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How HiddenLevers can help your firm?

The Death of a Wholesaler

By: David Ristau + Jeff Baker

A whitepaper from HiddenLevers

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How to Avoid Irrelevance

Will rising technology, indexing, and fee compression kill the wholesaler? What is the future of asset management sales?

Its 2020, Robin logs into the CRM and views 15 new leads from last night. The company just launched their latest digital portal that helps HNW clients and advisors to visualize the risk in their current

products. Robin looks at the portfolios and logs into the firm's AI big data solution to make sure the portfolios are automatically uploaded. Check. The wholesaler reviews the models and uses a digital report from

the company's new AI system to review the work.

Robin sees that the prospect's overall risk is

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quite high in a Rising Interest Rates scenario. Down 32% - yikes. The client is 55-years old. Robin can surmise this client is nearing retirement. A loss like that would definitely crush the prospect's retirement timeline.

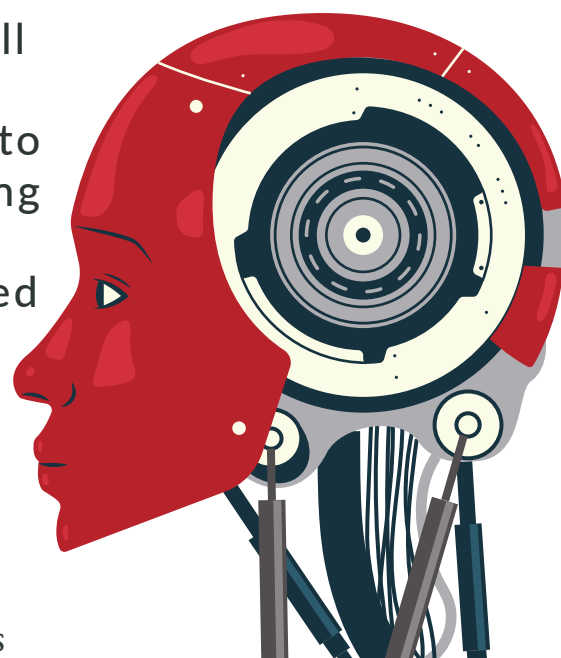
Does he/she know that? Robin wants to share this information with the prospect. The wholesaler clicks on proposal generation and flips through a branded digital report with 8 slides that showcase strengths + weaknesses of the current allocation.

Robin adds notes with digital stickies on each page for the prospect.

“The wholesaler will be reborn as a “cyborg” that has to be adept at utilizing technology with a technology-enabled mind”

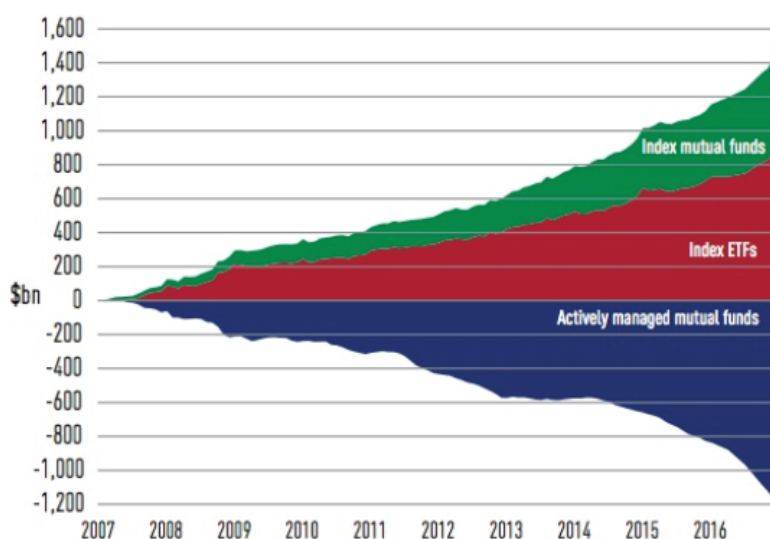
Grabs the email and shoots it out the door. While the prospect can chew on their current trouble spots, Robin starts to look at the firm's current lineup of investments and thinks a couple of alt strategies could definitely benefit this prospect. Robin quickly adds those funds into the model and takes out some funds giving unneeded risk.

Hours later, the prospect emails back –



“Interesting information. Can we setup a web call to review?” Robin responds “Perfect.” Robin books the meeting. This meeting is a perfect chance to showcase this new alt strategy. Human touch. Technology enabled.

This is the new breed of wholesaler. Robin is a Tech-Enabled Portfolio



Source: Credit Suisse, Investment Company Institute, Simfund

The Rise of Indexing

The flows from active to passive investing is one of leading issues for wholesalers.

In the past ten years, active management has lost \$1.2B in assets.



↓ ↑ In Arthur Miller's Death of a Salesman, the writer notes, "the only thing you've got in this world is what you can sell."

For today's asset managers that statement has some difficulties around it. The rise of technology, transparency, and compressing fees have led to outflows for some fund companies. Further, the rise of early adopters of indexing and ETFs, set against a background of comparative technology, has created a tough landscape for active management.

The challenges to asset managers has been widely discussed, so this whitepaper will focus its discussion more specifically to the sales

process of asset management. For years, the norm has been to use wholesaling divisions to interface with institutions, advisors, and other entities to get distribution of funds. That process has involved trade shows, free tickets, perks, and rounds of golf.

The shifting landscape, however, has challenged this norm and shown cracks in the armor of traditional ways of doing business. As this article is so gently titled, the death of the traditional wholesaler is inevitable. How it's reborn is what we're interested in discussing.

The future of the wholesaler is a rebirth as a tech-enabled financial product expert that

creates efficiency. It's putting down the golf clubs and picking up a tablet. It's throwing away business cards for digital portals that collect information in unique and interesting ways. It's combining tech skills with people skills to be able to enhance wholesaler performance.

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Three Trends Plaguing Traditional Asset Management

Compression of Fees + Transparency

What led to the compression of fees in asset management? It's a bit of a chicken + egg. The rise of transparency about fees led to the popularity of lower cost investments a la index

ETFs. Yet, lower cost index ETFs helped bring about a rise in transparency. Further, the rise of "comparability" has led to a compression of fees. Investors have the ability through technology and wealth managers to be able

What do advisors want from wholesalers?

Value of services provided (ranked out of 10)



Source: WealthManagement.com

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“Moore’s Law describes computing power doubling approximately every 18 months. This trend will reach exponential growth and explode into the future. The threat of tech to asset management is real.”

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to easily examine the costs of various products. If the fees of a strategy don’t give significant benefit to end clients – why use them? Technology, lower fees, and a solid decade of mostly bull markets has led to a fundamental change in what many institutions, advisors, and clients believe pooled investments should cost.

Will this change? A bear market might provide a short term reprieve to this notion as it will cause some alternative and actively managed strategies to shine, but the reality is that the compression of fees will continue. To paint a similar picture, we turn to our friendly travel agent (wait, you don’t know a friendly travel agent?).

The Travel Agent: The Rise of Indexing and Technology

Moore’s Law describes

computing power doubling approximately every 18 months. This trend will reach exponential growth and explode into the future. The threat of tech to asset management is real. The first victims were travel agents.

It’s the 1990s, you want to take a trip to Europe with the family for the summer. You are thinking Eifel Tower in June with a stroll through Montmartre and lunch by the Champs - Elysees. Magical sounding? Who can help you book such a trip? How about your friendly travel agent who put together that wonderful Canadian fishing trip last year.

The travel agent provided an invaluable service before the rise of technology. Today, the Internet and technology have rendered the travel agent nearly obsolete. Except, the travel agent still does exist. What for? Exotic vacations, wealthy families, and those

that are taking large group trips that require significant coordination. For the average family trip, though, the Internet suffices.

This portrait reminds me exactly of what is occurring in wholesaling. Advisors that interface with clients have technology at their fingertips that can help them review funds/ETFs and make decisions on behalf of clients. For end clients, reading about strategies, researching investments, and using pre-packaged strategies from robo-platforms and index ETFs reminds me of the ease at which one can compare 15 flights from Atlanta to New York City online in seconds.

Comparison makes it easy for investors to review both active and passive investment strategies with a couple of mouse clicks. Financial analysis and planning is wildly more complex though than booking a hotel (for now). Thus, the role of the manager and the advisor has remained intact. The complexity of finance and financial planning will always allow humans to maintain their dominance

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over technology, but tech continues to improve. So, it begs the question – are humans improving as well? Are we adopting technology and utilizing it to make us better than we were last year?

Despite the growing number of investors, many mid-level asset managers continue to experience outflows. A few asset managers, though, have continued to grow. They all have something in common ... they weren't afraid to change or adopt new strategies. The reality of the asset management space will be – adapt or die.

Current Answers - Working or Stopgaps?

So far, we've laid out some problems. Fees are going down. Transparency is increasing. Passive investment products are becoming ubiquitous and technology is rendering some roles obsolete.

So, what can asset management firms do. Here's what we've seen so far, and these are solid answers. Some of these answers start to get at changing how asset managers sell, but more

change is still needed.

Asset Manager = Technology Manager?

In late 2017, Barron's put out an article called "Blackrock Flexing Its Advisor Technology Muscle." The article begins by noting that Blackrock wants to "control the advisor desktop." They launched financial planning tools. They built a risk analysis platform that analyzes portfolios. They want the advisor to use Blackrock in every facet.

Why? Because if they do, they can control the assets. What better way to get distribution and diversify business than being at the forefront of the technology advisors + end-clients interact with.

This should scare asset managers. Yet, in my conversations with the industry so far, there is some interest in trying to keep up but it's muted at best. Maybe keeping pace is impossible, but if we can assume the reality is that tech is the future, then Blackrock is insulating itself very well from obsolescence.

The question every asset manager executive should

be asking - how are we adopting technology and how we can use it to create a competitive advantage? If you aren't using technology, how do you plan to catch up to those that already are?

Fund-to-Fund Comparisons

One stopgap that I've seen time and again in the asset management industry is doing fund-to-fund comparisons. Using cool charts and stats to show why your fixed income fund is better than theirs. This is one of those stopgaps strategies that won't work in the long run. Why?

The answer does not help solve any of the main issues – it doesn't help battle against fee compression. In fact, it often draws more attention to fees. It doesn't combat the rise of indexing or leverage unique technology. It just changes one actively managed strategy for another. It's like shifting water in a shrinking pool.

Instead, we need to turn comparative analysis on its head and introduce it in a meaningful way to advisors or end clients. Another



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antidote for the changing landscape – holistic approaches to investment analysis that help advisors build for lifestyles, risk aptitudes, and consult over sell.

Side-to-side comparison is the quintessential product push strategy; whereas, a holistic approach to portfolio analysis delivers exceptional benefits to advisors and their clients.

Change is on the horizon, and if asset managers want sales divisions to be successful, major changes must occur.

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The Future of Wholesaling + Distribution

Retail is a blueprint for asset management. Retailers that wanted to survive the onslaught of technology have all adopted new approaches called – omnichannel.

It was the brick-n-mortar store to the digital store and a network between the two where you could order online and pick up in store. Or, if you are in the store, they can get your size online and deliver to your house. It did, however, require new investments from retailers – larger warehouses, websites, digital marketing, developers, and tech help.

So, maybe we titled this paper to grab your attention because wholesalers won't actually die. Rather, they will be reborn. The wholesaler of today is a dying breed, and the wholesaler of tomorrow is better than today's wholesaler and tech alone.

Just like Mr. Gadget showed us years ago, a skinny 180-pound geek can fight super villains when he utilized technology, rendering Gadget ... a hero.

Today, the wholesaler will be reborn as a "cyborg" that has to be adept at utilizing technology with a technology-enabled mind along with having the ability to interface with clientele.

I call it – "The Geek With People Skills." Before you turn aghast, think about it. If you had in your operation today sales people that all could be armed with extremely beneficial technology, can talk about asset allocation and portfolio construction backwards and forwards, and additionally grab a beer/catch a game with target clients ... would that not be the ideal "store

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The Portfolio Construction Process

This four-step process is an easy first step in adopting a holistic consulting approach.

Identify
Risk



Asset
Allocation



Tune Up
with New
Strategies



Continue
Oversight



front.”

The Cyborg Wholesaler

No, we aren't envisioning a world of robot sales people; however, in my last visit to a trade show – I saw only about 25% of wholesalers utilizing technology at their booths. Why?

Our suspicion is that asset managers are not prioritizing tech skills in hiring as well as in training. They are slowly adopting some aspects of technology, but the future is here. There is fear from wholesalers that technology can render them obsolete. That's the wrong attitude for sure. The best wholesalers are the ones that can impress their audience with technology, cut down on inefficiency, and act as a force multiplier. A human can't connect two pieces of wood without a hammer.

Technology is that hammer. The main takeaways that we see for the future wholesaler is:

1. Gains Trust By Offering Something of Value
2. Consult Over Sell
3. Offers Product Suggestions Only When It

Makes Material Difference

4. Uses Omnichannel Approach to Selling

We started with a day in the life of Robin – our future wholesaler. What does the life of this wholesaler look like beyond a couple hours in the morning:

At the Trade Show – Shows up in their best blue suit, shoes shined. Whips out a couple of beautiful touch screen computers and iPads for the team. Sets up shop. As advisors and institutions begin to filter in, instead of throwing golf balls and Nerf footballs, he asks the advisor ... “can we quickly stress test your portfolio?”

That's something the advisor hasn't heard before. The salesperson quickly enters in a few tickers on their new portal and in moments is showing the advisor weaknesses/strengths in their current allocation. Well, the correlation risk looks pretty high and your Sharpe Ratio is below the benchmark.

Could I follow up with a report for you that stress tests this against 100 economic outcomes? The wholesaler (now portfolio



The Future Wholesaler: Geek with People Skills

consultant) becomes an asset to the advisor not an annoyance.

They are providing something of value immediately.

At the Office – Having collected 25 advisor allocations at the trade show (not full allocations / partials), the wholesaler quickly PDF prints branded reports that show the advisor interesting statistics on their current portfolio. In his/her email, the wholesaler highlights 5 areas of concern



and improvement for the advisor. All the while, at no point has the new breed of wholesaler pitched any product. Why not? The wholesaler is gaining trust with valuable advisors. The portfolio consultant uses time at the office to utilize tech to diagnose and add value to conversations.

Online – The wholesaler logs into a website portal he/she set up that has a short video introducing him/herself to visitors. The message is clear. Enter in your portfolio, and I will provide a 15-page report stress testing your holdings (or investigating asset allocation or checking your ESG score ... enter your pitch here). A bouncing arrow next to an entry screen shows in real-time how the advisor or HNW client or institution looks as they enter holdings. When they submit, the information loads up to the CRM and now the wholesaler also has leads from the digital store.

Meetings + Portfolio

Consulting – Today, the wholesaler has a lead from Omaha, NE. Could hop on a plane and meet face-to-face, but being in San Francisco the flights to Omaha seem high. And the advisory firm is busy themselves. It's a first meeting, so the wholesaler

turns to the digital interfacing portal that the company has built that allows each party to see each other, present digital tools with amazing visualizations of data, and in real-time show the advisor amazing information. Finally, the advisor is primed for a pitch.

The wholesaler compares the firm's current model to a new model that the wholesaler constructed using a portfolio optimization feature in their analytical tool. The wholesaler continues to become an asset for the advisor providing transparency and trust through useful information.

18 holes just became a 2-hour webcast where the two discuss the value the asset management firm's smart-beta ETFs can provide as a way to cut down on costs but still offer active management. Additionally, the advisors' HNW clients want access to options strategies, so the wholesalers new options SMA is perfect.

We've created a smart consultant that is specialized. It's one channel to sell. It's not the only channel, but it optimizes the talent and allows the wholesaler to play off the changing landscape. I want to put that in bold...

The cyborg wholesaler optimizes talent and plays off the changing landscape.

As the role of the advisor changes, as tech continues to increase transparency, and as the investment landscape becomes flatter with information, asset managers must respond by championing this landscape not playing catch up.

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The good news for asset management firms is that technology to help leverage this future wholesaler is available today. You don't have to reinvent the whole landscape. Multiple solutions, including **HiddenLevers**, have developed turnkey solutions that are ready to be turned on and adapted for your firm.

These solutions have been already adopted by some asset managers in their most early innings, and technology vendors who can work with asset managers and understand the space can mark development in weeks.



So, the only question remaining is when is your firm going to make its mark? The rebirth of the wholesaler will happen. Will you shape it?

The Death of a Wholesaler

By: David Ristau + Jeff Baker
Brought to you by HiddenLevers.

HiddenLevers is a stress testing and data analytics tool that helps asset managers demonstrate fund comparisons through interactive tools, proposal reports, and comparative analysis. HiddenLevers has built over 100+ economic scenarios that allow asset managers to, in real-time, stress test current allocations and compare multiple other allocations.

We are ready to help transform asset managers.

