FUTURE FIRM, FUTURE PLANNER

Financial planner, super trend expert, and futurist Dennis Stearns dishes on where the profession is going in the next five to 10 years

interview by Carly Schulaka

When the *Journal* wants to know what the future holds, we turn to Dennis Stearns, CFP®, ChFC,® founder of Stearns Financial Group, which has become known for its scenario expertise, incorporating a scenario approach into its financial planning for clients. Stearns, a chess expert and Pan-American team chess champion, has been involved with forward-looking think tanks and strategy sessions with many companies and organizations over several decades, including one of the world's top training grounds for CEOs of growing, "next big thing" companies.

With an acute understanding of the convergence of globalization, technology accelerators, and the global age wave, and a network of RIAs around the country sharing best practices, Stearns sits in a unique position to make observations about the future of the profession. What he shares here are his thoughts for the next five to 10 years, readily admitting, once we get beyond 10 years, "the crystal ball gets very murky."

The Firm of the Future

What will financial planning firms look like in the future? For example, will mergers and acquisitions continue to where we'll have many large firms and fewer smaller ones? Or, will we continue to have a good mix of size and business models?

I do believe that the M&A craze will continue, and it may be interrupted by something like a recession or something else that creates a chilling effect. Certainly, the recent United Capital transition of a number of fiduciary firms ending up at Goldman Sachs created a chilling effect on many around the fiduciary industry, wondering if they ought to become part of a larger entity and what that may mean for their future.

But the reality is, I do not believe that small entities are going away. As I've talked to dozens of my peers running firms around the country, many that have gotten larger or merged, they find themselves in an economy of scale, which is good. But they also find themselves feeling institutionalized and not with the same connection to the client that they might have had, even though the intent of these larger entities is to free up more time to be with the client.

So, I still see room for a lot of smaller, niche firms. And you see that everywhere. You see it in the general population of non-financial companies—there are still a number of big companies gobbling up smaller companies, but that doesn't necessarily mean that they're doing things better. Then there are a lot of smaller niche entrepreneurs who maybe have broken away from those companies and are trying to use better practices. The watchwords for this period of disruption and dislocation are "fast, flexible, and focused." I think there's still going to be a lot of top talent choosing small Navy SEAL teams instead of serving on big aircraft carriers.

There's another trend happening when we think about the firm of the future. This goes back to Michael

Gerber, author of the *E Myth* series. He had a famous saying that many entrepreneurs were just technicians having an entrepreneurial seizure. The lawncare guy who creates a lawn business. The CPA who creates a CPA firm. In our industry, many people came in with an idea of what financial planning or financial advising was, and then they found themselves running a business. There just seem to be so many instances where it is hard to be a player/coach; to run the team, run a good business, and engage with clients at the right level.

I sat in the room at an FPA conference with a very prominent speaker who asked the room full of RIA business owners: how many of you signed up to manage people when you first got into this business? Not a single hand went up. Some instinctively do it reasonably well; some don't do it very well at all.

So, I think one of the future trends will be—and it's already well underway—more and more models for advisers and planners to follow for growing a good business. But do they know when to stop? Many of these models seem to have a growth-at-all-cost mantra, and you find yourself just having to continue to grow and add. That's where some of the business owners or some of the employees become miserable, because the business grows beyond the place where it was originally intended.

I suspect behavioral finance will continue to be a hot skill set to tune and sharpen. The change going on in the world, magnified by the way the news is reported by the 24/7 media, is creating a kind of "general anxiety disorder" in much of the population.

How many of our clients have read *Factfulness*, what Bill Gates describes as his favorite book? Turns out lots of really smart people, which may include our clients, fail the 13-question quiz in *Factfulness*; they are not as tuned in to the good trends evolving in the world. Many seasoned planners I talk with regularly have trouble holding the idea in their head that many things are bad, but many things are getting way better than the world we remember in 1965 or even 1995.

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What does the future compensation model look like? Are AUM fees really compressing?

Most of the benchmark studies today run by Schwab, TD Ameritrade, and others indicate that fees are not compressing. There certainly has been a lot of speculation that that would happen, as technology tools come into play and

big players are offering robot advice and other lower-cost alternatives.

We are a consumer society in the United States. We have a group of consumers that like to shop at Walmart and like to buy through Amazon, but we have a large group of consumers who like to go to where they feel they're getting the best advice.

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In my opinion, one of the reasons fees have not compressed the way many had projected is they assumed that financial planning advice was commoditized. And in reality, [financial planning advice] is probably closer to brain surgery. You don't want to go to the brain surgeon that's brand new, and you don't shop for the one that's the cheapest. You want somebody who is good at their craft.

I have a feeling that that mindset will continue, but it's going to be stressed by a lot of online tools coming along the way. It's going to be stressed as artificial intelligence becomes better at simulating having a good human adviser. It's a little hard to see that getting huge traction in the next five years, but by year 10, it's highly probable that as Tom Friedman famously said, "average is over" in this new environment. Everybody's got to be above average to be able to compete. Everybody's got to up their game to compete with some of these other things coming online.

And that's a virtuous cycle. It's good for the consumer that they have more choices. I do think, though, that the consumer will be very confused in this new world; perhaps they already are. But they're going to have so many more choices, and it's not going to be 100 percent clear until they're into it which one is really best for them.

The Planner of the Future

How will technology impact the planner of the future?

There's the story from a few years ago out of Georgia Tech. A number of graduate assistants were helping out the MBA students. One, in particular, was considered spectacular. She was Jenny on the spot answering questions. She was very thoughtful about resources and other sorts of things. She was nominated for graduate assistant of the year by the students. Turns out it was actually IBM's artificial assistant, Watson.

The punchline to that story is that one of those graduate students being assisted who praised her and put her up for an award was someone who had worked on the Watson project for several years and didn't even realize that the graduate assistant was actually Watson. The future is coming fast and furious.

The next five to 10 years, I think, will be the rise of the "cyborg planner," a good human enhanced by technology accelerators within their firm and used to enhance client interaction. It will be planners who are really good at the human element, really good at emotional intelligence—which remains one of the top predictors of success—and good IQ and ability to problem solve will be table stakes, as Tom Friedman would say. They'll have those skills, but then they will use technology to enhance themselves further and go to a higher level.

Actually, that is the story of the last 30 years. That's been happening for some time; we just don't always realize it. People who can up their human skills and their technology skills together—those will be the true champions of the next decade. And then train it throughout the organization.

I'm curious about how consumer-facing tools will evolve. The threat of cyber-crooks and bad actor nation states disrupting e-communications is rising at a dizzying pace. It won't take much of a major breach, beyond what we've seen so far, to throw the technology tools for client interfacing back in time.

Where will the future financial planners come from, and where will they be employed?

My guess here is simply an extension of what we're already seeing. So, they'll come from universities, but more universities. And I think more universities will take things like the FPA residency program and take it to the next level, where they're doing more and more simulations. We're seeing this in a variety of industries, where technology tools have now gotten to the point where you can simulate almost any environment and help people get into real-world problems.

Part of it is in the science of financial planning—how do you give advice in certain areas? But part of it is in the art of financial planning. The husband and wife come in for a meeting. The wife just found out her mother has cancer and she breaks into tears. The husband has an agenda he wants to cover. You're sitting there as the planner. What do you do?

We've been running simulations, including behavioral finance simulations, in our own firm for a number of years. One of the top simulation people we work with in this area says that this is happening in a lot of different companies, a lot of different

professions, and it's just going to explode as a trend. I see simulations being a tool used at universities, as opposed to just at the RIA or company level, to help prepare students better for the real world.

And then there's career switchers. I think there will be a huge number of career switchers and women, in particular, coming back into the workforce after raising children. We're already seeing those trends.

We have to change this image that many young women have of the financial industry, which is not particularly positive. There's great work going on by a number of financial organizations and leaders reaching out to universities, reaching out to young women in general, to try to change that perception. It's just amazing to me how many young women—when they find out about what this industry is about—realize that being a fiduciary planner ties right into a lot of their skill sets versus being a salesperson.

An area here that's a little murkier is whether we will continue to have a lot of breakaway brokers. My suspicion is that it will continue. But the big brokerage firms are doing a lot of things, spending a lot of money, retooling what they're doing to try to compete with the RIA industry. In *Star Wars* terms, I call it the *Empire Strikes Back*.

If you read the lists of large advisory groups within former wirehouses, the Empire is still very well represented. Some of the things that they're doing may stem some of that tide of breakaway brokers, and those entities will become net hirers of top talent again. I see a lot of opportunities for young people to get into this profession, and even not-so-young people.

If we do our job well communicating all the benefits of this profession, and up our game throughout the industry being great places to work, I think there will be plentiful new job candidates coming in. And I think there will be fantsastic new training resources to move them up the learning curve faster.

What do you feel are the main barriers to entry into financial planning for millennials?

I reached out to over 50 millennials who work in our industry and asked them that question. One of the barriers is their firms not having well-defined career paths, and not having well-defined training. Most of them said these things are improving, though. They're getting better because I think there's more being written about it in the journals; more of it talked about at conferences. But it gets back to that technician having that entrepreneurial seizure—career paths and training are certainly not where they need to be for those younger folks coming up.

Frankly, the story I got from half of the millennials I reached out to is it's also the culture of their firm. If they could wave a magic wand, they would go somewhere else. That's a clear and present danger that needs to be considered by every firm hoping that their next-gen is going to be the succession plan.

The other piece of feedback I got from some of the older planners is what several of the demographic and super trend experts who have talked at FPA conferences have emphasized. And that is that the emotional intelligence, EQ, of many of the millennials is five to seven years behind what it was for the last generation at the same age.

Their EQ is somewhat behind the last generation mainly because of texting, social media, all of that. The good news is that EQ can be trained, and I think we need to do a better job at that. But that's a barrier for millennials—being able to deal with their bosses, the older generation, and older clients. I sat through an intriguing talk by a leading millennial job trainer and author at a technology conference on how to train your boss. Now, it may not be a barrier for millennials dealing with peers.

A number of the millennials said something else interesting—that the learning curve of our industry, including our certifications, was pretty steep. Now, my CPA friends say that their young people in their firms complain about the same thing. So the question is, how can people not just get the designation, but how can they learn things better and learn them in a way to apply them better in different situations?

Here's an interesting sidebar: the AICPA has embarked on a "focused practice analysis" to determine if the material on the CPA exam needs updating for the digital world. Their examinations team say the advances in technology, data analytics, and process automation have changed the skills required of newly licensed CPAs.

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This brings us back to some of the new training tools, and simulation tools. I think there will be an explosion in that area that will help all planners. It will also help the older, new-to-our-profession planners accelerate the learning curve in a lot of different areas in the art and science of financial planning, but I think it will help the young person really feel that they're getting it faster.

How might changes in clients' lifestyles and cultural values transform financial planning for the next generation of planners?

The way a lot of people I talked to about this answered the question is young consumers who are doing financial planning may consume more of their planning knowledge via data bursts, artificial intelligence, other enhanced tools, and other kinds of ways that they will absorb the information, as opposed to the way that older clients did 25 years ago.

But I think the answer is much more nuanced than that.

There is a lot of work going on at a lot of firms trying to figure out how to connect better to get the next generation of clients. And I'm fascinated with how different every single one of them is, from subscription models to different ways to approach this data burst concept.

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What's being lost here is there are a lot of older customers who are going to need help from that younger generation. You may be led to believe that by the time the next generation of planners is up and going, those older people will be dead. Well, most of them won't be. In fact, they will be entering some of the most challenging times of their lives.

This gets back to the work I've done on the research for my book, *Fourth Quarter Fumbles*, and a talk I did about the future of the profession at an FPA chapter a few years back. There were probably 200 people there. It was a diverse audience of financial planners, CPAs, estate attorneys, and insurance agents, and I got to the section on intelligent aging. I said, "How many of you in the audience believe you have enough resources, tools, and skills to deal with your clients who are aging?" Five hands went up.

And then I asked, "How many of you, if you had those resources and tools, would really want to get in there and help them?" Ten hands went up. I was shocked. I was almost speechless. Many of those people came up after my talk and said they had dealt with some really messy, difficult problems with their parents or a parent, and they didn't want to go through that with 100 people.

I have a suspicion that as the older advisers are moving out, and the younger advisers are moving in, many of them may not be well suited to deal with the needs of that group. And they may not want to. I wish I knew what the result was going to be, but I'm afraid it's going to mean that you'll have a lot of people in that fourth quarter of life not getting the financial and non-financial advice they need at the level they need.

People are going to be challenged with a longer fourth quarter of life in the future. The recent *MIT Technology Review* cover story was "Aging Is Over," and then in small print: "If you want it to be." Older clients are going to have all kinds of things happening that no generation ever has had happen. And what I hear over and over again from estate attorneys, medical practitioners, and others is: the financial planner is best suited to deal with this, because they're working with that person on a more frequent basis. And yet, financial planners may not be getting trained for it, and they may just not want to do it. Thank goodness people like Carolyn McClanahan are leading a new wave of thought leaders in this area.

And you hope that the planner will at least do no harm, at least try to be engaging and helpful. I suspect many will, but will they really have their heart in it? Will they go as deep as they need to? Estate attorneys, elder law attorneys, and CPAs are having the same discussions.

Another huge trend is ESG—environmental, social, and governance—the next generation of social investing. It is just incredible, the increasing percentage of new money going into ESG mutual funds, exchange-traded funds, and investments just over the last 10 years.

We're in the early, messy part of that trend, so there's a lot of "greenwashing" going on—meaning, ESG is hot; I want to raise more money for a fund; let's slap an ESG moniker on it and not necessarily go deep or not necessarily be the change agent that's needed in a particular area.

Have you heard about B Lab? They've created the concept of certified B Corporations—those that meet standards of verified social and environmental performance, transparency, and accountability to balance profit and purpose.

We have a new generation of leaders of major Fortune 500 companies that have joined the Business Roundtable and declared public companies are not all about profits anymore. These business leaders are far from socialists. We have a mega shift in thinking going on here.

In the old days, it was all about opting out. For example, a billion-dollar foundation that opts out of tobacco. Well, in the future, it's all about opting in; opting into companies that have more women on the board and women in leadership roles, and other kinds of ESG focus.

This trend is really starting to get traction, and I think it will explode in multiple directions over the next 10 years. ■