

Reader: "An island of professionalism in an ocean of shallow self-interest. Well done!"

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## Kitces Part 2: Where advice went wrong and where to now

 [Graham Hand \(/author/1\)](#)  28 February 2018

### Introduction to Michael Kitces (MK), interviewed by Graham Hand (GH)



*Michael Kitces is recognised as the publisher of the #1 financial planning industry blog in the United States, based on awards and surveys. His website, [kitces.com](https://www.kitces.com) (<https://www.kitces.com/start-here/>), is also home to the popular Nerd's Eye View. He speaks at 50-70 conferences a year, consults widely to financial planning groups, and is a Partner and Director of Wealth Management with Pinnacle Advisory Group (Washington DC).*

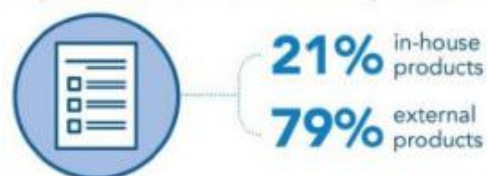
*I met with him at The Portfolio Construction Forum's Finology Summit 2018, where he presented two keynote addresses including 'Robo-advisors are NOT the future (but technology is)'.*

**To give some context before the interview:** In Australia, the [Future of Financial Advice](http://asic.gov.au/regulatory-resources/financial-services/future-of-financial-advice-reforms/fofa-asic-guidance/) (<http://asic.gov.au/regulatory-resources/financial-services/future-of-financial-advice-reforms/fofa-asic-guidance/>) (FoFA) reforms implemented in 2013 required financial advisers to act as fiduciaries and put the best interests of clients ahead of their own. The reforms also addressed conflicted remuneration and banned commissions paid to advisers by product manufacturers (such as asset managers). Similar legislation has yet to be passed in the US, and some of Michael Kitces comments should be viewed in this context.

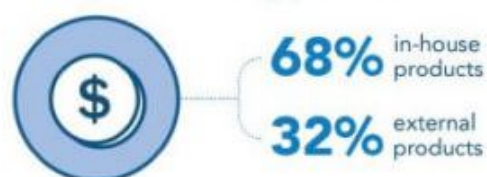
However, in a report called '[Financial advice: vertically integrated institutions and conflicts of interest](http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-562-financial-advice-vertically-integrated-institutions-and-conflicts-of-interest/)' (<http://asic.gov.au/regulatory-resources/find-a-document/reports/rep-562-financial-advice-vertically-integrated-institutions-and-conflicts-of-interest/>), issued in January 2018, ASIC reviewed the quality of personal advice in the largest licensees in the four major banks plus AMP. While the conclusions have been criticised by parts of the industry, ASIC found that clients were invested heavily in in-house products after receiving advice, and the quality of advice was often non-compliant, as shown in the graphic below.

### Proportion of funds in in-house products

#### Composition of advice licensees' product lists



#### Where customers invested their money after receiving personal advice



[./uploads/wp/ASOC-conflicts.jpg](#)

### Quality of advice on in-house superannuation platform



We give this background to the interview with Michael because many financial advisers will argue that FoFA fixed the main problems, that much of the Australian advice industry has moved to fee-for-service, that advisers are leaving the large institutions and that his comments relate only to the US. ASIC's research suggests many of these issues remain relevant in Australia, although clearly many financial advice firms have adopted high standards.

**GH:** How do you see the changes brought on by the ban on financial advisers accepting 'conflicted remuneration' or commissions from fund managers?

**MK:** I wrote an article maybe five years ago with predictions on how the Australian market might play out under FoFA based on what we'd seen in the US. A major theme was the expansion towards more independent advisers and platforms because it's much less compelling for large vertically integrated firms to provide wealth services when they just get paid for the advice. They cannot be vertically product distribution channels any more. I hear now a few of the large firms are spinning off their wealth management businesses.

**GH:** Why can architects and lawyers charge \$10,000 to do a job but most people will not pay a financial adviser such amounts?

**MK:** We're terrible as financial advisers at explaining our value proposition. We don't target well. Clients say, "What are you going to do for me?" We say, "I'll help you with whatever you need." That sale only works with people who think they are so incompetent at managing their own personal finances that they need an adviser. Most people have not become so destitute about their own competency that this is a valid value proposition. And then we make it worse with impossible brand promises.

Surveys in the US show there are two primary ways financial advisers differentiate themselves. Number 1, my ability to understand the needs of my clients. As if anyone would ever say they don't understand. Number 2, 72% said they differentiate on the breadth of my expertise. NOT the depth. So my marketing brand promise to clients is that I know more about everything than anyone else, which is not even believable. And it's not possible for 72% of advisers to be above average. The math doesn't work. We struggle to make any differentiating statements, they are barely table stakes.

When the product goes away and advisers have to sell the advice itself, they are still figuring out how to do that. The worst paid people in any knowledge profession are generalists. Specialists get paid more. That is the evolution we are making. For example, I know what a brain surgeon does. When I've got that problem, I'll pay a lot of money for that solution.

**GH:** So if you have an adviser client who has this communication problem, what do you tell them to do?

**MK:** Advice should be about deeper niches and specialisations. That's the evolution of the next 15 to 20 years. Down that road, you can market and differentiate more effectively. You can create more tangible advice outcomes relating to the exact type of people you are working with, and better client experiences. It's easier to do when all your clients are the same. You gain efficiencies because you don't need to look up new things about how to handle the next client. You become the leader and expert in that niche. You can sit across from people and give \$500 an hour advice off the top of your head. Right now, you can't do that so you have to price in the time it takes to research, and the time it takes you to market and find clients because you're not recognised for any expertise.

**GH:** Why can I go into a Ford car dealer and accept that he will only sell me a Ford, and nobody questions that? But if I go into a financial adviser, and they sell me the in-house product of the vertically integrated wealth business, that is unacceptable.

**MK:** Because Ford does not market itself as a comprehensive automotive consultant. They are Ford car salesmen or women. I know what I'm going to get. Here's an analogy: if I go into a butcher's shop, they will sell me meat. Everybody understands that, they don't advertise themselves as dietary nutrition experts who happen to always sell meat. The problem is not the nature of the product sale. The problem is we've attached the label 'advice' to product sales. Technology is making it easy to sell products so we can't get paid for products. Now we get regulatory conflicts when sales people give advice. It's a global issue as countries define a fiduciary rule.

**GH:** What's wrong with saying, "I sell my own products, and they are high quality and competitive"? We simply accept it's sales, not advice.

**MK:** It's the label problem. If we said, "This is my annuity sales person, would you like to talk about our annuity product?" then all of these problems go away.

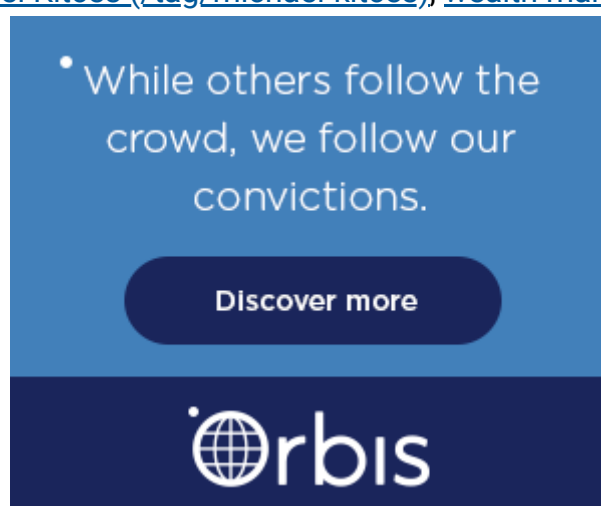
**GH:** So why don't we do that?

**MK:** Because advice sells better. You can sell more annuities or investment products or insurance or whatever proprietary thing you want under the guise of advice. The industry did their marketing studies and found when you put 'financial consultant' on the business card, people buy more. But the sales industry took it too far, consumers complained to the regulators, who said they will now regulate advice.

I would prefer not to see uniform fiduciary standards across financial services, I prefer a 'truth in advertising' control of titles that says 'sales person' on the business card. I know when I go to The Gap and they say the jeans look good on me, that they work on commission. I know how to judge that advice. We understate how knowledgeable consumers actually are about basic relationship dynamics like advice versus sales. The dilemma is that the regulators have come in and said if those are the titles you're going to use, we're going to regulate you.

*Graham Hand is Managing Editor of Cuffelinks.*

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