NAPFA ADVISOR

THE ART AND SCIENCE OF THE FEE-ONLY PRACTICE

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2016

FUTURE TRENDS

Issues facing advisors in 2016

Also:

- Future of financial planning education
- Stress testing life insurance
- Work-life balance
- Hiring a CIO

2016 Future Trends

In this issue of the NAPFA Advisor, we look at some important trends for 2016 that financial advisors might want to watch. While advisors always have a future focus, it's difficult to keep an eye on every aspect of an ever-evolving industry, and sometimes it's easy to rely on what worked in the past.

"If we look in the rearview mirror for too long, we all know we're eventually going to drive off the road," said Mike Byrnes, a national speaker and owner of Byrnes Consulting, LLC. "Many business plans are predominately based off of the past. We're all familiar with the disclaimer 'past performance is no guarantee of future results,' so why are so many organizations not looking more into the future to make their decisions?"

Byrnes' firm provides consulting services to help advisors become more successful, and part of that is helping them look to the future. He points out four areas that advisors should be focusing on: the pace of technological change, disruption, longevity, and communications.

"The way we do business and live our lives will be profoundly transformed by technology," he said. "If you or your organization don't have the capacity to take advantage of these changes, add technology resources, both in house and through external partners."

Like technology, disruption in general will continue to accelerate. "Education no longer has to come from a teacher and a textbook," he said. "There are now countless sources of information. With that newly gained knowledge, your skills and expertise will become an advantage over the competition."

Longevity also will be a fact of life, and with it the challenge of paying for those extra years. "Ask yourself: What is my complementary service (or product) to longevity?" Byrnes said. "Count on humans living longer lives, and take advantage of it."

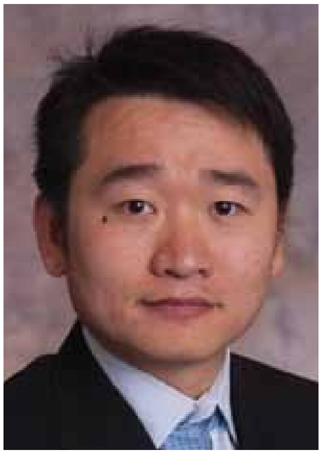
Finally, advisors should embrace the many forms of communication now available. "Figure out how to constantly engage others," he said. "Get out of the business of doing tasks, and get in the business of communicating better. Human relationships will not be fully replaced. That will be a key to success in the future, when computers increasingly replace work that humans currently do."

Read more at ByrnesConsulting.com and follow @ByrnesConsultin.

RISK MANAGEMENT

Non-disruptive disruption

By Shuang Chen



The new year kicked off with a marked increase in global equity market volatility. With a start to 2016 like this, a return to relative equity market quiescence seems doubtful, and financial advisors would be wise to prepare their clients for more volatility ahead.

We've all learned the hard way to be skeptical of claims that "it's different this time," but in some very positive ways the financial risk management tools and techniques being used during the current bout of volatility by large financial institutions, regulators, and savvy financial advisors truly are dramatically better prepared this time.

Following the 2008 financial crisis, large financial institutions and their regulators developed a number of advanced risk management techniques, and these new approaches are now being adopted as core elements of Solvency II regulations in Europe and in the new Federal Reserve capital standard in the U.S.

An exciting extension of some of these recent advances in financial risk management is the adoption of certain risk management advances in the business of personal financial planning. Today, for example, financial advisors should be looking for more advanced risk management capabilities from their financial planning software than the traditional Monte Carlo simulation, to better prepare their clients for possible increased volatility going forward.

The latest practice-building theme that we hear consistently from advisors across the U.S. is developing strategies to efficiently penetrate Gen X/Y without disrupting the core client base of mostly 50- to 80-year-olds. For many advisors, this calls for a segmented business model and a distinct technology solution. If you are serious about tapping into this early career, tech-savvy, younger segment in 2016, it's critical to identify a cost-effective financial planning and robo-technology solution for new Gen X/Y clients—yet one that enables you to maintain your focus on your core business. This kind of innovative practice-management growth is called "non-disruptive disruption."

Shuang Chen, CFA, FSA, PRM, MBA, is the cofounder and CEO of RightCapital, a financial technology firm providing next-generation financial planning solutions for advisors. Chen has 15 years of experience encompassing investment, retirement, insurance and risk management. Prior to founding RightCapital, he was a senior vice president at Prudential Financial.

Continued on page 16