

A woman with short blonde hair, wearing a bright red dress with white trim on the sleeves and a silver watch, stands with her arms crossed in a modern office lobby. She is leaning against a grey stone pillar. The background shows a blurred office interior with plants and a staircase.

A focus on the future of investing

If we had a time machine, we could go back in time and once again experience what the investment industry was like just a few years ago to realise how things have changed.

Jeanette Marais, CEO, Momentum Investments and Deputy CEO, Momentum Metropolitan Holdings

In 1995, there were less than 40 unit trusts (collective investment schemes) in South Africa when we launched Momentum Wealth, South Africa's first insurer-owned Linked Investment Service Provider (LISP). Today, there are over 2 000 unit trusts in South Africa.

The industry is characterised by immense complexity and rapid change. The number and sophistication of industry players has increased, we are bombarded by product choice and digital transformation is shaping how we need to think about the future.

When we speak about investing of the future, words like "megatrends" and "digital disruption" come to mind. We can analyse how these trends are disrupting the industry, but do we understand how to disrupt our own value propositions?

Niels Bohr, the Nobel laureate in Physics and father of the atomic model, once said: "Prediction is very difficult, especially if it's about the future!"

None of us has a crystal ball, making the future a mysterious but exciting destination. What we can do, is position ourselves according to what we know and disrupt ourselves, rather than be disrupted.

In my opinion, the key lies in partnerships. With increasing complexity, we need to focus on our speciality and niche and find the right partners to journey towards success with.

CLIENT OF THE FUTURE

A natural place to begin is with the client of the future.

I often quote a study done by Morningstar in 2019, where researchers gave investors a list of 15 attributes and asked them to rank them according to what was most important for them in their financial advisor. They also gave the same list to financial advisors and asked them to rank the attributes according to what they thought investors valued.

The first disconnect was with the attribute of "help me reach my financial goals". Investors ranked this as their top priority, while financial advisors thought that "understand me and my unique needs" would have been their top priority. Investors ranked "help me maximise my returns" as the fourth-most important, while financial advisors ranked this only 14th. Clearly, there is some work to be done to understand the client of the future before we can position ourselves to meet them.

The client of the future also wants to be met in a different way. According to the Millennial Disruption Index (MDI), over 70% of millennials said they would be more excited about a new offering in financial services from the likes of Google, Amazon, Apple and PayPal than from their own bank.

Changing demands of clients, the rise of the self-help investor and advanced digital capabilities are pointing to a future where our engagement with our clients will be very different. We need to give clients what they want, not what we think they want.

KEY TO SUCCESS

Rising complexity means that success in the future will not be a one-man game. The financial advisor, investment manager and

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investment platform of the future must partner with each other and disrupt their value propositions to meet the needs of our clients. In my mind, I see this partnership as a triangle between financial advisors, investment managers and investment platforms, with the client at the centre.

Financial advisors need to partner with other industry players to give their clients the best outcomes. One such benefit can be seen in partnering with a discretionary fund manager (DFM), such as Equilibrium by Momentum.

According to a study conducted by Rathbones in the United Kingdom in 2019, advisors who partnered with a DFM experienced several benefits. For example, more than 70% of advisors saw an increase in client portfolio performance and 66% quoted improvements in their clients' risk/return profile. On top of this, about 60% saw an increase in revenues from their existing clients because they could devote their energy to building those relationships and delivering financial advice. Partnering with a DFM frees up your capacity to focus on your value adds.

On our own investment platform, Momentum Wealth, we analysed to determine the internal rate of return (IRR) that advisors achieved for our joint clients over the last 10 years, ending in December 2021. Over the period, the average yearly inflation rate (CPI) was 5.03%. A shocking 14% of financial advisors returned less than CPI over the period, while 61% returned CPI+2% or less. The worrying factor is what happens to clients who need to draw 5% of their income from their living annuities, while protecting their capital. Only 12% of advisors would have had clients who could achieve this.

Partnering with a DFM such as Equilibrium, which specialises in bringing balance into an advisor's practice, can greatly enhance a client's outcomes with access to diversified portfolios and professional investment management, while also serving as a business partner, so that advisors can spend more time with their clients and grow their practices.

DIGITAL ADOPTION

There is also a strong case to adopt digital. The 2019 *US Advisor Metrics* report from Cerulli Associates showed that "heavy technology" advisory firms spend 34% less time resolving client service issues and have 24% more time for practice management activities, highlighting the effectiveness of technology for increasing advisors' ability to focus on the most important parts of growing their business. Heavy technology-using advisory firms also report an average of double the assets under management of their "light" technology-using counterparts.



Do we understand how to disrupt
our own value propositions?

Clients are demanding this digital world. In fact, a report by McKinsey issued in June 2015 already showed that at the time of the report, 40-45% of affluent consumers who switched their primary wealth management firm in the past 24 months moved to a direct, digitally led firm.

We believe in the value of financial advice and a financial advisor who digitally transforms their practice and partners with an investment platform to integrate into their back office not only frees up their time to spend time with clients, but also provides a more seamless and superior personal service to clients. With us, investing is personal and our investment platform (Momentum Wealth) is embarking on a digital transformation journey so that

we can empower financial advisors with the tools and solutions to help meet their clients' financial needs and help them achieve their goals effectively.

If you ask the question of what the future of investing looks like, you will likely get many different answers.

What we do know is that clients are changing and digital transformation is non-negotiable. The way to navigate this changing world is to partner with specialists in those things that we are not. Warren Buffet said it perfectly: "Should you find yourself in a chronically leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks." ■

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