PLANNING FOR EVERYBODY

What does the future of online financial advice look like? Here's a sneak peak at the how you'll work with clients someday.

by Bob Veres

A new financial planning service went live on the last day of the FPA conference, and it started me thinking about why so many of the services that were created to funnel new business to financial planners have, in the past, turned out to be such awful disasters. I remember when Lou Harvey at Dalbar just kind of proclaimed that he had created the definitive list of financial advisors, and the list, of course, came from people who paid him a fee to survey their clients. This and other programs suffered from a lack of marketing to the public (the model: just put up a web site and the public will somehow find it); no meaningful due diligence (the model: pay me and you're free to feast on the hapless consumers who find our site), too few advisors (the model: type in a New York zip code and find an advisor in Saginaw), and no different business model for advisors who want to work with whatever customers the service might accidently deliver to your doorstep. You still have to create a traditional relationship, and there is no way of filtering out unsuitable prospects. (The model: if they can type their name and zip code, they must be an appropriate financial planning client.)

So we've seen it all before. Haven't we?

Apparently not. A new startup called MyFinancialAdvice.com has taken an interestingly different approach to just about everything that was wrong with the traditional Web Site Referral Model, and I think it's something everybody should have on their radar screen going forward. In fact, within a year, perhaps two, I think it will become the most important way for mainstream, middle-class consumers to access your services, and for you to work with people like that at a profit.

Let's take a hard look at what they're building, and how it addresses the obstacles to delivering financial advice over the Internet.

The first obstacle is what might be called the "chicken and egg" problem. No consumer is going to look for advice on a site until at least a few advisors have signed up to deliver it, and no advisor in her right mind is going to pay money to belong to a service that doesn't already have consumer traffic. According to Kevin Condon, the well-known planner who is handling the advisor recruiting efforts, the solution to this problem

Continued on page 8

Planning for Everybody

Continued from page 7

was in plain sight all along. You look for organizations that already have consumer traffic, but which don't currently have the ability to deliver personalized advice from a living, breathing professional.

Such as? Company founder Ron Peremel, who recruited Condon, defines the initial target market of MyFinancialAdvice.com as essentially any online service with a menu of calculation and trading tools, plus all 401(k) plan providers, discount brokerage firms, labor unions, and membership organizations whose members need occasional financial advice. Currently, as you read this, the company has only one such relationship, with Reuters Investor--the former MultexInvestor.com site, whch was purchased by Reuters earlier this year. By January 1, MyFinancialAdvice.com will offered through the entire Reuters system. The second provider, if all goes as scheduled, will be the FPA, through its Planner Search function. (More on that in a minute.)

And from there? "We can back our service and technology up to pretty much any financial site," says Condon. For the people who visit there, and the people who created the sites in the first place, this is their chance to have reputable planners answer questions on an as-needed basis. "I think consumers are often confused about what to do with the online tools," says Condon. "Once they've gotten their boilerplate advice and some personalized calculations," he adds, "you really need somebody to interpret the information, or at least reassure them that their interpretation of the output is the correct one. We can go to the sponsors of these sites and offer them an advice component at no additional cost to them."

Peremel, in fact, has a background in this area, having worked with his family's discount brokerage firm (now part of Mercantile Bankshares), with Morgan Stanley Online, with Schwab and Bank One on their online programs, and with the first touch-tone trading system offered by the National Financial Services division of Fidelity. While he was working with Wall Street On Demand, linking web and wireless research tools to the web sites offered by Schwab and Waterhouse, he noticed that the online tool concept was not totally satisfying to the end users. "What we consistently learned is that there are millions of people who realize that they need assistance, who go to these do-it-yourselfer places like Schwab," he says, "but once they've done a few calculations, what they really wanted was a real live human being to give them good objective answers to their questions. If they don't have millions to invest, it's not easy to find that in today's market."

Which, of course, brings us to the second obstacle: most financial planners don't have a business model that will allow them to work with the "other 90%" of the investing public. So if you want to deliver the best financial planners to this audience, you need to help those planners find a way to do it profitably.

The solution at MyFinancialAdvice.com was to pioneer a new business model. Steps one, two and three were to develop some (mostly communication-related) tools and services that make it easy and convenient to offer advice to the do-it-yourself consumer. The final step was to allow advisors to post their own fees and get out of their way. When advisors sign on with MyFinancialAdvice.com, they have, right up there next to their names, an hourly fee that is actually communicated as a per-minute fee. When I checked the site this morning, planners had posted fees ranging from $1 to $4 a minute, although when you click on an individual planner, you discover that most of them offer their advice primarily in half hour or one-hour increments.

Condon believes that if you can help somebody answer a question, online, for a fee that you select, without having to go through all the work of preparing a financial plan or developing a relationship, then you ought to be able to make a profit on that activity. "For the planner in the office, we have taken a lot of work out of the relationship," he says. "You'll probably still want to keep your current clients, but the people you work with through our system can be at least as profitable, on a minute by minute, hour by hour basis." And if they're not, he says, you could always raise your fees until they are.

How does it work in real life? Suppose a consumer is on Reuters, and decides she needs to get some advice from a real, breathing, advisor. She clicks over to MyFinancialAdvice.com, enters the state she lives in (more on this in a minute), looks over a list of planners from all over the country, with pictures, bios and a little discussion of who they are and who they work with, and she selects you. She clicks a button right there in your file, and sends you an e-mail with a simple question: Am I saving enough for retirement? Or: What do you think of how I've positioned my assets in my 401(k) portfolio?

You, at your desk, respond by acknowledging the message, and asking for a bit more information. Most advisors will send back one of 17 forms that MyFinancialAdvice has preprepared, right there on the site, which are designed to gather the information you need to answer common questions. (More are being created as you read this, with input from the Garrett Financial Network and the small number of advisors who are on the system already.)

You can also use MyFinancialAdvice.com's proposal generator or action plan generator, which basically serve as prewritten contracts that define what you'll do and how much you'll charge. The fees you've posted are already in there; all you have to do is estimate the time it will take you to do the evaluation work.

So let's say the client fills out the form with relevant financial information and the proposal comes back to you with an electronic signature, essentially agreeing to an hour or two of your time. Then you run the retirement planning information through MoneyTree's Silver, MoneyGuide Pro or NaviPlan, generate an answer and send it back to the consumer, inviting followup questions in the text of your e-mail. The site makes it easy to share files through its Intranet provider, so a PDF of the retirement planning spreadsheet can accompany your message. MyFinancial Advice.com has a connection with a credit card servicing company, so the consumer's credit card is debited the requisit amount of your fees, and the money is deposited into your account.

Is that all? There are a few additional bells and whistles. The client might prefer to communicate with you by phone, in which case she would click on a little telephone icon, which pops up into a screen that asks for the phone number that she's at right now. Your phone number is already in the system, so the web site automatically dials both numbers and connects the client with your receptionist--and, ultimately, with you--and you can do basically the same thing via a couple of phone consultations. At the end of the process, the client is asked to rate each aspect of your service (quality of advice, timeliness, professionalism, objectivity, value creation and overall satisfaction) on a 1-10 scale, and a composite of the scores you have received are posted next to your name on the initial screen that the consumer sees when deciding which advisor to choose.

So how does the company make money on this? The fees are split between the advisor (65%) and MyFinancialAdvice.com (35%). Some of those fees will be paid back to some of the sites where consumer traffic is coming from, including, apparently, the Financial Planning Association.

Which raises the last and most important objection: who gets on this system? How is the customer protected from unscrupulous advisors and outright salespeople? What makes MyFinancialAdvice.com different from all the other services that we've seen is that it makes a real attempt to ensure the quality of advisors on the system. The first filter is probably going to rankle some readers of this publication: only advisors with the CFP or CPA/PFS designation are allowed to offer financial planning advice through the system--and you have to have three years of experience. Second, the company does verify your employment and educational history, and checks your regulatory history. Third, when you sign the agreement with MyFinancialAdvice, you agree only to offer advice for a fee; no selling is allowed. And finally, the rating system is designed to weed out advisors who violate this last proscription, whose objectivity and overall satisfaction scores might be lowered if they tried to sell whole life products under the guise of providing retirement planning advice.

Those, of course, are somewhat minimum standards, but they are far ahead of the previous state of the art. Condon himself seems to be offering another layer of protection; he is a longtime leader in the planning community, a member of the Nazrudin club, and he knows his way around the business well enough to make a few phone calls and find out a little more about that advisor who got 3 or less on his last two satisfaction surveys.

But the answer to "who gets on the system?" is about to become more interesting, as the FPA goes forward with plans to add MyFinancialAdvice

Continued on page 10

Planning for Everybody

Continued from page 9

to its Planner Search menu. "If it all works out," says Condon, "then people can come in to the FPA site, and those planners who are signed up in our system will have an extra level, where the consumer can click on their names and go right to the planner immediately for the answer to a quick question."

What are the legal niceties of all this? Can you just answer questions for anybody in the country, without registering in their state? Peremel acknowledges that this is a problem for some advisors who are not federally-registered. MyFinancialAdvice.com is registered as an RIA, and its outside attorney--Susan Bryant, former securities commissioner for the state of Oklahoma and former president of the North American Securities Administrators Association--is talking with difficult states like Texas, which require registration if you have more than five clients in that state.

"Right now, our solution is that everybody who comes to the site and asks for advice has to tell us what state they're in," says Peremel. "You, the advisor, can unclick any state where you've bumped up against a de minimus number, so the people in that state will never see you as an option."

He has also offered testimony to the SEC concerning online advice where there are no sales activities, hoping regulators will see a substantive difference between answering basic questions and managing millions of dollars of client assets.

Peremel believes that his firm has finally found a way to bring real financial planning advice to real people. "A lot of people want occasional guidance, but they don't want or can't afford a lifetime relationship," he says. "A lot of advisors want to serve these less wealthy consumers, but they don't see how they can afford it under their current business model."

The number of potential customers for online advisory services is jaw-dropping. "Right now, there are about 125 million people who work with discount brokerage companies, online banks, online residential mortgage companies, online content sites and--this is where we think the biggest demand will ultimately come from--401(k) plans," says Peremel. "We have a person who used to be head of human resources at Apple Computer and MediaOne, who does nothing but call on companies all day long and show them what we're offering."

In the future, Peremel envisions some things that are either exciting or scary, depending on your point of view. Advice for consumers will be sold through an open market system not totally unlike eBay, where standardized rates will emerge for advisors, and the rates will be different depending on the various overall satisfaction levels.

Some advisors--this is already being started--will offer educational packages at a flat fee, while others will experiment with flat-fee pricing for insurance advice, budgeting and investment advice. At the same time, advisors could create their own community, sharing or inventing tools, listening to guest speakers, hosting

"Operator, get me the guy who runs that Internet thing."

web conferences.

Or sharing clients. "One of the most intriguing aspects of this," says Peremel, "is that we could become the environment where a CPA or tax professional, a financial planner and an investment specialist or mortgage broker can all collaborate on helping the same client, sharing information through our site," says Peremel. "Our goal is to reach a little over 1% of the online financial services customers in five years, and we think that's pretty conservative. There's no reason why we couldn't scale up to services many times that number, since the whole company is essentially virtual."

I don't want to go overboard here and declare MyFinancialAdvice.com an important member of the planning ecology before it is fully launched. But I haven't seen a service this promising in years, and especially not one that addresses the biggest problem facing the profession right now: how to reach out to a broader segment of the population. Bigger picture, I think it is possible that the traditional planner/client relationship may not be the future of the profession, that as more people go online, as more people gain access to more information, they are going to be more independent than the current generation of clients. Yes, they will want access to a financial planning, but in a very different relationship than the one we tend to take for granted today. MyFinancialAdvice.com offers all of us a way to experiment with how that planner/client relationship could look ten or fifteen years out. If you're an early-adopter, try it. If you're not, keep an eye on it, because it has the unmistakeable look of the future.■