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Mark Tibergien: Regulators/industry "allow" for investor confusion on broker/advisers. "RIA community has not been subjected to any kind of rigorous regulation from an individual practitioner perspective." On why more people don't become advisors, "They think the industry is corrupt."

Mark Tibergien, CEO, Pershing Advisor Solutions, has been a thought leader in the business of advice in years of explosive growth. RIA assets' market share in the past ten years grew from 15% to almost 23%. Pershing AUM from $30 billion to $200 billion over the past six years. Author, (most recently, The Enduring Advisory Firm (with Kim Dellarocca), Investment Advisor readers voted Tibergien the most influential leader in the advisory space. Speaking with Knut Rostad, Tibergien expresses views that RIAs usually discuss privately. Examples? The RIA voice is fragmented and brand not clearly articulated. Tibergien also notes how consumer distrust if financial services harms RIA recruitment and growth. And, that RIA standards are too low. To cap off, "Money is the new sex, the thing people don't talk about." A Freudian slip? Read on.

<u>Knut Rostad: You've said the industry and regulators have allowed confusion about terminology on brokers from advisers. Talk about that.</u>

A couple of thoughts. First is: I'm probably one of the few people rooted in the RIA world who thinks we should allow and encourage different business models. And the reason for that is consumers come in different stripes, and many have different preferences and ways they do business. Quite a number would rather have a transactional relationship rather than an advisor relationship. Not only should we allow it, we should encourage but apply some transparency to it. Analogies I would use are if I were getting my taxes done, I would want to know whether I was dealing with an enrolled agent or a CPA. If I were having my teeth looked at, I'd want to know whether I were working with a dental hygienist or a dentist. If I had a sore back, I'd want to know were I'm dealing with a massage therapist, or a chiropractor, or an orthopedist.

"In any of those professions there is a clear distinction between the type of professional … It will tell you something about their… code of conduct"

The point is that in any of those professions, there is a clear distinction between the type of professional that you're engaging with because it will tell me something about their level of education, their training, their code of conduct, the way in which they relate to the patient or client depending on the circumstance. I think that's missing in our business because what is often represented as advisory, as an example, is confusing. For example, people think that moment you shift to a fee-based revenue structure that you have become an advisor.

"I would prefer to see a clearer distinction between the methods of business…"

If you don't have to operate under a fiduciary standard, but you still can sell a fee-based product, then you're not really an advisor. You're just selling a product that generates an annuity-income stream. So when I look at the marketplace, rather than trying to have the entire industry adopt a common standard, frankly, I would prefer to see a clearer distinction between the methods of business and let the consumer decide.

<u>KR: What should RIAs do?</u>

I think that the great influencers in financial services are companies that are substantially product-based or transaction-based. So they're going to tend to have the loudest voice when it comes to dealing with legislators, and regulators, and government agencies. And I respect that; that's our capitalist system and that's how things work.

But I think that the RIA community has to try to influence the conversation if not regulations. There are many fragmented groups who are trying to deal with their relative positions.

"It sort of feels like both major political parties. We don't know what it (the RIA community) stands for…"

It sort of feels like both major political parties. We don't know exactly what they stand for today and what the natural outcome is going to be. So, I think the opportunity here for us is to change the conversation so that it is less about us and more about the consumer, and less about who is holier than thou or who is superior, but more about "What is the impact on the decider as to how they make choices?"

"I'd prefer the conversation to be less about animosity and more about clarity and transparency"

And really promote the idea that there is a difference, but not as a pejorative, more as a distinction. And that would be the way in which I would prefer to see the conversation: As less about animosity, and more about clarity and transparency.

<u>KR: So, advisors must lead to get to a profession?</u>

"The reality is (RIAs) have not been subject to any kind of rigorous regulation from an individual practitioner-standpoint."

What's interesting is that one of the challenges, for me, from an RIA profession-perspective is that as much as we strive for being client advocates, for being fiduciaries, or charging fees instead of commission costs. As much as we try to take that position, the reality is that the RIA community has not been subjected to any kind of rigorous regulation from an individual practitioner-standpoint.

The more that this practice, this part of the profession, evolves from lifestyle practices to professionally managed businesses, the more I worry about command and control and how advisory firms are going to manage both risk and reputation. So part of this is when you're the minority party, you can scream about injustices, but when the direction is clearly in your favor, then you have to say "What will we do to raise our own standards? What will we ensure has to happen [so] that the people we let into our club are people who adhere to our culture, and our values and our principles?"

"You have to say 'What will we do to raise our own standards?'… We're not going to tolerate bad behavior…"

We're not going to tolerate bad behavior from those who call themselves the same thing that we do. And I think that's an important direction the RIA community has to go in. Otherwise, my fear is that the regulators will define that for us.

<u>KR: So, its about differentiating between sales and advice and doing a better job raising standards and developing advisors?</u>

I think that one thing that people know who have been around this business for a long time is we tend to see what risks are in the client relationships, and we tend to see what the positive benefits are. Let's face it: Most people who are in legislative or regulatory positions have never worked in the profession, or not worked in this side of the profession. Their views are colored by their experiences, or lack of them.

One of the things, as an example, that we see is happening with the overlap of terminologies is we're never sure if we're talking about an advisor with an "o" and an advisor with an "e" because when we speak it, the distinction and enunciation is not clear.

So when we start being more perfect about the language we use, and the types of people we're talking about, and the nature of the businesses that are being run, then I think if you began from the premise that says "Your job is as a salesperson," then the nature of the regulation that I create to protect clients is going to be different than if I said "Your job is as a fiduciary client advocate."
Then, I have to come up with an entirely different set of standards and enforcements.

"I'm not sure people hired into advisory firms are developed and trained … like the legal, medical or accounting professions."

I'm not sure that once people are hired into advisory firms, then they are being credentialed and developed and trained in a way that other professions are like the legal profession or the medical profession or the accounting profession.

I don't think (it's) part of the continuing education of most people in this business.
I think that it is incumbent upon the profession to raise the standards of development and licensing and admission.

"Not all people in an advisory firm are of the same standards… As a profession, we should want to raise them"

If it wants to be positioned as a more elite part of the financial services world, then it has to do the things that will get it to that point regardless of what the regulators say. You're either doing something bad or you're not. If you do something bad, you should get hung, and if you're not that you should leave [them] alone.

But that doesn't mean that the standards are right. Not all people acting in the advisory firm are equal or of the same standards, and I think as a profession we should want to raise them.

<u>KR: Law, history and logic teaches conflicts of interest are inherently problematic. Your view?</u>

I may have said this before, but of all the professions, this is the only one where the professionals charge based on the value the client brings rather than the value the professional brings. And it would be as if my doctor charged me by the pound, I would clearly overpay every time I visited.

"I'm not troubled by conflicts."

So having degrees of conflict is an interesting way to think about it. I'm not troubled by conflicts. I would rather people be transparent, at least in terms of the implications of those conflicts.

Knowing that I have the potential for conflict is different than actually acting on a conflict of interest. So as a consumer, how do I discern that? I know, for example, that if I buy a condominium from the developer, then that is a really strong conflict because the developer is trying to maximize price and liquidly and move it very quickly. If I buy a car from an auto dealer, I know they are not acting in my best interest. But does it mean that I'm not going to buy a car or a condo? It just means I need to be more informed about how I approach it.

KR: The talent shortage is high on your list of challenges. It seems the industry focus to address this is the newbies. Is that fair and is that wise?

Well, building a human capital plan is not unlike building a diversified portfolio. You need a degree of experiences and depth of knowledge and maturity. In a way, what you're doing is building a laddered portfolio only you have newbies, and you have career changers, and you have experienced advisors within the process. ...

For example, for the last 5 years, we have seen the rate of growth for the average advisory firm actually decline. So, this past year, the latest survey [had the] year-over-year growth was 5%, last year was 8%, and the year before was 9.

And what this is telling me is that there is a combination of de-accumulation happening with their clients, that they're not replacing [them] fast enough, and that most advisory firms lack the capacity to take on more clients or to grow clients. And particularly if they're focused around clients who are their same age, then they're not replenishing. If you just follow that patterned and extrapolated, you'd have to say that in 10 or 15 years, this will be a dead business. Or there will be a handful of survivors. Our hope is that more young people will be drawn into this profession so they can reinvigorate our growth.

"What matters is creating the environment where people not only want to come but they also want to stay."

…. The heartening part is that the RIA community has, for the first time, shown that there are more employees than there are partners within advisory firms. So I'm very encouraged by that. The part that concerns me is most RIA firms are small businesses. They don't have a person in charge of human resources. They don't have a leadership team that knows how to effectively develop people. They haven't created an opportunity for growth. And they don't focus on creating an environment where motivated people can flourish. Whether you're getting your talent from career changers or from newbies right out of school doesn't matter so much as if you're creating the environment [where] people not only want to come, but want to stay.

KR: You have said that within a couple years consumers will demand far more transparency of "all-in costs" – not just advisor fees.

I think that one of our challenges is to distinguish between cost, price, and value. So when we look at this in the advisory profession, for example, in the RIA community in particular, one thing we know is that the median yield on assets for the typical advisory firm has remained roughly the same for the past decade, and it's been hovering around 77 basis points.

"If there continues to be pressure on reducing all-in costs, the only thing left is … the advisor"

But the cost of the solutions they use, the funds, for example, or the ETFs, has gone down markedly. And so has the cost of custody gone down. So the all-in costs to consumers has actually gone down, but the advisor himself or herself has not yet experienced compression unless they are focused primarily on investment management rather than all the other things one might do.

One of the things you can actually expect from this is that if there continues to be pressure on reducing the all-in cost, the only thing left is going to be the advisor. The question that I would put to people running advisory firms is: "How will they demonstrate value if they intend to hold prices where they do, and how will that be clear to the clients?"

"In Australia... you have to disclose in dollars, in the first year you have to estimate what the client will pay in dollars"

I looked at a couple examples, one of them, maybe the most interesting, is under FOFA, (the Future of Financial Advice) which is the guiding policy in Australia, when you take on a client, you have to disclose in dollars, the first year you have to estimate in dollars what the client will pay. And in subsequent years, you have to disclose what the client will pay in dollars. It doesn't get more transparent than that.

So the challenge is to say, "If this is the price you charge, what is the value you deliver?"

Is the current lack of fee, expense transparency damaging to the advisor industry?

That's a really great question: Do I think that there is damage? Sometimes I think that the burden is on the consumer to be better informed. I'm not a complete libertarian, but sometimes I think that we are forcing policies on professionals when it is really the duty of the consumer to be more informed.

Now, if I, as a client, ask you, as my advisor, to tell me the costs all-in, and you shade it, you camouflage it, then I think you're doing damage. For example, you know ADV forms better than I do, but if you read that, would you have a clear idea of what I, as the consumer, am absolutely going to pay you for the services you're delivering. I mean, it's a data point, but it's not a price list.

KR: My sense is there is far too little public discussion of investor distrust of finance and financial advisors. Is this a big problem? Does it deserve greater public discussion?

A great question, and actually I talk about it a lot. About 9 years ago I started to underwrite the personal economics program at my former high school, and I was persuaded to do this by an advisor in Boston, who I just had breakfast with yesterday, in fact, because he did something similar in his former high school in Minnesota, and I grew up in Michigan.

"The lack of trust that this industry has… with consumers is terrible."

There were several things. One was: the high degree of financial illiteracy in this country makes people vulnerable to those who would cheat them, it makes them vulnerable in their relationships with others, and it makes them vulnerable in terms of the choices they make. Second: the lack of trust this industry has in its relationship with consumers is terrible.

"Three … they think the industry is corrupt."

We have formal surveys where we have asked people, for example, "Why did you choose not to come into this business?" One is that they never studied finance, so they don't think of it as a career. Two, they think it's a sales job. And three, they think the industry is corrupt.
So that is the third element in my reasons behind providing this is that I want to introduce it as a career choice.

Many other advisors have attempted to emulate the program because of what we're finding. In a community that suffers generational poverty this elective gets more than 50% of the senior class.

They introduced a financial literacy summer camp for elementary school students, and the requirement is that the parents meet with a financial advisor before their kids come into it.

And I can tell you that the testimonies I'm getting back from both the kids and the parents are encouraging. They better understand their choices; they are more confident with financial professional, whether a banker, advisor or accountant. They actually feel they can talk about finances. This is huge.

Money is the new sex; it's the thing that people don't talk about, and we have to be conscious of the conversation.

The Institute for the Fiduciary Standard is a non-profit organization formed to benefit investors and society by advancing fiduciary principles in investment and financial advice through research and education. For more information: www.thefiduciaryinstitute.org. You can contact Knut A Rostad at info@thefiduciaryinstitute.org