**EPISODE 53:**

**The Real Value of Financial Advice: An Empirical Perspective**

[INTRODUCTION]

**[0:00:05.3] Benjamin Felix:** This is the Rational Reminder Podcast, a weekly reality check on sensible investing and financial decision making for Canadians. We are hosted by me, Benjamin Felix and Cameron Passmore.

Today, we are joined by some of the – I would be surprised if the listeners of our podcast don't know who he is but it was Preet Banerjee.

**[0:00:23.6] Cameron Passmore: Y**eah, I have known Preet for well over a decade because he was an advisor and we're both in the Dimensional pool, 10, 12 years ago I would guess so I'd known him a long time and he was one of the earlier podcasters, there's not a podcast, he had a blog that he had a long time ago that has since been shut down.

**[0:00:41.4] BF:** He was on social media early in the game for the financial services industry anyway.

**[0:00:44.9] CP:** He might actually recognize his voice too, and his face since we have a video for this but if you're listening on the podcast, he was off and on CBC, The National with Peter Mansbridge every Thursday night.

**[0:00:54.7] BF:** Yeah, he's got an interesting career, he described his career choices as the shiny ball strategy so it sounds liked he chased things that he found interesting over time but he's done a reality TV show, he's been on The National as you mentioned, he does consulting and speaking now, very interesting guy.

**[0:01:12.3] CP:** Author, he wrote the book, *Stop Overthinking Your Money.*

**[0:01:15.1] BF:** Yup, he's got a YouTube channel with almost 90,000 subscribers I believe. He's pretty eclectic guy.

**[0:01:20.3] CP:** Yeah.

**[0:01:21.1] BF:** One of the big, great to have him on the podcast to talk about whatever, but he's doing a DBA right now and I chatted with him on the phone a few months ago about the research that he's doing that really made me want to get him on the podcast but he's looking at, I can't remember the terminology he used to describe it, you remember the exact words?

**[0:01:39.6] CP:** Quantifying the value of financial advice, that is –

**[0:01:42.6] BF:** Across different channels though.

**[0:01:43.7] CP:** That's right, a multi-channel.

**[0:01:46.6] BF:** Fascinating research.

**[0:01:48.6] CP:** Like I said to him at the end, you're the perfect guy to be doing this is on your experience and background, he's also got an undergrad in neuroscience, really impressive guy.

**[0:01:57.7] BF:** Unbiased, separate enough from the industry that you wouldn't expect him to have a real incentive to say people need advice or not?

**[0:02:04.5] CP:** I think it was a great episode, great interview.

**[0:02:06.2] BF:** Yup, that's it, we'll let you listen.

[INTERVIEW]

**[0:02:14.4] CP:** All right Preet, welcome to the Rational Reminder Podcast.

**[0:02:16.3] Preet Banerjee:** Thank you very much for having me guys.

**[0:02:17.8] CP:** Super stoked to have you live in studio here, known you for a long time. You're in the process of completing a DBA and you are quantifying the value of financial advice. You have to tell us more about what you're up to.

**[0:02:31.3] PB:** Sure.

**[0:02:31.8] BF:** What is that?

**[0:02:33.0] PB:** Yeah, well, it all really comes down to trying to answer the question of what is the value of financial advice and it takes many different forms. I think the working title of my research is “Quantifying the value of financial advice across delivery channels”.

Everything from do it yourself investors so, you know, doing it yourself is a channel of advice, you’re getting advice from some kind of online portal with buy and sell recommendations, all the way up to full service which can be quite – there’s quite a variation in the services offered at the full service level.

Some people focus exclusively on portfolio management, others are more focused on wealth management and financial planning. It’s a tough question, it’s a lot more nuanced than people think but if you take a look at the personal finance blogosphere and podcast and newspaper columns, people are very polarized, they’re either hate advisors or they use them and they love them. It’s so much more nuanced than that.

**[0:03:34.0] BF:** How did you decide to take this path of doing the DBA?

**[0:03:37.6] PB:** Well, it was actually my supervisor who recruited me. I had met him through some common volunteer work that we had done at the University of Toronto. I should say, volunteer work on my part, he’s a professor there and one day he just sort of said hey, you should really pursue a DBA and use this to define the next phase of your career, that’s kind of the purpose of that type of program.

It’s kind of like a professional doctorate. It’s different than your academic theoretical doctorate where you’re taking comprehensives in addition to your research, it’s really more focused for people who are – tend to be professionals already and want to do a doctoral level research. Again, one of the reasons that they pursue that is to define the next phase of their career which is like 10, 20 years.

He said, with your background in the financial services, you should think about a research question that will really define you as a thought leader, hopefully, with one particular area and it seemed like a natural fit that studying the value of advice would be a good fit for me because this is something that I've been involved with and vocal about for – well, since the beginning of my career in the financial services.

**[0:04:45.9] BF:** How do you describe your history in the business leading up to this? Not necessarily full biography but what part of your background brought you to this decision?

**[0:04:55.2] PB:** That's good question, I've never had a five year plan. This actual program is my first five year plan I think that I've ever actually had. I've always sort of followed the shiny ball philosophy of career management. It's served me well, I started in, my undergrad was in neuroscience, I wanted to auto racing and then ended up in finance.

**[0:05:11.9] BF:** Some obvious progression.

**[0:05:13.8] PB:** Yeah, totally linear, right? It was always just a matter of looking at things that spark my curiosity and my interest and I just sort of took the leap, even the stuff that I've done on TV, hosting a reality lifestyle TV show. I mean, this was never part of any grand plan, it was just sort of – well, that looks like something fun, maybe I'll do that for a little while.

I think maybe the genesis of a bit was my own blog which I started when I was a financial advisor and I got to learn from the opinions of a lot of readers who are very smart, who are outside the industry and helped give me a different perspective than being inside the bubble and having the industry perspective.

Being challenged like that was something that I really sort of latched on to and enjoyed. It always stuck with me and so as I spent more and more time in the industry and more and more time with this professor, he kind of inspired me to take a more empirical look into answering this question.

**[0:06:10.7] BF:** Can we talk a little bit more about the research that you've actually been doing?

**[0:06:14.8] PB:** Sure, yeah. So I'm in year five of – a five-year program but I think it's going to take six.

**[0:06:19.6] CP:** My supervisor's listening, I'll do my best.

**[0:06:21.7] PB:** I'm just about to start analyzing the latest data that we've collected. But what I can tell you so far is we've already run a couple of pilot studies and it's becoming more and more clear what the outcome is likely to be but we can't say for sure until we take a look at the actual big data collection that we did.

**[0:06:40.4] BF:** You speculate?

**[0:06:41.4] PB:** Yeah, absolutely, I probably best to speculate by explaining the sort of the research design. If you take a look at the academic world when looking at the value of financial advisors like I'm talking like the top A-level journals like the journal of finance. There's a huge body of knowledge that is very portfolio centric. They'll look at things like what's the alpha generated by these advisors?

What are the – they look at everything in terms of the portfolios. Does a financial advisor diversify people more than they would on their own and so forth? That's great, there's a lot of information on portfolio management but the contemporary financial advice industry has been undergoing this ongoing evolution. You know, a hundred years ago was just about the buying and selling of stocks.

May 1st, 1975 was May Day, so you're probably too young to remember that. That was the deregulation of commissions by the FCC in the US. Before then, commissions were fixed. After that, this spawned the growth of discount brokerages and everyone thought this is the end of financial advisors because now people can just do it themselves.

That didn't really happen, it's taken long time and the market share of people using DIY services, it's significant but it's not overwhelming. The advice industry, they evolved from the buying and selling of securities to portfolio management at the time. Now the latest transition has been to comprehensive wealth management and taking a look at things outside of the portfolio. If you take a look at the practitioner journals from inside the industry.

They're saying hey, listen, you should really look at us in the context of all the services that we now offer. There's this divide, this gap between the academic body of knowledge and the practitioner body of knowledge and both sides have kind of identified that yes, there is this gap. There needs to be more research focused on measuring the value of what advisors do today versus just portfolio management.

That was kind of the genesis of the idea and in order to do that, you would have to come up with a way of measuring how people are doing on other aspects of their wealth outside of portfolios. We kicked around a lot of ideas about how to measure this and what we found was you needed some kind of model that was dynamically sensitive as well as being multifactorial.

As an example, the multiple factors would be not just portfolio but you know, things like disability insurance coverage, this is an important part of a wealth management plan. Life insurance coverage. People savings rate, their portfolio costs, their estate planning completeness, these are all factors of people's wealth management.

Each of those factors, how important they are in someone's overall financial wellbeing is dynamically sensitive. The best example that I use is think about disability insurance coverage. If you're 64 years old and everything else has been going along well, you've been saving up for retirement, you've got some assets and you don't have disability insurance.

It's not the end of the world if you were to become disabled, you're effectively self-insured at that point. The importance of your disability coverage when you're 64 in that particular case would be very low. If you are 24 years old and you had no disability insurance coverage and no assets, then the importance of your disability coverage is very significant.

For that factor, you would have to weight it more significantly for someone who has yet to earn a lot of income and weighted much more smaller for someone who is very close to retirement that has a lot of assets. Each factor is going to have its own sensitivity loading for portfolio costs, if not related to age, it's related to portfolio size because you could be 60 and starting to save for the first time, if he had an MER of 3% and you're just starting from zero and putting in hundred bucks a month, it's a couple of bucks, right?

If you're 25 and you inherited 10 million bucks, 3% MER would be borderline criminal, right? Each of these factors has its own sensitivity loading and then you know, the idea would be, then you could go to anyone you could say, controlling for where you are in your financial journey, your score is say 40, if you wanted to normalize it out of a hundred for example.

You go to someone else and say, your score is 70, it would be independent, you couldn't just look at someone to say well, you should have a score of whatever, you'd be able to say based on people like you, here's your number.

Then what you would ideally like to do, what I would ideally like to do, is a diff in diff study. That is measuring the difference in that number depending on the different type of advice channel that you go to.

**[0:11:09.4] BF:** Yeah.

**[0:11:10.0] CP:** Wow.

**[0:11:11.4] PB:** This would be a great way to get more into causality. Because we've all seen the studies that say, the more money you have, it's because you have an advisor when it's really just a correlation. Because, by the nature of the way the industry's been setup, advisors are incentivized, they go out to people with a lot of money.

Hence, that's why they – people with a lot of money have advisors because that's who is targeted.

**[0:11:32.7] CP:** But not necessarily causality there.

**[0:11:34.2] PB:** No, that's just pure correlation, right? Without saying anything more, if you just say that people with advisors have more money, that's just a correlation, what you want to figure out is well, who is responsible for how people are doing.

That diff in diff study is one way to get at causality. Another angle that we're looking at is using what's called a regression discontinuity design and what this is, I'll use an example that explained by another one of my profs at U of T. You remember a couple of years ago, maybe 10 or 15 years ago at this point, but there was this wave of shareholder votes on, say on pay legislation as to whether or not shareholders could vote on executive pay and they wanted to put limits on it or not.

All these companies decided to put these votes to their shareholders and say, do you think that we should institute, say on executive pay. If you take a distribution of those votes, you get a normal distribution and ideally, what you want to do is you'd say, all right well now we want to study the impact of say, on pay legislation. Is there a difference in shareholder performance for companies that instituted versus once that didn't? But that may not be a great analysis because if you take a look at say, companies in the tail.

Where the shareholders voted pretty much 100% to enact it and you had other companies where the shareholder vote was close to zero. There might be something else that's also really different about those companies if they're in the tail, they can be so different that it's some other factor that would impact the share price.

What this researcher did was he took discontinuity and he basically said, take a look at the top of the normal distribution. The 50% mark, if you are a 50% plus one vote, you enacted the same on pay. If you were 49.9, you didn't. There's probably something more similar about companies that are close together at that discontinuity than the ones that are in the tips, right?

Essentially what you do is it's kind of like those votes could have gone either way, they were so close to 50. It was kind of like they were randomly assigned into a treatment or control group. Taking a look at the companies that wary close to that discontinuity, you could probably say all right, now we have a little bit more confidence in saying that the difference in shareholder price was because of this intervention, which in this case would be the say on paradigm.

All that to say is, we built in to the survey some questions that would capture the propensity to delegate to a financial advisor or not.

**[0:13:58.5] BF:** Interesting.

**[0:13:59.4] PB:** Because, there would be something really different about someone who is 100% - I'm going to do everything myself versus someone who says, you know what? I have no interest in it whatsoever, I'm just going to delegate, they're so different and probably so many other ways that you can't just say, well, the people who really want to do it themselves but somehow used an advisor.

**[0:14:17.8] CP:** How do you quantify the advice for someone that's in the DIY channel just the advice of the source of where they're doing their trades?

**[0:14:24.4] PB:** It's sort of the outcome measures their financial wellbeing, right? You want to see, if someone does it themselves and goes through –

**[0:14:32.2] CP:** How well are they doing themselves?

**[0:14:32.9] PB:** How well they're doing themselves across all those different factors, right? Not just portfolio but are they actually getting an estate plan, do they have the right amount of life insurance. Here's the thing. When we talk about investments and do it yourself, they're kind of synonymous, right? People think about managing their portfolios, buying and selling stocks as in DIY.

There's lots of literature out there, there's a lot of great books out there, there's a lot of personal finance b logs, there's a lot of podcast talking about investing and managing portfolios. Have you ever heard of an insurance podcast? Or an estate planning podcast? They're few and far between and they're geared towards industry participants, not the public.

Someone who might be in the DIY channel, maybe, they have a great portfolio and maybe not. There's a huge variation but let's say the ones that do have a great portfolio, maybe they just fall apart on all the other factors of wealth which tells you that the value that they're getting from that channel is sort of concentrated on one factor.

These are sort of the questions that we're asking and the questions that sort of gets at the propensity of people to delegate, what we would be looking at is people who are on the fence, they could have gone either way and take a look, well, of those people who are very much on the fence but used an advisor and those who didn't or used some kind of hybrid channel versus full service.

What were the difference in their outcomes? Yeah, there's so much to unpack and designing it took a long time.

**[0:15:57.3] BF:** Can you speak to any of that data? For the advice channel, has anything jumped out at you or for DIY that anything jumped out?

**[0:16:05.0] PB:** I mean, referring to the pile estate because I haven't analyzed the data on the full collection that we did the final data collection. But looking at the pilot studies, there is some really interesting things that popped up. Right before I sent out some of the first pilot studies, I threw in some questions at the last minute just because, based on my intuition of working with people and talking to people, I wanted to see, was there an effect?

One of those questions had to do with their childhood and how financially secure their childhood was that they grew up in. There was an inverse relationship between the financial security of the household that they grew up in and how well they did as an adult making financial choices.

The more insecure the household was that you grew up in, the better decisions you made later on and presumably, that was based on talking to people saying that those things stick with you and you never want to replicate that. You kind of have to like hit rock bottom before you get motivated to do things, same with like losing weight, right?

Everyone waits till January when you can't see your toes anymore, they hit rock bottom and then they get motivated to do things. That was kind of the coronary there. The other one was financial communication, the more open the household was that people grew up in, the better the financial choices they made later on in life were. If the advisor provided financial planning, had a big impact, that was statistically snipping it in the pilot studies and it showed that the financial wellbeing of those people were higher than those who were using financial advisors that didn't provide financial planning but just execution.

Man, there's so much more I could unpack, what do you want to know specifically?

**[0:17:35.5] CP:** I'm curious about, did you measure for quality of advice?

**[0:17:39.2] PB:** It's tough to measure for quality of advice, how would you measure for that specifically? You'd have to get a lot of data and sort of see, well what are the things that people are getting implemented? Some of the questions we asked were, what did you have before you started with your primary channel advice and what did they implement during that time? Things like life insurance, estate planning recommendations, disability coverage, getting people to save more money.

We ask people questions such as who is responsible for deciding how much you've saved into your savings over time? Here's a great example, let's see if I can remember the numbers. If you had someone saving a hundred bucks per month, sorry, 200 bucks per month, into a high interest savings account for 10 years or like one and a half percent, you have like 26 grand at the end of that time period.

If you are only saving half that amount, but wanted the same ending value of around 26,000, you need to rate return of like 14%. What was really important was the contribution rate, not the MER, not the rate of return necessarily, it was the contribution rate. Figuring out how much people put into their portfolios was really important and this is one area where I think that you know robo advisors and DIY services may not be a great fit for everyone because they presume that you know how much you need to save, there's not really going to be the same amount of push that are really good financial advisor who is modifying people's behavior to say no.

200 bucks a month is not enough, you actually need like 600 bucks to hit your goal. If you don't have someone there who is really pushing you to do that, maybe you might see some projection that says you're off target but I can only find another 50 bucks because you're not going to push yourself as hard as maybe a good advisor would.

**[0:19:23.4] BF:** Really interesting, that intuitively makes sense but I don't know if you're speaking to the actual data like from the pilots that he did that show up?

**[0:19:30.0] PB:** In the pilot data, we didn't ask those questions. Those are in the final data survey that we put out and that was all inform from kind of the wholes that we found in the pilot study. We had two pilot studies and part of the reasons for the pilot studies were as a proof of concept, is this going to give us enough data and things to look at for us to sort of answer these questions.

There's a lot of things that ended up in the final survey that weren't in the pilot studies and so I haven't analyzed that data yet.

**[0:19:58.0] BF:** I'm on the edge of my seat, come on.

**[0:19:59.5] PB:** Yeah, so is my supervisor.

**[0:20:01.0] BF:** I've got a – building that model, that in itself is a big undertaking. Like building a model to score someone's financial wellbeing, you have to do a lot of thinking about like you said, what factors impact someone's finances, depending on the stage that they're at. I'm curious to know, in building that model out, was there anything that you realized or figured out that surprised you?

**[0:20:20.8] PB:** Well, one of the challenges that we ran into was in one of the earlier pilot studies that the questions were too complex and so one of the things that we did to validate the survey was we sent out the survey to a handful of people and then interviewed a few select people to ask them about their answers specifically.

I wanted to know, when you answer this question, what did you think the question meant and I asked them about their answer and went into it a little bit more deeply and what I found was, there are a lot of people who don't know how to answer, who didn't know how to answer the questions that we asked in the early pilot studies, they were too complex. This is one of the challenges.

The level of financial literacy is pretty low. The output, the analysis is only as good as the inputs right? So if we don't get good inputs then the analysis is garbage and so we actually had to adjust the questions so that they would be less granular. So we lose some resolution I guess in order to get data that we knew was more accurate of people's actual situations because if they are answering questions and they're actually misinterpreting the questions then that would be of very little use.

**[0:21:28.0] CP:** So you have been a student of the industry for a long time. I am curious if you are learning things already that you know that if you put them in the industry now they'd have a huge impact.

**[0:21:37.6] PB:** Yeah, some of the other things that we are looking at is when you take a look at product cost, product costs are there is a lot of pressure there. There's margin compression. The growth of indexing has driven down active product costs as well, the access to information, the sharing of information has opened up a lot of people's eyes and so you are seeing price pressure on the product side. On the advice side, it hasn't had the same amount of pressure as you would have expected.

So if you take a look at say a typical robo-advisor model, they give you a portfolio of relatively low cost products. Some of them are passively managed, most of them are actively managed and then they have advice cost on top of that and a lot of people say, "Yes this is a lot cheaper than a traditional human financial advisor" but if you start picking apart all the different components of wealth management, you are actually saying, "Well you know maybe it is 50 basis points that they are tacking on top of the product cost for asset allocation and execution."

And so that's the traditional human advice costs might be 1% and so for that extra 50 basis points, a really good advisor is doing a lot more than just asset allocation. So the calculus changes if you do a blunt comparison, maybe a robo-advisor is half the cost of a human advisor but if they are only increasing people's score on the portfolio management, maybe a little bit on retirement planning and a full service advisor, twice the cost but they are moving people's score across eight different factors.

**[0:23:13.9] CP:** Really interesting.

**[0:23:14.6] PB:** They could actually move the overall score by three or four times versus some of these other channels and so if something is twice the cost but delivers four times the change in this score, people have a different way of interpreting you know what is actually worth it.

**[0:23:32.3] CP:** So is there too much focus you think on fees and less on the value of the advice that kind of where this might take you?

**[0:23:38.0] PB:** Yeah, I mean at the end of the day I am looking at what is the value of advice and one of the things that makes it so tough to study is that there is no standard model of advice even across all of these different channels. If you take a look at just bluntly a human financial advisor, you have some who are nothing more than sales people. You have some who are doing comprehensive unbelievable financial planning and you've got everything in between, right?

And just because you are at one channel at one firm and you have two people with CFPs, one of them might be providing financial planning, one might not. So just having the designation alone does not mean that you are getting financial planning and so you have to tease all of this out and you guys probably saw a couple of years ago, there is that mystery shopping exercise where the OSC and CSA went to I think a 108 different shops as they call them.

They are 88 valid visits and out of those 88 valid visits there were 48 different financial advisor titles used. So there is such a huge differentiation in the types of service and the service portfolios that are offered out there that it is really tough to say at the end of the research, "Well if you just go to this company and this channel you would be fine." You can't say that. What we can say is you should be looking for advisors who are doing X, Y, Z and it is a lot of stuff outside of the portfolio management.

**[0:24:53.8] BF:** So that is one question that I want to try and touch on is of all the different things that you looked at in the model, is there anything that jumps out at you that it was being exceptionally important? For example, is there something that DIY people are generally not doing but would be an easy fix that they could be doing?

**[0:25:09.8] PB:** Yeah, everything outside of the portfolio. So far, it looks like they focus a lot on managing their portfolios but they don't spend a lot of time on all the other stuff and that could be a real problem. They could have this perfect portfolio recipe that you know, in the next 40 years if they don't become disabled, if no one dies, they don't lose their job everything is great. That is a lot of ifs, right? And so between now and the time horizon for their portfolio, if they don't mitigate some of those risks that could be a real problem.

Maybe they're not saving enough money into their perfect portfolio strategy. So maybe they are leaving some wealth on the table and they could have retired earlier or what have you.

**[0:25:49.8] BF:** Insurance saving, is there anything else that fall into those categories of what people could be doing better?

**[0:25:55.0] PB:** Well I mean the behavior modification of the rates of return that people are actually getting versus what their investments are getting. So I am sure you guys have talked about a lot, the difference between the rates of return that are available in different investment products versus what the investor actually gets. I'm sure you get Carl Richards, yeah there you go.

**[0:26:13.9] CP:** Right there on the wall.

**[0:26:14.4] PB:** Yeah, there you go so.

**[0:26:15.6] BF:** That was good on your research and now I want to jump into the – the next thing that I wanted to talk to you about or we wanted to talk to you about, which is the MoneyGaps product project that you're working on.

**[0:26:27.1] PB:** Yeah, so this was born out of the research directly. So a while ago, I was giving a series of presentations on my research about 2000 financial advisors across the country. So I was talking to them about the research design and some of the things that we are seeing and I showed them here is some potential ways to commercialize these findings that would apply to financial services and so I threw up this shoot from the hip sort of dashboards of the things that you could do.

You know you can give people a score on their estate planning. You can give people a score on their life insurance and disability insurance and all of this stuff. They're all salivating when I was showing them this and I thought, "Okay after every presentation everyone has expressed a desire in this. I should just go out and commercialize it." So that was the birth of MoneyGaps and MoneyGaps is designed as a hybrid advisor platform.

And the way this is different from a robo-advisor platform is robo-advisors all started with a B to C model first. They all said, "All right, we're going to cut out the financial advisor and just give people access to turnkey portfolio management. I think they are starting to realize that that is a very tough nut to crack. You know if you take a look at the percentage of people who are actually choosing to go to a robo-advisor even those with a lot of great marketing out there.

It is probably less than what people expected by now and so I think what they are realizing at least in Canada and other jurisdictions around the world that if they offered those slick tools and interfaces to advisors to use with clients then that could be another source of revenue and so they all turned to sort of creating these pro-versions, right? Which are their tools available through human advisors who go out there and actually hunt and prospect and all that stuff.

And so they were B2C, first and they pivoted B2B, MoneyGaps is designed B2B first. So it does a lot of things different. I actually hired an innovation lab to run some design sprints to figure out all the pain points from both the advisor perspective and the client perspective to figure out what are the things that should be addressed by a new type of product or service in the market and what we found was for the advisors the top pain points were finding clients to begin with.

Compliance was a big one and then just the financial planning software out there was too onerous to invest in if you wanted to target people who didn't have a lot of money. So what that means is that unless you have a lot of money you're probably not going to get some really robust financial planning. There are some exceptions of course but for the most part the really high end financial planning is reserved for high net worth households.

And so there is this gap in the market where the mass market, the more numerous average person out there is not getting any type of real financial planning. So at least there is a shortfall in that area.

**[0:29:04.5] CP:** So this could become a platform to make it affordable to deliver advice to the average Canadian who may not have a lot of assets?

**[0:29:10.9] PB:** Yeah and that is what we've decided to do is we are creating basically a financial planning light model.

**[0:29:16.1] CP:** So is that an interactive model between the client and their online experience of some sort? How do you make it efficient?

**[0:29:20.9] PB:** So it is really quick to produce a basic financial plan that tells you if you are headed in the right direction. So take the time that would be required for a full blown financial plan and take about 10% of that time and what MoneyGaps does is it produces a report card system. So you get an overall GPA and you get a grade for every category like insurance disability, your investments, education, savings, etcetera and the overall GPA.

So that people can say if you're in your 30s or 40s you don't have a lot of money but you do want to at some point, you know be in control of your money and amass some wealth, you want to make sure that you are heading in the right direction. So we analyze debt loads and everything. So it gives people a sense of, "Am I doing okay relative to other people like me?" and what I think it can do is we can actually start to see some price moving on the advice side of the cost.

So where we are seeing compression on the product side, we haven't really seen that on the advice component and I think MoneyGaps can allow for a high volume financial planning experience, which allow advisors to say either, "I am going to have a high volume model" or advisors who are dealing with higher net worth households but have these thresholds of 250 or 500,000. Now you can say, "Well listen, I can offer you a light version if you have assets under 250 we go through this process."

And once you get past that threshold or somewhere near there, then we can do the whole shebang and so I think it will help open up the market for financial planning to the mass market. That is where I see MoneyGaps operating.

**[0:30:52.5] BF:** Interesting. It sounds to me like an automated course correction like if you input some information and it tells you where you're falling short. It tells the advisor where the client is falling short.

**[0:31:02.4] PB:** Yeah it does. It also automates a lot of things for advisors on the compliance side. So on the insurance side of things there are regulatory requirements that have changed where you have to deliver what is called a reasons why letter for any recommendations that you make. So because you have to enter in the inputs into MoneyGaps to get a score and then a list of recommendations that the advisor chooses from, the advisor chooses those recommendations.

And everything gets pre-populated into this reasons why letter and what we decided was because that makes a lot of sense in terms of accountability and transparency, we actually adopted that process for every type of advice they give whether or not it is life insurance or not. So even if it is a savings recommendation for the portfolio or something about managing their debt, they get a letter that says in plain English, “Here are the things that you need to do.”

Because one of the things that we found from talking to advisors is it takes a long time to learn the really sophisticated financial planning software and when you produce these 10, 20 page reports clients don’t read them and they couldn’t tell you what is in there a couple of weeks afterwards. An advisor would spend another 15, 20 minutes creating a one page synopses of what does this all say and that is the only thing that anyone ever looks at. So I might just go straight to that.

**[0:32:11.3] CP:** Do you foresee the day where the gaps really do start shrinking?

**[0:32:13.9] PB:** The gaps for?

**[0:32:15.2] CP:** Financial planning, this gap between where people are now and where they should be, do you see that gap shrinking through tools like this and other awareness?

**[0:32:22.4] PB:** I think so, yeah. I think what is really interesting going forward is seeing how the next generation of financial consumer how those gaps would be addressed for them because it looks like they want technology assisted ways of doing that that helps them do it without even thinking about. They’re like, think about all the apps that are out there that round up the difference in their spending and put it into some kind of investment.

They’ll probably see stuff like that on the insurance side and other aspects. We are starting to see a lot of online estate planning tools out there like legalwills.ca and Willful. There is a new one that was launched as well. So these are all starting to spread up as well and I think that a combination depending on the type of financial services consumer out there, some people are going to have more hands on advice. Some people are going to have more hands off advice in terms of the technology.

So that is what I was talking to earlier about how it is not black and white. There's this whole spectrum and that includes not only the type of advice out there but the type of consumer out there and what they want and it is not black and white. You can't say everyone should have a robo and everyone should have a human advisor. There is a huge spectrum.

**[0:33:30.6] BF:** So do you think the value of a human advisor is highly dependent on each individual consumer?

**[0:33:34.9] PB:** Yes, I don't know if I would say highly but I think there is definitely a correlation. I don't know how big that correlation is, right now I don't have any hard numbers to back this up but I am going to say about 90% of financial consumers need intervention of some sort outside what they would be able to do on their own and now I know that there are probably a lot of people who are saying, "What are you talking about, I can manage my own portfolio?"

That's great, that is not what I am talking about. I am talking about everything. I am talking about not just the portfolio but all the other stuff out there as well because there are a lot of people, no doubt about it who can manage their portfolio just fine but I am not concerned about them so much at least with the respective portfolios –

**[0:34:14.7] BF:** You can buy VGRO now, right? You can buy VGRO or XGRO now and that's it.

**[0:34:18.0] PB:** Yeah, exactly but there is so much more to financial advice than just investments and portfolio, that's the thing.

**[0:34:24.2] BF:** So that dove tails into the last question that I want to ask is what do you – you have done all of this work, all this research on the different advice channels, talking to people, all of these different things and then you've got this software that is going to help human advisors give advice, where do you see the core benefit of the role of the human advisor?

**[0:34:44.1] PB:** There is a couple. I think for the vast majority of people, it is going to be a combination of yes, there is going to be advice or value on the portfolio side on setting up people's portfolios because there is still a lot of people with horrific portfolios. I mean just because you are doing it yourself doesn't mean you know what you are doing, right? You know how to transact on an online discount brokerage account that doesn't mean your portfolio is going to be great, right?

So there is still going to be value in portfolio management, no doubt about it, but that portfolio management solution is commoditized. So an advisor, they can spend time trying to tweak people's portfolios but I don't think there is a lot of payoff there in terms of their time because that's kind of have been solved right? It's the getting people to do things, the behavior modification, getting them to save more money, getting them to get the appropriate amount of insurance.

Getting them to actually complete their wills and powers of attorney. A friend of mine, Mark Goodfield, he runs The Blunt Bean Counter, a blog. It is something like 75% of people either don't have a will or their wills are out of date and this goes across the gamut. It is not just low income households who don't think that they need estate plan that they don't have. It is very high income families that don't have estate plans in order or severely out of date.

So I think the behavior management is a big factor and then the comprehensive wealth management. So what I often tell people lately is that financial advisors who think they're in the portfolio management business anymore are wrong. They are in the people management business and the wealth management of those people because the portfolio stuff has been figured out and you can apply that and they spent so much time on that when really it should be on the other stuff whereas where I think they had value.

**[0:36:25.7] BF:** So how do you think – I know one of the things that come up a lot recently or more recently is you got the robo-advisors now but you've also got the fee only like, "I will pay you 500 bucks for a conversation about my finances" how do you think that fits into the model we were just talking about? Can you get the same value from that as you would with a traditional UM based advisor?

**[0:36:43.3] PB:** I think you can but again, this speaks to how different consumers want and need different things. So there are some people who will probably say you know I am good with that because they've got a laser like focus on minimizing cost and for some people it will work and for some people it won't. So one of the things that could be a potential barrier is if you are so focused on just reducing cost like the reason you are doing that is to reduce cost, you go and you create a financial plan.

And then you don't go back for five or 10 years that could be detrimental to your potential because things change like there is no financial plan out there that once it's created it is good for 40 years. That does not happen, right? It very soon starts to get out of date and the longer you go, the more stale it becomes because life happens and things change. For some people, I think it is a great solution. I think there are a lot of people who can manage portfolios if told what to do.

I think there are a lot of people who can go out and execute their life insurance if they are told what they need and so I think there is a huge market for that. So I think in terms of the growth of that type of advice channel, I think there is a lot of room for growth because as a share of the market it is still very, very low and it is also painful to write a check and so there is that mental barrier as well for people of writing out a check.

But again, to put a button on that there are all these different types of advice models out there and all of these different types of financial consumers and it is a real trick to align the right consumer with the right channel.

**[0:38:14.8] BF:** Interesting.

**[0:38:15.7] CP:** So my last question for you, I think having known you for a long time I think you are the absolute perfect guy at the right time to answer or to try to answer the question of the value of financial advice so I applaud you for what you are doing.

**[0:38:26.0] PB:** Thank you, I appreciate that.

**[0:38:27.5] CP:** I like to know on this mission how do you define success?

**[0:38:30.6] PB:** Oh that is a great question. I think long term what I would like to see is more people getting access to financial planning and if the research informs some people out there to say, "Hey you know what? We now have some metrics that we can use to replace some of these old metrics because these were the only metrics we had available to us" which was production levels, assets under management and when you have a different framework you can say:

“If we want to incentivize financial planning, now we can because we can create a way to measure how much financial planning is actually being done and so I think one day you are going to start to see salaried advisors providing high volume light financial planning experiences to a lot of people. So 65% of people do not have financial plans and I even think that that number is a big low. I think a lot of people don’t even know if they have a financial plan.

They might think, “Oh I have a projection for my retirement coverage” and they might think that that’s a financial plan and it is not. So I think the vast majority of people do not have a financial plan and so I think a good measure of success is if we move the needle on the percentage of people who do have some kind of financial plan. It is not just reserved for people with a lot of money. Everyone deserves to have a financial plan even if they are just fresh out of school, you can have a plan for that.

Maybe you don’t need to figure out retirement just yet but maybe you need like a five year or a 10-year financial plan or something like that. So more financial planning made more accessible to more Canadians I think would be an outcome of that I would be proud of.

**[0:40:07.9] BF:** All right last question, bigger picture, forget about the research for you yourself how do you define success in your own life?

**[0:40:16.7] PB:** Getting back to only working two days a week. For a while there has been a history behind that but a long time ago, I was about 12 years ago, I became ill to the point where I actually thought I was going to die and that is a great way of changing my perspective on what was important in life and I started to really value spare time and taking a nap in the middle of the day and just enjoying the smaller comforts in life.

I would say no to a lot of opportunities and as I started to get a little bit better, I started to say yes to more opportunities. I found myself getting a lot busier lately especially doing this research and consulting work that I do so now, the needle has sort of swung a little bit too far in the other direction. So I’d like to get back to two or three days of work per week and then I will be happy.

**[0:41:06.8] BF:** What do you do in the other days?

**[0:41:07.6] PB:** Like work days?

**[0:41:08.9] BF:** When you are not working.

**[0:41:09.8] PB:** Well when I am not working just relax, travel a lot. One of my favorite things to do is that when it is sunny outside just having the freedom and the flexibility to – well not anymore because my motorcycle was stolen but to hop on my motorcycle and go for a nice ride and find a coffee shop way out in the middle of nowhere and just watch the world go by. Simple things like that, yeah were great but some more of that.

**[0:41:32.0] BF:** Cool.

**[0:41:33.0] CP:** Yeah, it's been great to have you. Thanks for coming by the studio.

**[0:41:35.6] PB:** Oh yeah, it was my pleasure guys. Thanks so much.

**[0:41:37.4] BF:** Thanks Preet.

[END]