you?

Eric: I think the big change here was the emergence of the investment influencer. It started with the lifestyle influencer and eventually evolved to include individuals making financial decisions, sharing their investment processes and being transparent about their results. When social trading platforms came out, it gave these influencers a platform to further monetize their value.

Jean: The real change started accelerating when a few savvy mutual fund companies realized that they could market and promote their portfolio managers on these social trading platforms. Now, instead of buying a mutual fund and paying for it with a management fee, I follow investment influencers and pay small transaction fees to the asset manager to mimic their portfolio managers' transactions.

That seems like a big change…

Jean: Well, I've learned way more and I know others have as well. There's far more transparency into the actions of the managers. Many asset managers have built educational material around the transactions and investment philosophies themselves as well, so there is a much more engaging value proposition on offer.

Eric: And with blockchain technology and the emergence of crypto, there are way more asset classes than ever before. Today, I don't have to invest in gold, stocks, bonds or real estate only. I have access to derivatives, cryptocurrency trading, physical properties, shares; NFTs, which allow me to invest in art or music and take advantage of robust secondary markets. And sustainable investing is part of everything I do. Because of the emergence of so many different types of asset classes I can invest in things that interest me, that I believe in and that will make me money.

It's fascinating how far we've come. I wanted to ask you about the nature of trust. How has that changed for investors over the last 15 years?

Eric: I think trust used to be more about faith in a brand and their reputation. It was more of an emotional and intangible thing. For me, trust continues to evolve away from faith in a brand or reputation to become hardwired into the platforms *and services that we use. Using the example of claims processing again, trust used to be somewhat contractual, but also adjudicated by the insurer/underwriter and there was really no guarantee that they would do the right thing for you, even though you've paid your premiums. It felt like there was always something in the fine print that would provide them an out.*

Jean: Totally agree! Now trust shows up in different ways. It is more black and white. When I agreed to my smart contract for auto-insurance I knew that the payout will be clearly defined by the circumstances of the event. Let's hope that doesn't happen! While I still have faith in my advisor and their role in helping me achieve my goals, that kind of trust is less important today than it was 15 years ago.

ADVISOR EXECUTIVE MAGAZINE

Review: "Spending a Day with Cora ~ The Advisor Avatar"

September 1st, 2036

When I woke up it felt just like any other Monday morning, except I knew today was different. I was going to finally have the chance to do something that I'd been looking forward to for almost a month. Wealthaspire, the preeminent market leader in wealth-tech of the last 10 years, was allowing me to spend some time with their prototype of a new type of financial advisor that they call Cora. The kicker is that Cora is not real - at least in flesh and blood. She is an avatar created specifically for me, based on my preferences and she is going to be my financial advisor. After my self-assessment I get to meet Cora for the first time and powered by augmented reality, she is even more lifelike than I imagined. Based on preferences, she appears as a middle-aged woman with a kind expression, and I find it surreal to observe her facial expressions as she reacts to my response to her initial questions about my financial objectives and goals. She tells me that her job is to simplify and declutter my financial life and ensure it is tracking in a direction that is consistent with my specific goals. And this is no modest technical feat. Over the past 15 years more and more new entrants into financial services have become viable businesses offering niche solutions and products we could have only dreamed of in 2021. This flourishing innovation was kickstarted by the passing of open banking legislation in Canada in 2024. Open Banking essentially puts the consumer in control of how their financial information is shared. Previously, much of this data was controlled by the chartered banks, but open banking specified a protocol and structure to open this information to be available to any service provider authorized by the customer. This led to unprecedented competition for traditional banking lines of business and has spurned new innovations. Essentially, the consumer was empowered to control their data, how it was shared and the opportunities for new value creation for businesses exploded. Now the typical Canadian consumer uses over 15 different companies to provide services such as insurance, investment management, banking, loan, financing, access to different blockchain and cryptocurrency platforms and more. Despite this unprecedented de-centralization of the service providers, advice is often obtained through social channels independent of the service providers themselves. These social influencers are often so powerful that their endorsement alone can mean huge business and can be the difference between the success of a new entrant and failure. Since we often look to others to inform our own behaviour, the ability to seek advice from many different individuals who have personally experienced and navigated some financial challenges is a huge boost to financial confidence. This ecosystem of influencers and unbundled services means getting a handle on your complete financial picture is overwhelming at best. And this is where Cora comes in.

Through open API protocols, Cora can pull all my discrete financial information into one view. Regardless of if I have a life insurance smart contract, a short-term savings account at another institution, a RESP or RSP with an asset manager or a TFSA offered through my bank. All my data is consolidated into one integrated and multi-dimensional view. Cora's interface also lets me visualize different futures and how I'm trending based on my goals and saving behaviour. I'm able to simulate the kind of life I might have given the current projections and how I can change my future outcomes based on saving behaviour. And it gives me the next best actions and opportunities to do those through various recommendations. This immersive visualization of my possible futures combined with the ability to simplify my financial situation (no matter how dispersed) is the future of managing one's finances. I no longer need a specific person to be the point person for all my financial needs or rely on the perspective of one to guide how I should act. The WealthAspire platform lets me have the best of both worlds at the tips of my fingers.

ADVISOR EXECUTIVE MAGAZINE

Opinion: "The New World of Financial Advice"

September 1st, 2036

Very few could have foreseen the impact on the financial services sector in Canada 15 years ago when the re-bundling of financial services became an emergent trend. In hindsight, we should have seen it coming as it showed classic signs of an industry being disrupted. At the time, new entrants into the wealth management space in the form of robo-advisors were offering simple yet accessible alternatives to human-centered advice and challenger banks like Koho were beginning to offer viable and desirable alternatives to the traditional banks through better customer experiences that focused on helping consumers achieve their goals, rather than seeking to squeeze every drop of juice out of the orange. The fact that firms like Wealthsimple began to expand their offerings into adjacent spaces was regarded as a natural evolution. Their value proposition that was oriented towards mass market individuals who were underserved by the traditional model of financial advice, and they began expanding to offer more compelling and integrated solutions that would further serve the needs of their target market. What wasn't anticipated was how the seeds of change were already sown and had firmly taken root. In the 15 years since the COVID-19 pandemic, firms that were once viewed as new entrants have completely disrupted the financial services sector through the great re-bundling, and the world in 2036 looks very different indeed. Despite concerns about the use of data in 2021, consumers saw value in consolidating their business with one or two providers to get the benefits of ultra-personalization that next-generation financial services firms offer. Behavioural economics has been the underpinning of much of the data flavored innovation in recent years and tools such as conversational AI have become commonplace rather than emerging capabilities. Centralized platforms-as-a-service allows consumers to apply their budget against all or your actual and predicted behaviours based on "always on" data. In this new world of finance, the *Digital Chief of Staff (DCOS)* eventually emerged.

The DCOS can best be described as a dynamic, customisable, omni-channel interface that uses data to understand and influence the behaviours of investors in a way that integrates with everyday life. It uses behavioural economics at its core and strives to help investors achieve their long-term goals through micro-interventions, such as surfacing a category budget every time a consumer enters a certain type of store, or anticipating future behaviour based on cross-referencing public and private data to influence positive outcomes. For example, as you approach the grocery store your smart budget, depending on your preferences, it may let you know exactly what you need to spend to keep within your plan and offers next best opportunities for savings based on excess cash flow. It attempts to counteract the temptation for instant gratification to help humans navigate the optimal future path they have defined for themselves. These emerging platforms-as-a-service allow investors a more immersive and customizable way to ensure their long term goals are part of their everyday short-term actions and behaviours and the future looks promising for the financial well-being of investors.

Section 3

Strategic Recommendations

3A: Six Considerations for The Future of Advice

The following are six considerations for advisors and wealth management firms to keep in mind as they formulate and adjust their strategies to better serve investors in the future. This is not an exhaustive list, but rather it provides core attributes around which advisors might build their value propositions, depending on how they orient their future business model (addressed in the next section).

Money and meaning coalesce

Integrating environmental, social and governance factors into the investment process means the stakes are higher than ever for advisors, and trust plays a critical role. Advisors must understand how asset managers are using ESG criteria to drive their investment theses and security selection process, so they are able to hold them accountable and explain it to investors who are interested. They must also have a good understanding of current world issues and be prepared to address these topics when raised by investors. In other words, they must be able to communicate and maintain the integrity of the investment process when it comes to ESG factors while demonstrating proficiency through an understanding of current and anticipated global trends around sustainability.

We are already seeing the lines between money and meaning blur. Investors are beginning to realize that they can put their money to work and that they don't necessarily have to sacrifice investment returns to do it. Advisors will have to be ready to have in-depth conversations about topics such as sustainability and be able to segment their investors based on their unique preferences. For example, some investors may just want to reduce their ESG risk by avoiding categories such as firearms and tobacco, while others may want to drive social or environmental change through impact or thematic investing. Advisors must be willing to have these conversations and integrate non-financial factors into their investment decision-making processes. Investors will look to have *faith* in their advisors in ways they haven't had in the past and will have to feel confident that they can bring these personal issues to the table for discussion.

The fusion of health and wealth

"Concern over finances can affect a person's ability to maintain a healthier lifestyle. The financially prepared are almost 25% more likely to identify themselves as being very healthy compared to those unprepared and 2.5 times more likely to have a strategy to manage and maintain their health (Manulife, 2014)." Since those investors who have professional advice are better off than those who don't, financial advisors have a critical role to play in the financial well-being of Canadians. Advisors can use this insight to develop value propositions that go beyond the dollars and cents. From simple network innovations such as partnerships with gyms or athletic clubs, to leveraging technology such as augmented reality to bring future possibilities to life, advisors should position the value that they add as intrinsic to achieving a fulfilling and healthy future.

Always on Advice

The COVID-19 pandemic has jolted many businesses into modernizing their operations and adopting digital channels to distribute their value propositions. Financial advice was no exception to this rule. In addition, new entrants have provided compelling, mobile first alternatives to traditional advice and are seeking to expand into adjacent spaces through the re-bundling of financial services. The implication for human advisors is that consumers are beginning to expect their financial lives to be accessible and "always on." Descriptive statistics about an investor's financial wellbeing are becoming commonplace. Advisors must work to meet the demand for investors to have more diagnostic and modeling tools available to investors who want a greater agency in their own financial futures. This might mean enhanced web or mobile solutions that not only provide information, but also insights and recommendations as well.

Flourishing partnerships and ecosystems

Partnerships and open innovation offer an opportunity for advisors to unbundle some of the activities they've taken on, especially as the resource intensive *holistic financial planner* archetype has become prominent. This may help some tackle the increasing volume and complexity of regulatory and investor-centric demands. For example, partnering with an estate and trust new entrant such as Willful could help offload or streamline the time intensive process of estate planning and execution. Affiliate marketing initiatives such as partnering with influencers on platforms like Tik Tok could also provide new distribution and customer acquisition opportunities for advisors. Through an established partnership ecosystem, advisors can deliver more value to more investors who may even be willing to pay for access to the ecosystem itself.

Behavioural finance is the next frontier

It has been estimated that the value of behavioural coaching alone is 2.02% (Russell Investments, 2021). That may not seem like much, but over 20 years it has the power to really make a difference. Furthermore, behavioural finance outperforms traditional advice significantly across many key dimensions such as increasing investor trust, improving the perceived benefits of financial advice and improving the likelihood of following advice (Lewis et al, 2021). When combined with smart data strategies, behavioural finance can also be automated and embedded into digital channels, allowing advice to be always-on through solutions like conversational artificial intelligence.

Decentralized and democratized data

Regulatory progression such as open banking legislation in Europe have opened innovation opportunities and ecosystems through the enhanced control and sharing of data. Data ownership resides in the hands of the individual rather than the institution, which if implemented in Canada has broad implications for financial advice. The Investor can authorize the sharing of data from other financial institutions (such as their bank) to enable more data driven advice solutions. This opens the ability for advisors to have a view into how day to day transactions are enabling long term financial goals. When combined with behavioural finance and open partnerships, data has the potential to provide almost unlimited opportunities to make advice real-time, and customized to the unique goals of the investor.

3B: Business Model Recommendations for Advisors

A Tsunami of Increasing Complexity.

It can't be denied that emerging technological, social, environmental, and regulatory trends are undoubtedly going to make financial advice much more complicated in the future. How will advisors absorb all this complexity? It might be suggested that advisors should strive for simplicity in their practice to meet the intensifying needs of investors and the financial service sector in general. However, the counterforce to simplicity is that investors are expecting more and more from their advisors across the dimensions of service, engagement, purpose, and trust. If we recall the simply stated cybernetic law of *requisite variety*, advisors must be able to bring a matching amount of variety to the problem-solving process. It is therefore suggested that advisors instead battle this incoming and anticipated complexity with the aspiration to achieve clarity first across the core elements of their practice, creating a defined frame for how they create and distribute value. Within that frame, advisors must then seek to achieve a *requisite variety*; a high variety value proposition that matches the defined frame and scope of value being created.

By achieving clarity in the frame and scope of their practice, advisors will also be in a position to absorb more of the variability and demands of their investors. If we assume that a single advisor is operating at close to full capacity today without seeking to grow their book of clients, and their clients' demands begin to grow in variety and complexity, then advisors will be faced with a strategic choice. Extrapolating on *Little's Law*, they must either find ways to become more productive and efficient in their current activities so that they may absorb future, more complex client demands (without degrading service). Or, they control the type of demand on their services in the first place. For example, firms like IG Wealth Management that previously had a mass market focus, are consciously trying to move upmarket and be more selective about the clients they onboard and keep. This leaves an opportunity for new business models, that integrate the best of digital and human advice, to serve those with less complex financial needs, or those who want to keep autonomy over their financial lives. In the following section, a series of strategic recommendations are presented to advisors that will help them absorb future complexity without compromising the integrity of their practice, while offering opportunities to differentiate from the competition. The recommendations are categorized across the two key variables associated with *Little's Law*, the average demand (customer's to be serviced) on the system (the advisor's service model) per unit of time, and the rate at which the system can process those demands.

The increasing complexity of customer demands on advice along with the changing technological and regulatory environment is going to require most advisors to deliberately evolve their practices. What is certain is that advisors will have to begin to evolve certain elements of their business model to accommodate emerging trends and changing expectations. This research suggests advisors should consider evolving their practice along one of two possible paths to accommodate the increasing complexity of demand on the services that they provide in the years to come. The first strategic option involves a gradual, but new unbundling of the current dominant *holistic financial planner* archetype. The second strategic option is specialization; the gradual and deliberate refining of certain elements of the advisor business model to focus on certain defined elements of the value proposition and/or customer segmentation model. Both strategic choices must also accompany a general modernization of how advice is managed, the channels through which it's distributed and the data on which it relies.

Option 1: Unbundled Hybrid Financial Advice

This inside-out approach suggests advisors should deal with complexity focusing on the most profitable, effective, and valuable aspects of their business model while seeking to forge the right partnerships and connections to offer adjacent services and solutions. This approach is largely about synergies and efficiencies and is focused on network and services innovation as well as infrastructure. The value of this approach is not only the solutions that the advisor directly provides, but also the ecosystem and connective tissue offered externally by the advisor or leveraged behind the scenes. Through this approach, advisors might even pursue different revenue streams, potentially considering subscription models instead of the fee for service approach currently in use. They should also aggressively seek to automate or outsource non-value activities and use their internal and external networks to achieve economies of scope. For example, advisors might define a tiered service model that includes (depending on a customer's choice) a pre-defined level of one-on-one behavioural coaching along with tiered access to proprietary and third party self-service products and services depending on the level of need on the part of the investor. This ecosystem can be facilitated through an independent network of affiliates powered by open data architectures, or through the concept of super teams at wealth management firms; networks of interdependent specialists that serve a variety of customer needs where the advisor serves as the hub of the wheel. In this strategy of unbundling, the approach to trust must be largely codified. Interdependent networks of value providers must align on a common set of standards and rules to maintain the distributed integrity of the offering. Tiered service models require disciplined articulation and follow-through to ensure commitments are met and service levels sustained so trust can be cultivated effectively, and investors can benefit from the breadth of the advice offered.

Full-Service Advice: Specialization & Niche Segmentation

This outside-in approach suggests advisors should deal with complexity by focusing on the most profitable and suitable customers that best fit with their unique and differentiated value proposition. This model is all about controlling demand through a disciplined market and customer segmentation approach that allows for an offering that is centered on customer relationship and *faith*. Advisors who pursue this path will seek out the most profitable customers that are best aligned to what they can uniquely offer. This may include the evolution of the family office concept, where small numbers of ultra-high net worth families are provided a comprehensive suite of tailored solutions such as budgeting, insurance, charitable giving, wealth transfer, and tax services. It may take the form of an advisor offering a very specific set of sustainable impact solutions and a uniquely high degree of proficiency to targeted investors who are willing to sacrifice some long term returns to try and make a social or environmental impact. Or it may take the form of services offered to new immigrants, featuring solutions to the unique challenges of transitioning of wealth. It may focus exclusively on certain types of small business owners or be an offering centered upon a deep understanding and integration of behavioural coaching into the value proposition. Regardless of the target market, the common element of this model is that it is deeply fused to the unique pains, gains and jobs (functional, social, emotional) of the defined target market and is largely about empathy and the relationship itself.

Digital Wealth Management

This set of recommendations would not be complete without a mention of the evolution of digital advice. More and more new entrants are fusing their initial value propositions with adjacent new offerings through the re-bundling of financial services. As open data architectures become more common, the ability to receive data driven, fulsome digital advice that is contextual and integrated across firms is becoming more and more of a reality. This has implications for wealth managers as they may want to seek out partnerships with these digital first firms to provide a funnel for potential future investors as their needs get more complex and they start to see the value of the human aspect of advice. The likelihood that these business models will become more sophisticated and offer viable digital first alternatives to traditional advice can't be ignored.

Conclusion

The intent of this research was to explore the evolution of financial advice, the role that trust plays in a productive advisory relationship and the evolution of customer needs as it relates to financial advice. The purpose was to dig deeper into why there remains a hesitancy to accept advice when those who have advisor clearly demonstrate better financial outcomes. By understanding this current reality, a solid foundation for exploring the future was laid. The exploration of primary and secondary trends enabled a purposeful exploration of the future and what it may hold. Financial advisors can expect the momentum of change to accelerate in the future and will be presented with forks in the road where they will have to choose their path carefully. The increasing complexity of customer needs, expectations and digital ecosystems mean advisors will have to make key decisions on what role digital will play in their practice and what value-added services they will offer to compete.

This research suggests that there will be three core advisor business models to consider for advisors and wealth managers. A high-tough, niche, and human first business model designed to provide an intimate experience relating to how money is managed, and advice is delivered that is highly oriented to specific customer needs. A best-of-both-worlds hybrid advice model, featuring an integrated suite of digital tools to help investors with the right descriptive, diagnostic, and predictive capabilities while maintaining some access to human advice where it might be needed. And finally, a fully-digital model that integrates wealth and financial technology into a sophisticated but customizable offering that can offer investors a viable and self-managed alternative to traditional advice. Based on the current trends, advisors can expect more decentralization of data and information and the competition to ramp up as it becomes easier for investors to switch providers, so a clearly articulated value proposition, distribution model and customer segmentation will be critical underpinnings for the successful advisor of the future.

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