Influential US adviser has praise, criticism for Australia

Tahn Sharpe February 28, 2018

US adviser Michael Kitces

The biggest weakness in US financial planning, American Michael Kitces says, is coincidentally the greatest strength of Australia's industry – but the opposite also holds true.

The problem with US advice, Kitces says, is that the regulatory guidelines are wholly insufficient for the industry. It is an area where the US lags behind not only Australia but also the UK. This is especially true with regards to the education standards of advisers, where there is a stark paucity of requirements and seemingly little accountability for competency.

In Australia, meanwhile, advice is handicapped by a top-heavy, bank-dominated landscape, while the Americans enjoy a much broader, more balanced market, with a stronger independent sector.

Have your say bout US fiduciary law, or a top-heavy Australian financial planning landscape?

financial planning, here or in the US.

Australia's edge

"Here in the US, our standards are much, much lower," he says. "All you need to publicly hold out as a financial adviser is a high-school diploma and a two-hour regulatory exam that you can study for in a week or two. And the diploma is actually optional. So, there is no educational standard."

It's a strong denunciation from someone designated as the 'Heart of Financial Planning' by the US Financial Planning Association.

"Frankly, in Australia, your regulators are way ahead of ours here in the US," he says. "You're doing a much better job in the realm of lifting education standards with the duty of life and duty of care, and your competency standards."

The fiduciary duties Kitces speaks of are a divisive topic in the US. The duty of loyalty, known in the US as the 'fiduciary rule', was proposed by the Obama administration and subsequently shelved by President Trump in February 2017. The rule is now back on the table but with full implementation pushed back to mid-2019, there is scope for further delay.

"The duty of loyalty," Kitces explains, "is the classic obligation to act in the best interests of your client."

It's not what the rule requires that has caused so much hand-wringing among stakeholders, but who must adhere to it. The definition of fiduciary is being expanded to include any professional providing a recommendation – not just someone giving ongoing financial advice. That includes, pointedly, financial product providers.

The fiduciary rule would inhibit the trade of financial products considerably and Trump has sided with providers in locking its path. There are no guarantees the law will ever take effect.

The duty of care, which relates to education standards, has an even tougher path in the US. Kitces applauds the moves the Australian finance industry has made to raise the bar and laments the fact this is not a priority in the US. While the debate rages around best interests, he says, education standards languish.

"I think that once we get through the duty of loyalty, the next regulatory issue that we'll probably fight, through the 2020s and the next decade, will be the one that you're going through now, which is lifting the educational standards," Kitces says.

The great shame of this, he explains, is that both duties need to be addressed in tandem.

"If you require all advisers to act in the best interests of their clients, without any requirement that they know anything about advice, all you do is turn loose a whole bunch of people who give horrible advice."

Kitces' argument validates Australia's impending educational reforms. In 2014, Future of Financial Advice reforms targeted best-interests duty in Australia, but it took another three years to surmise that there was an issue with advisers providing "horrible advice" due to a lack of education. Still, Australia's eventual recognition of this places the country at the forefront globally.

"Our standards are drastically lower than what yours are today," he says, "much less what yours are going to be."

The flip side

Kitces is not so complimentary of Australia, however, when comparing the Australian independent advice industry with the one in the US. He identifies the dominant role big banks and financial services providers play in our market, and the issues this poses.

Data published by *Professional Planner*, based on figures from Adviser Ratings and the Australian Securities and Investments Commission, shows that of the 21,489 listed advisers in Australia last year, 9403, or 43.8 per cent, were operating under a licensee owned by one of the big four banks, AMP, or IOOF.

This degree of vertical integration, he says, is a glaring weakness.

"... ıch better than ours, but your independent movement is 10 or 20 years behind us," Kit

Kitces has one of the strongest voices in the industry. When Investopedia analysed the "presence and impact" of advisers across social media, conferences, TV and radio to come up with a Top 100 list in 2017, Kitces ranked 2nd.

The reach social media provides has afforded Kitces the luxury of a continuous stream of referrals to his many enterprises, which include adviser bookkeeping services, an adviser employment company, and Pinnacle Wealth Advisory Group, where he serves as partner and director of research. Every arm of the Kitces financial planning empire is fed referrals generated by 'Nerd's Eye View', his social media hub, which acts as a honey-pot for clients and advisers.

He is quick to point out, however, that social media isn't a free ticket to business success. "Ultimately, social media is nothing more than a medium for being social," he says. "When you're trying to be social and interact with human beings, you have to show up."

The critical part, he says, is to be relevant. Find your niche. On social media, he laments, most advisers fail to identify who makes up their target market and focus on what they want. A classic mistake is for advisers to post articles on their website about the financial planning industry. "Why would your clients care?" he asks. "I get that you think it's neat, but if you want to reach your clients and prospects and all they see is you chit-chatting about industry stuff, they won't follow you. You're not relevant to them."

The power of social media, he says, lies in the scale of its reach and the freedom we all have to use it as we see fit.

"The cool thing about Twitter is that it's like a giant, open cocktail party and anybody can hop in. So, if you're having a great conversation with a client, anyone can come in and join your table, as it were. It's still social networking, only on steroids."

It's the discussions

Kitces believes so-called robo-advice will continue to augment the industry but never replace the value of an adviser. Like the advances in technology before it, this will be absorbed and used to elevate the value proposition.

"When I was starting in the industry, all my friends and peers said, 'Michael, you're an idiot. The internet is here now. Anyone can buy a mutual fund online, financial advisers are going to be irrelevant.' What's actually happened, 18 years later, is that every financial adviser uses the internet to run their business. The thing that was supposed to replace us became the essential thing we use to run a successful business."

Using managed accounts as a more recent example, Kitces says "20 years ago we would have said 'Oh my god, if we have managed accounts, what are advisers going to do?' The answer is that we sell managed accounts and our value on top."

Advisers will need to reshape their value, because "most financial planning is just a giant flow chart of strategies…you can teach a computer to do that". As tasks become further automated, the "value on top" will become central to the adviser proposition. And this value, he says, is all about the conversations planners have with clients.

"We have advisers who charge clients for financial planning, with no investments allowed," Kitces says. "They don't do them. If the client wants a portfolio, they take the client to Vanguard's consumer website and help the client open the account, and that's the entire investment process. Then they spend 20 hours with them doing everything else that matters financially."

Support staff will also need to evolve as their roles become marginalised. "I do think paraplanners are much more threatened by the current environment than the advisers themselves," he says. "And that's really true for anyone in an administrative or non-advisory role in an advice firm."

It's the discussions, he says, that clients will pay for in the future.

"The conversation is the biggest thing we add."

**Michael Kitces is a member of Portfolio Construction Forum's core faculty, and is a specialist in the field of finology. Michael will return to Australia in February 2019, for the annual Portfolio Construction Forum Finology Summit.*

Have your say

Studies psychology and considers a career in medicine, then starts selling life insurance.

2001-05

Completes two master's degrees, along with Chartered Life Underwriter, Chartered Financial Consultant and Certified Financial Planner designations.

2002

Moves to Pinnacle Financial Partners as director of financial planning, becomes a trainer and financial planning coach.

2004

Co-founds NexGen, a community group for younger financial planners.

2005

Starts getting involved with the FPA, speaking to its members. Also starts writing for *Financial Planning* magazine after being discovered on writing forum financialplanning.com.

2008

Starts writing for himself. Sets up Kitces.com and *The Kitces Report*. Begins to focus on speaking career and writing. Retained by Pinnacle as "geek of last resort".

2010

"Nerd's Eye View" blog starts. Receives the FPA's Heart of Financial Planning Award.

2012

Becomes practitioner editor of the *Journal of Financial Planning*, after spending many years on its editorial review board.

2014

Co-founds the XY Planning Network, a fee-only advisory service specialising in Gen X and Gen Y.

2015

Launches *XYPN Radio* podcast.

2016

Launches adviser recruitment and placement service New Planner Recruiting.

2017

Launches *Financial Advisor Success* podcast. Named second most influential adviser in the US by Investopedia.

2018

Launches adviser payment processing site AdvicePay.com.

Have your say

Tahn Sharpe is a Sydney-based financial services journalist with a background in financial planning. He writes on advice, superannuation, investment, banking and insurance issues, is a certified SMSF Adviser and holds an Advanced Diploma of Financial Planning. Contact at tahn.sharpe@conexusfinancial.com.au

Tahn's Profile

Leave a comment

Please login via linkedin to post a comment

Login via LinkedIn

MOST RECENT

More women on boards, but economic equality 'a generation away'

'I don't mention I'm from AMP'

Local super industry leading the world on mental health during Covid-19

Carden Calder has shown her greatest strength at home

RELATED CONTENT

Have your say

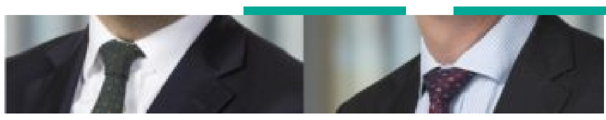
Privacy - Terms

REGULATION

ASIC reveals grandfathered commissions review agenda

The regulator submitted a response to question from the PJC in October last year that sheds light on the parameters for its review into grandfathered commissions, which ASIC has prioritised during the pandemic.

Tahn Sharpe
August 14, 2020

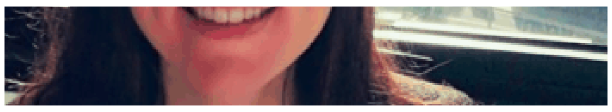


REGULATION

Class action to take remediation out of banks' hands

A lawyer leading the case against AMP, Westpac and CBA explains the nature of the class action's investigation and points out the problem with asking institutions to run their own remediation programs.

Tahn Sharpe
August 11, 2020



REGULATION

Let RoAs cover basic questions for non-advised members: ASFA

The super fund association will lobby for all advisers – fund or otherwise – to be able to use RoAs for a specific set of common member enquiries, regardless of whether an SoA is in place.

Tahn Sharpe
August 11, 2020

Professional PLANNER

About

Professional Planner is the leading voice for financial planners where they can learn about industry standards, get news, information, debate and develop new ideas.

Our partners

Have your say