Achieving Growth and Profitability with Technology Integration

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“Creativity is just connecting things.”
– Steve Jobs  Wired, February 1996

The growth of the registered investment advisor (RIA) business has been remarkable over the last several years, resulting in around 20,000 firms in business today managing nearly $2 trillion in assets. This opportunity has not been lost on technology vendors and has resulted in a variety of innovative choices for advisors. Traditionally, advisors were forced to spend on technology in order to meet a need. Now advisors have both the ability to turn that “expense” into an investment, and the ability to increase their technology investment returns by ensuring integration of the systems and software they buy.

This wave of technology innovation has so far failed to produce the ideal, “one size fits all” solution. Vendors and custodians have attempted to make this dream a reality, but advisors continue to demonstrate their independent spirit when building their technology landscape. Today’s advisor wants to choose the best solution for each component of their technology investment, and they expect those solutions to work together as one. While this reality is attainable, it takes a little work to reach the summit.

Technology choices are so much simpler for the advisors who are forced to use the systems that are provided to them. However, that situation doesn’t necessarily provide for an ideal outcome — and it certainly doesn’t allow for any choice or flexibility or help better service clients. Just as RIAs choose the best investment solutions for their client, they also want to choose the best software available for meeting their unique business needs, client needs, and clients’ goals. So how do you find the best solutions for your firm, and ensure at the same time that they all work together?
Wading Through a Wealth of Choices

Vendors have targeted every aspect of the RIA’s front and back office. Some software applications — such as those related to customer relationship management (CRM), client portals, social media capture, document management, and other tasks — can be adopted from other industries. But many of an advisor’s tasks call for specialized applications in areas like proposal generation, financial planning, portfolio management, and risk analytics.

Today hundreds of specific applications exist to streamline and automate all parts of the financial planning and wealth management process. RIAs can choose from them to build a portfolio of technology tools to help grow their business in the way that best meets their firm’s needs. Yet business solutions sometimes lead to new problems, and the challenge of choosing the best-in-class product from a variety of vendors leads to the challenge of integrating those products — getting them to work together effectively. This integrated state is like if the apps in Apple’s App Store weren’t simply separate applications on a common platform, but were connected and working together. Imagine the possibilities of that: Your preferred weather app could, upon noticing that there was a 100 percent chance of rain this coming Friday, automatically check your calendar — and find the tee time you have booked with your client that day, and immediately cancel that tee time by contacting your club’s app, and notify your client.

Integrated technology is about this kind of efficient data sharing, and the impact of that on the advisor’s bottom line. The first, most basic way that impact is felt is in getting the most mileage out of the existing technology investment. RIAs don’t typically go into a software purchase with a blank slate; they already own applications in which they’ve invested time and money for licensing, installation, and training. This means that the ability to integrate any new software with existing applications can, and should, actually drive purchasing decisions. This was reflected in the 2011 InvestmentNews RIA Technology Study, which found that 41 percent of firms were already purchasing systems based on integration. In fact, that same study showed that the top-performing firms spend about the same amount as other firms on technology, but are more likely to maximize the potential of their existing systems as they do so.
Preserving Quality, Increasing Profits

Coming out of the recession of 2007–2009, many advisors recognized that they needed to become even more efficient than they already were. All of an advisor’s clients don’t usually call at once, on the same day. But when panic strikes, as it did back then, the phones just might start ringing off the hook. Such dramatic increases in client contacts quickly reveal the very real need for highly effective practice management techniques, and highly efficient technology solutions.

This is especially true in an environment of volatility and fear, when clients may more likely feel uneasy with their investment performance...and might decide to move their business elsewhere. Because carefully chosen technology increases productivity, it can increase the time advisors have available to spend with clients and prospective new clients. An integrated solution only adds to the overall gains in productivity.

Technology integration can help achieve the level of efficiency that makes two critical things possible: Providing better client service, and achieving the scalability that leads to growth. By 2011, in fact, 50 percent of advisors said that investing in new technologies was their top profitability initiative, according to the InvestmentNews/Moss Adams Financial Performance Study of Advisory Firms.

Increased efficiency means saving time and effort, which means maintaining quality service while having the capacity to add clients. As Mark Pearson of Nepsis Capital Management noted, “When it’s that much more efficient to bring in AUM (assets under management), everyone gets back to work much faster driving new business.” (See the Nepsis story on page 11.) And after all, adding clients to an infrastructure that’s already paid for comes close to dropping additional account management fees right to the bottom line.

One advisor who actively sought this kind of increase in efficiency and profitability is Richard Brown of JNBA in Minneapolis, who started out in the business by taking over a firm (his mother’s) that had no computers. He quickly changed that, and by 2007 had four teams of people, “and everybody was doing the same task a little differently,” Brown says. “But we wanted to be a firm with a consistent reputation and values, so we built an end-to-end process for how each task would be done. Integrated technology was key to doing this. It puts you in the position to be a scalable, effective, disciplined firm.”

For JNBA, the integration-based consistency didn’t just apply to back-office functions. They also used integrated portfolio rebalancing software to evaluate and ensure that the firm’s investment strategies were being followed consistently by all advisors.

Integrated technology can also drive profitability by promoting the workflows that support informed decision-making and create consistent processes for everyone in the office. Over the last decade, financial advisors have seen advances in information technology that far exceed anything available to prior generations. Prior to the Internet age, a state-of-the-art online display meant
viewing a stock quote and a news headline. But the emphasis now is not on the availability of data (advisors would be overwhelmed if someone in the office printed out all available information on each asset class). Instead, tech integration that drives profits will emphasize delivering information that clarifies the available choices at the point of decision — both at the right time, and within the application that the advisor is currently using.

For example: While rebalancing a portfolio, the advisor sees that a client deposit cleared, then sees that the available balance has risen to the minimum investment level for a new fund allocation.

In terms of investment decisions, an advisor can obviously never guarantee that clients will achieve their goals. An advisor can, however, explain to clients that they rely on this kind of an integrated decision-making process. This can help reassure clients that each investment decision is made by seamlessly melding the best available market data with the client’s documented risk profile and financial goals.

Building such integrity into a technology-dominated process becomes a way to build trust. And clearly, trust in the process can lead to client referrals and promote client retention — especially during the inevitable market downturns. This is the ultimate integration of advisor relationships with the systems supporting them.

**Much More than Data Access**

Establishing and understanding the building blocks of integration is essential, because there is more to integration than the seamless, automated exchange of data. Of course, eliminating the need to re-enter client data is among the simplest ways to reduce errors. In terms of integration, though, that’s the all-important foundation, but it’s also just the beginning.

The deeper advantages of integrating software applications lie in workflows — as in the rebalancing example described above. “It’s more than just sending data back and forth, it’s how you work every day,” noted Tony Leal, CTO of MoneyGuidePro™, makers of financial and retirement planning software. “The systems need to lend themselves to navigate that way; the software has got to match your workflow.”

The critical areas in which integrated applications can improve workflow include:

- **Onboarding**: Bringing new clients on board can prove a real test of back office operations at both an RIA and their custodian. Using electronic signatures to facilitate the signing of new account and transfer paperwork, automatically populating client data files, can cut steps and time from the process.

- **Billing**: When processing quarterly management fees, advisors can automatically send fee instructions directly from their portfolio management system to the custodial platform. Then, management fees can be automatically deducted from the designated accounts.
- Client Service: Having a snapshot of all client information on one consolidated dashboard when they call — such as their financial plan, performance reports, CRM information, as well as their available balances, positions, and history — enables an advisor to proactively address any opportunities and possible gaps in the big picture of their client’s financial situation.

- Trading: RIAs save time and gain accuracy by validating and submitting orders to their custodian without ever leaving their rebalancing tool, eliminating the need to download and upload trade files. Additionally, they can review order status and corresponding warning or error messages without going to their custodian platform.

There’s also the simple question of speed. In less volatile times, overnight batch processing of files between applications, resulting in the RIA receiving a start-of-day view, worked fine. Today, everyone (including the client) expects real-time information.

Applying market and account data across applications on a real-time basis means achieving efficiency in whatever actions are taken intraday.

So the benefits of integration are clear. The ways to achieve it, however, are not all equal.

As in many industries, technology speaks its own lingo. Some terms — like “data mining,” “portal,” “social network,” and “the cloud” — become so ubiquitous that they achieve something like celebrity status. The result is that definitions of these terms tend to broaden and blur over time.

Consider, for example, “open architecture,” “open access,” and “open API (application program interfaces)” — all terms that are frequently used to tout the degree to which a technology product or platform can interact with other software applications.

Today, open APIs help drive revenue at such technology giants as Google™, Facebook®, and Twitter™. That’s because an open API brings the programming power of multiple vendors’ software teams to the table. It sets the stage for the discovery and building of solutions that are beyond the capabilities of any single entity’s IT department. True openness facilitates innovation and creativity in the industry.

In other words, open wins. Open architecture makes all of the benefits of technology integration even better, because it broadens the extent to which integration is possible. The approach enables vendors to innovate and to harness their nimbleness in order to get integrations completed quickly, in sharp contrast to the slow approach of bundled offerings. By making data easily available and creating the ability to transmit transactions, open architecture makes deeper and broader integration possible. TD Ameritrade Institutional was even able to use their API to more quickly deliver applications for devices such as the iPad® and smartphones; mobile applications were the product of putting that menu of data to work. This strategy of being open has been embraced by advisors and vendors, and has even shifted the rest of the industry to be more open. Open architecture also allows for the most choice and flexibility, allowing RIAs to take maximum
advantage of (in other words, continue using) more of the software they’ve already purchased, grown familiar with, and rely on every day. Eric Clarke, president of Orion Advisor Services LLC (Orion), which provides portfolio accounting software, describes it as the approach that “allows the advisors to pick the best tech platform as opposed to the one-size-fits-all attitude.”

The Key Early Efforts
Early attempts at technology integration were often driven by the software vendors themselves. In the groundbreaking case of Your Silver Bullet, it was driven by Greg Friedman — a vendor and an advisor. Friedman was running Junxure, which provides a comprehensive CRM solution. But first and foremost he was — and remains today — an advisor who envisioned what kind of tools he needed to make his workday more efficient. He saw one-off integrations of the software tools he used happening, but he also saw advisors like himself clamoring for more. Friedman knew the CEOs and CIOs of several tech firms, and he knew that together they needed to create a consortium of those who were committed to developing integrations and getting information to advisors. This consortium, Your Silver Bullet, came to life in 2007. It was intended to be for the good of the industry, not for the profit of Junxure or any other firm. To firmly demonstrate this, his first call to invite someone to get on board with the effort was to a direct competitor, Warren Mackenson at Protracker. From there, a “circle of trust” was established among a select group of small entrepreneurial firms dedicated to integration as the path to meeting advisors’ challenges.

Said Friedman, “These were firms run by people who were deeply committed to our industry and excited about the prospect of making it better. Their response when I described what we [Friedman and Ken Golding, co-founders of Junxure] wanted to do was, ‘You had me at hello.’”

Your Silver Bullet was designed to promote and push forward these tech integrations, and to improve them. Friedman purposely made the effort a high-visibility one, a public relations event, and his efforts did help raise awareness of the fact that this was an extremely valuable undertaking. Next, the industry needed an even broader unifying solution, one that would bring all the players together. Ideas and aspirations began to form around achieving an even more open approach, one that was open to even more players, players of all sizes (because sometimes the best ideas start in garages). With the exposure it brought to the topic, Your Silver Bullet helped speed up the efforts to begin realizing this vision.

The Custodians Get On Board
Custodians, given their central role in supporting RIA back offices, were the next natural candidates to drive innovation. It was logical for them to step in and help advance integration still further: As the keepers of client account books and records, they clearly had to become part of the effort. Many did so, in fact, providing bundled solutions that
offered advisors a small subset of vendors to work with.

Against this backdrop, TD Ameritrade Institutional conducted a strategy and feasibility review, and grew determined to provide choice. In other words, they wanted to allow any vendor who could meet their technology and data security standards to seamlessly integrate and securely exchange data with Veo®; the firm’s core trading and account management platform.

In late 2010, the firm began discussing this plan with industry leaders, including Joel Bruckenstein, co-producer of the annual T3 Technology Conference for financial advisors. When Bruckenstein initially met with TD Ameritrade Institutional to discuss their integration approach, he was not just unimpressed, but doubtful. “And I wasn’t the only one,” he said.

“Clearly there would be substantial costs involved with vetting the firms. Were they willing to commit to that?” Bruckenstein remembers asking. Skepticism also circled around the meaning of open access, he said. He wondered what would actually be allowed.

“The direction TD Ameritrade Institutional was taking was different from anything else being done,” Bruckenstein said. “The others out there doing this at the time were taking a best-of-breed approach: Getting one good provider for each software category, then maybe expanding later with two or three per category. They were never saying they would welcome all comers.”

Many of the initial integration partners immediately understood what the value of the open system could be. “There was never any doubt in my mind,” says Bruckenstein, “that they would get on board with the initiative.”

**An Open Invitation**

In March 2010, after meeting to discuss feedback from TD Ameritrade Institutional’s Advisor and Operation Panels, the firm called an integration summit. Representatives from industry-leading technology vendors, leading industry consultants, and TD Ameritrade Institutional management got together to talk about how to solve integration for their mutual clients. The goals? Listen carefully, share viewpoints, and think big. The event reflected the company’s commitment to gathering firsthand feedback on best practices, features, and capabilities. As Chris Valleley, Director of Technology Solutions at TD Ameritrade Institutional, explained, “We look to the entrepreneurship and ingenuity of providers to deliver new and inventive ideas together with us. We really partner with them in idea creation and to deliver choice, flexibility, and efficiency to our mutual clients.”

“It was the first time we were invited to anything quite like that, and I was skeptical about even going,” said Leal, of MoneyGuidePro. “In large companies, it’s hard to act and get commitment. Sometimes technology is used as a differentiator for marketing purposes, but in fact there’s no product behind it. But here, the right people were invited. And it was unique that TD Ameritrade Institutional’s tech, business, and marketing perspectives were all at the table.”
But what really persuaded industry leaders like Leal to attend the event was the agenda structure. “Each invitee got time to explain what we think integration is about, and what we think is important in order for advisors to have a better experience,” he said. “Instead of sitting there listening to people talk about things that may or may not be delivered, I appreciated having the floor to explain what I thought the process should be.”

The summit attendees agreed with the pursuit of an open API approach, and with the implementation strategy that was designed to deliver as much flexibility, choice, and efficiency as possible.

Taking advantage of a truly open API required a certain amount of tech savvy on the part of vendors, and while it became clear that not everyone was up to the challenge, some, like Orion, were way ahead.

Eric Clarke explained that Orion had launched an API before the TD Ameritrade Institutional summit, and he was asked to bring his tech staff to the event. “We knew what APIs were capable of,” he said, “so we were pretty excited about it.”

This type of collaboration proved so productive that summits have been held annually since the first one in 2010. Attendance has grown to over 30 participants, all eager to help create improved integration better for RIAs. Shortly after the initial event, TD Ameritrade Institutional became the first custodian to launch an open API, and in quick succession launched single sign-on with context — which saves time by allowing for intuitive, seamless access between applications — as a critical first step. Later and larger rollouts involved multiple APIs to pull and push different types of data between a variety of applications. In other words, the flexibility of data moving between applications now enables different types of transactions to be initiated from one application to another.

“Working hand-in-hand with advisors and vendors, we were able to help lay the foundation for integration to really take off,” said Tom Bradley, former President of TD Ameritrade Institutional.
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“We’re proud of what we achieved in a short time, and that we helped to change the strategy, attitude, and approach of our industry.”

Advisor demand and vendor responses have driven the rapid progress the firm has seen with integration since that first Technology Summit, and the event has grown each year since then.

The Next Generation

It’s probably harder to predict the closing price of the S&P 500 Index next week than it is to predict next year’s breakthrough in technology. Still, RIAs must continue to do their technology due diligence — and their custodians must continue to deliver the tools and opportunities that drive growth and profitability.

As President of TD Ameritrade Institutional, Tom Nally, for one, is on board with that. “With technology, you’re never done. In our industry, if you stand still when it comes to technology, you’re going to get left behind. There’s always the next innovation to incorporate,” he notes. “We are committed to helping advisors get better integration and more efficiency.”

Those next innovations will definitely be exciting ones. This industry, like so many others, has changed so much already, but stands to make still more tremendous leaps in productivity and efficiency in the near future. Especially with custodial platforms opening up further, the promise of fully integrated technology remains to be seen.

Integrations will be pushed even deeper. For example, they will need to continue focusing on integrating social media with CRM and other systems. This will help pave the path for appealing to children of existing clients, the next generation of investors who are essential to an RIA’s future growth.

More fully developed dashboards will also remain a focal point. Already in play to varying degrees of complexity, dashboards hold the potential to customize tasks to the way an advisor wants to work, and to be customized for each role in the firm. Their promise is delivering all critical data in a single display, and in an actionable format. Many even see this concept as something to be extended to clients, who are asking for and getting access to more and more powerful online tools from many of the vendors. Advisors will need to stand out, especially with the tech-savviest clients, by being the trusted partners that provide their clients tools for data sharing and analysis that they can’t find elsewhere.

Fortunately, with an open access custodial platform, the core data and account/market processes running in the back office stand ready and waiting to be integrated into any new front office function. As more and more vendors offering tech solutions reach the downhill side of the integration learning curve, integration will become part of the software design process — not something to be dealt with post-launch. So each new application will not only integrate more seamlessly and more efficiently, but it will do so in version 1.0.

Helping the next generation of RIAs prepare for all of this is something that...
Richard Brown of JNBA has taken on. In addition to his workload as an advisor, he teaches at the University of Minnesota-Duluth business school, because he feels a responsibility to help the next generation of RIAs to understand how the business works today.

“What we’re teaching is what an operations person, a compliance person, an investment person, the client service role, a planner, and a rainmaker look like today for an independent RIA,” said Brown. He wants it to be clear that if a new RIA wants to achieve longevity for their firm, all of these roles need to be on board with integrating technology. He wants it to be clear, in fact, that utilizing integration is the great opportunity to grow an advisor’s business.

At some point, each new level of technology becomes table stakes for a business to survive. Some examples are more obvious than others (try running a service business today without email). The current level for RIAs is real-time integration of best-in-class software applications for portfolio management, financial planning, and CRM.

The RIAs with the best knowledge of the markets and their client base will determine the best-in-class software. By seamlessly integrating those technology solutions, they achieve the highest form of efficiency and make the best-informed decisions for their clients. Those RIAs become the most profitable. Those who leave integrated technology decisions solely up to their custodian or some other technology vendor, they have given up some of their independence — a key to their success.

And as Tony Leal stated: “It’s not just about adapting to technology. It’s embracing it.”

The future of our industry rests with those who are actively diving into the exciting opportunities for working in new, more efficient, and more profitable ways.
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Mark Pearson and Mark Clark of Nepsis Capital Management in Minneapolis, Minn. believe in technology, and in their firm’s brand, which stands for clarity. “If we’re going to preach clarity, we need to live in clarity,” Pearson said, “And technology allows you to have clarity in how you run your business.”

When Pearson came to the financial services industry as an advisor in 1994, he brought with him a solid background and interest in technology, having worked in that industry right as firms like Oracle, Intel, and Microsoft were starting to take off. Right away, he saw technology as a productivity booster, and sold his colleagues on that view. And Nepsis clearly stood to benefit from streamlined, integrated tech setup. As a third-party money manager, their workflows include wholesalers, solicitors, the financial advisors who work directly for Nepsis…and must incorporate all of the different needs, data, and agreements that must be in place for all of these parties.

Six years ago, Nepsis went completely paperless. Today, the firm relies on an integrated technology platform — one built on Salesforce and relying on DocuSign®, Morningstar®, TD Ameritrade Institutional’s Veo, and more — to achieve:

- Lean operations: Nepsis manages a substantial book of business with very few support people.
- Up front, consistent communications that support their brand: They can easily track who is and isn’t reading their regular updates and analysis on markets and portfolios, and thereby spot someone who might be at risk of sliding toward dissatisfaction.
- Smooth transitions of client accounts: Nepsis is capable of moving business in fast, to the benefit of the advisors they work with, and those advisors’ clients. Not uncommon was this occurrence in 2012: With no hassles or hiccups, they brought in $25 million from over 200 accounts (nearly 100 households) within a month. All paperwork — including integration of fee schedules — and all other transition tasks were handled by only two people with some part-time help.
- Real and significant business growth: Aiming for very aggressive growth in new assets annually, Nepsis looks to open offices around the country, and to work with more advisory firms to manage assets for them. Their tech platform is the critical foundation for achieving that — it makes the necessary level of productivity possible, and makes the process of joining forces that much smoother.

In short, Nepsis’ tech setup is a tool for scalability and sales, as well as a competitive advantage.

Today Nepsis continues to work toward achieving deeper integration across the multiple custodians, annuity companies, mutual fund companies, and other entities they work with. They want to deliver a complete picture of client data and Nepsis processes, from onboarding on.

“At the end of the day,” Pearson said, “it’s all about clarity. Give the advisor more clarity on the process — the how and the why — and the more successful they’re going to be. We’re all going to become more productive and therefore more profitable.”
Integration Analyzer™

TD Ameritrade Institutional’s Integration Analyzer™ shows the ability of software applications to work with one another in four basic categories:

- Data exchange/single sign-on. An RIA logs in once and can move data between software applications by manually transferring files. Example: Transfer trading history from the custodian’s database to the CRM running in the RIA’s office.

- Automated web services. With no keystrokes or other actions, real-time data flows seamlessly between software applications. Example: The office CRM receives changes to client account positions or balances as they occur in the custodian’s trading system.

- Intuitive navigation between applications. In one click, an RIA can complete a task that combines similar features within two separate applications. Example: To send a client a check, the RIA clicks a button in the CRM that launches and populates the checkwriting page on the custodian’s platform.

- Embedded functionalities and workflows. An RIA can stay on the same screen within one application while triggering a series of requests in a second application. Example: A portfolio rebalancing application generates a series of orders and delivers them to the custodian’s trading system for execution without the RIA leaving the rebalancing tool.