

# *2018 Wealth Management Outlook – 6 Key Trends*

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# Key Trends in 2018

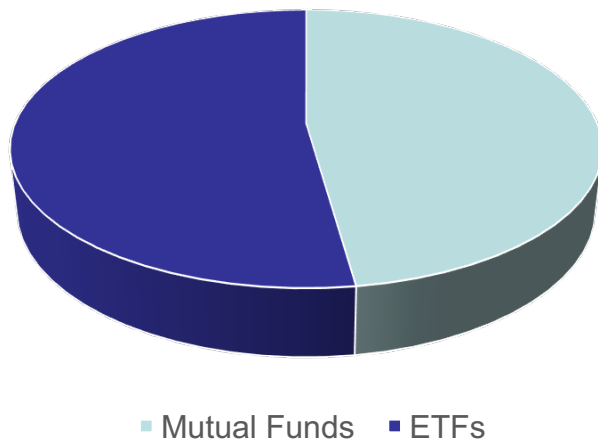


- Movement to management money - a closer look at active / passive and share classes
- Robo advisors – What is next
- How high will the market go, move to protection products
- Broker protocol – What is the impact
- The fight for advice (portfolio construction)
- Fiduciary rule – It is still here

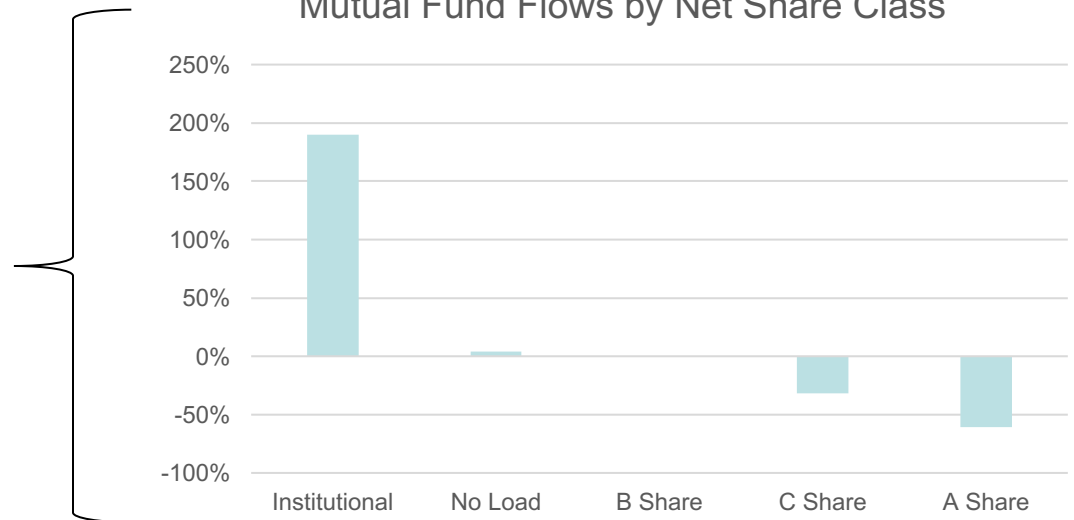
# Movement to Managed – Money Flows

- The movement to managed continues and is accelerating
- Indexing has surpassed active in net flows
- Institutional Share class mutual funds are still far above all other share classes including ETFs

ETFs vs Mutual Fund Net Flows



Mutual Fund Flows by Net Share Class



# Where Are Robo Advisors Going Next?



- First, we saw Direct to Consumer
  - Cost of Acquisition is **Too** high
- Then, supporting established BDs / RIAs as a stand alone offering
  - Build it and they **Didn't** come
- What's next?
  - More integration into the main managed account platforms....
  - and, more consolidation

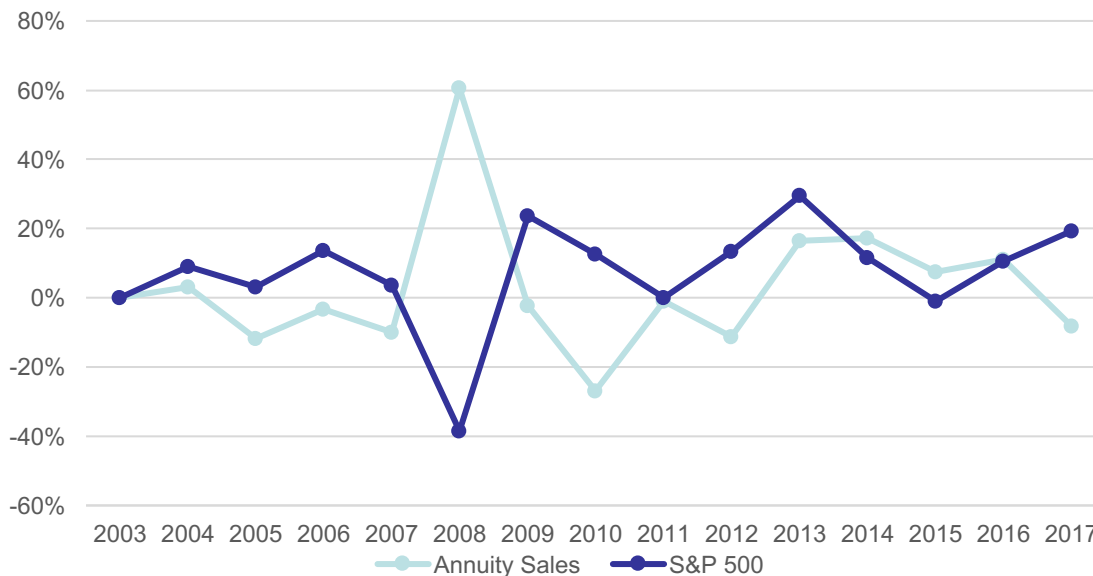
# When Will Clients Buy Insurance Products?

- Historically, sales in protection (insurance) products have had an inverse correlation to the stock market

## Annuity Trends for 2018

- FIA ~ up
    - Higher demand ↑
    - More providers entering space ↑
    - Some cannibalization of VA sales ↑
    - Performance will be scrutinized ↓
  - VA ~ flat to down
    - Losing out the FIAs ↓
    - More focus on income story from planning ↑
    - Benefit base if market become volatile ↑
  - Fixed ~ flat to up
    - Continued bull market ↓
    - Rising rates ↑

Change in Annuity Sales vs the Market Change



- Regulatory scrutiny will continue
- New products from new-comers will have impact, but established firms will win in long run (product innovation or market crisis will determine timing)

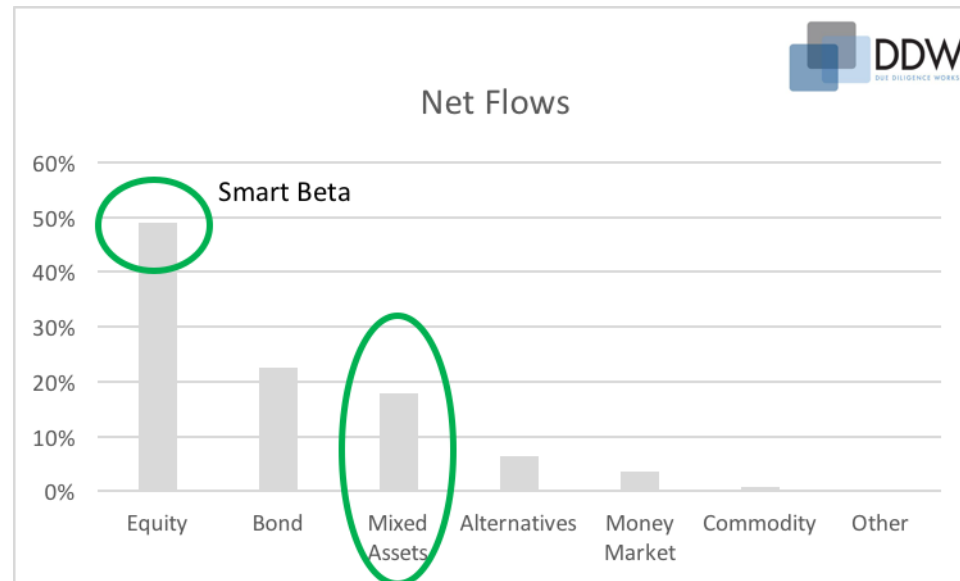
# How Will Firms Exiting Broker Protocol Impact the Market?



- Macro trend of financial advisors transitioning to RIAs will continue
  - Advancement of RIA platforms
  - Fiduciary environment
- The exit from Broker Protocol will not have a meaningful impact to offset the macro trend of an advisor switching to a RIA
  - Even without Protocol protection, it's still near impossible to prevent an exiting advisor from taking their clients
- ...However, reducing upfront payouts will

# The Fight For Advice

- Who is best to deliver advice?
  - Broker Dealers and Private Banking firms clearly own the client relationship.
  - Asset managers clearly own the product.
- A battle has been brewing over who should be doing portfolio construction.



# Fiduciary Rule



- Much of 2016 and 2017 were consumed by the DOL Fiduciary Rule preparation
  - The Impartial Conduct Standards went into effect on June 9<sup>th</sup> 2017
  - Part II of the rule is delayed until July 1<sup>st</sup> 2019 (but will probably never happen under its current form)
- The SEC and the States are picking this up
  - SEC - under the Trump administration
  - States - typically in spite of the Trump administration
- BDs do have more work to do – Automate and Enhance
  - Compensation Leveling
  - Integrated Processes (account opening, profiling, planning)
  - Build a conviction based Product Shelf (reduce, add, change, document)





**Michael C. Freeman** is the President of Due Diligence Works, Inc and also an industry consultant. He started the firm to take his years of experience in the Bank Channel, Wire House, RIA and Platform Providers and create a better way.

“There is so much inefficiency and redundant work being done often at a lower quality. Regulatory scrutiny is at an all time high and increasing. By providing a service exclusively focused on Due Diligence, the work can be done at a higher quality, with more scale, and more strategic value.”

Prior to Due Diligence Work, Inc he was the Managing Director, Head of Investments for Citi / Smith Barney. He was responsible for Managing the Product Offering, Due Diligence, Views on the Markets, and the Wealth Specialists teams. His Product Management responsibilities include due diligence, management, and distribution of a broad offering including: Mutual Funds, Annuities, Insurance, Capital Markets, Alternatives, Financial Planning, Retirement, Managed Accounts, Brokerage Cash Management and Lending Products.

Prior to joining Citi, Mr. Freeman was a Managing Director at Ameritrade. In his last role at Ameritrade he was responsible for the Investing Clients and Branch Management. He also held senior roles as Head of Products for Institutional and Investing Clients, Chief Operating Officer of Ameritrade Advisory Services, LLC, and as Director of Amerivest Investment Management, LLC (Robo Advisor). Prior to Ameritrade, Mr. Freeman was involved in several start up organizations both in the US and Europe; prior to which, he was a Management Consultant with Ernst & Young LLP. Mr. Freeman holds an M.B.A. with honors from Boston University, and a B.S. from Lafayette College.