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May, 2016

### **The ‘Selective’ Investor: A Disruptive Change in Financial Advice Orientation**

For decades, financial advisors have classified retail investors based three or four categories pertaining to their orientation towards advice. Following the Financial Crisis of 2008-09, however, we have observed a group of affluent investors who have a very strong desire to take control over their investment decisions. Originally an outcome of advisor under-performance during the Crisis, this investor group has grown even larger with the emergence of new technology and tools for managing wealth. Their investment behaviors, attitudes and needs do not easily fit into the historical advice orientation classifications. Thus, we prefer to call them the “Selective” investor.

Traditionally, the wealth management industry has used a three-tier classification for investors based on their orientation towards advice:

- The “Self-Directed” or “Do-it-Yourselfer”(DIY) prefer to make their own investment decisions without the assistance of an investment professional or advisor. Historically, these investors represent about one-third of affluent households (\$100k+ in investable assets).
- “Validators” generally make their own investment decisions but use professional advisors as the need arises. We prefer to call these investors “Special Event”-driven, as their needs for advice often involve a specific life event such as birth of a child, buying a new home, etc. These investors represent about one-quarter of affluent households.
- Investors who regularly work with a financial advisor are often called “Delegators.” These individuals are the bread and butter for most FAs, as they typically let the advisor take the lead for portfolio decision-making. We typically have divided Delegators into two categories: “Advisor-Assisted”, where the investor works closely with their FA but the client makes the final portfolio decisions (about one-quarter of affluent households); and “Advisor-Directed”, where the advisor or investment manager makes most of the decisions (less than 20% of affluent households).

The Selective investor is neither a Do-It-Yourselfer nor a Validator. A key hallmark of the Selective orientation is a strong need to take control over their investments. And they are not a small or select group of investors: collectively, represent over 60% of affluent households and over 80% of young, “Next-Gen” affluent investors.

Besides their need for investment control, there are other hallmarks of the Selective investor:

- They are very actively involved in the day-to-day management of their finances;
- They are younger (about seven years younger than the average Delegator);

- Selective investors are not opposed to getting professional advice; in fact, most use or have used a professional financial advisor for investment guidance or specific services;
- Attitudinally, they are risk-takers and open to new investment opportunities.
- They also tend to be less trusting of financial institutions, which goes hand-in-hand with their need for investment control.

All this is interesting, but what really sets the Selective investor apart from DIYs and Validators, and what the financial advisor community needs to understand, is that the Selective movement will fundamentally disrupt the traditional advice orientation model. And technology will play a major role. Here's how:

1. The Selective investor expects to have the tools available from professional advisors to enable them to self-manage selected services such as stock or mutual fund selection or financial planning. And Robo-Advisors will no doubt be part of the self-management paradigm.
2. They also expect tools that will enable them to take a holistic view of their finances and link all of their accounts.
3. They place high importance on having access to their investments 24/7 through multiple devices, including mobile.
4. The Selective investors will turn to multiple sources of advice, including professionals, peer groups and social media. They have used a more diverse array of advisor channels than Delegators, including bank-based advisors, accountants, online brokers, and insurance agents or brokers.
5. They will typically conduct their own research themselves before speaking with an investment professional.
6. Selective investors will also expect to use advisors for non-traditional services, such as debt and credit management, insurance, or updating a will.

Clearly, financial advisors must take steps to better understand the needs of the Selective investor, the impact they will have on their practice, and the resources they will need to adapt and thrive.