

## **Walt Bettinger unbites his lip and ignites a Schwab IMPACT Twitter squall and the RIA custody show goes on**

By Guest Columnist Timothy Welsh

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Brooke's Note: Sometimes it is a few small sparks that determine whether a big event achieved "good party" status. Though nothing that Schwab execs said was relayed to me as a revelation, observers and media reports, including this one, say they appreciated Walt Bettinger showing a quickened pulse by taking on — albeit not by name — the CEO of a disrupting firm. Many observers noted the ever-rising quality of the after-parties. Advisors loved, for instance, waltzing into an impressive State Street event and running into a very approachable Jeffrey Gundlach, the DoubleLine bond czar. Some were disappointed that Fidelity didn't channel its inner marketing guerrilla as it did in 2013 when it used East Boston billboards and other local means to co-opt a few RIA eyeballs. Where's the fun? Some grumbling was heard about the Schwab IMPACT starter booth costing \$15,000. But considering that the booths were essentially sold out, you wonder if Schwab couldn't have commanded a much higher price. Adding to the marketing wattage were a few Cadillac-level booths erected by firms like American Funds, Hancock and Oppenheimer. RCS had a Greek temple. BlackRock had wow-factor giant touch screens. People had fun. But for RIAs who couldn't make the trip to Boston, Tim Welsh has got you covered with his detailed report.

For four merry days in November, no robo-advisor disrupted the CEO of The Charles Schwab Corp.

Walt Bettinger commanded the stage at Schwab IMPACT's opening session last week, declaring to a largely adoring crowd that reports of his company's demise as an innovator at the hands of a pitchfork-wielding competitors or ever-wily wirehouses were off base.

"Schwab continues to be a challenger and disruptor in the industry, just like you," he said. "Our goal is to shake loose the \$23 trillion that exists in the traditional firms and find a better home for it." See: How Schwab's RIA advertising campaign could pay quick dividends for some advisors.

Let those leaves fall where they may, Bettinger boldly asserted.

"Whether that is in our retail business or with you, I could care less." See: A charged-up Walt Bettinger slams all non-Schwab robos at IMPACT 2014 with an energy appreciated by RIAs.

Letting loose

Bettinger maintained that edginess through during the entire discussion, and when Clark, head of Schwab Advisor Services, lobbed a slow-pitch query about the latest crop of disruptors saying: “Let’s talk about wealth management and automated investing,” — Bettinger uncoiled.

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“There were definitely some emotional responses when we launched Intelligent Portfolios last year, and I have bitten my lip until now. I can’t think of anything more overhyped in the industry than robo-advisors, particularly because the current versions were only meant to be launched as a ‘take-out’ strategy — to be acquired. When we launched Intelligent Portfolios, that drove an emotional response as we were one less buyer who would be writing a check.” See: In a six-month-mark reality check, Walt Bettinger recasts Schwab’s retail robo-advice as a ‘tool’ — but a handy one.

This statement ignited a fiery exchange on Twitter with RIAs linking Bettinger’s statement to Wealthfront CEO Adam Nash’s now infamous missive about Schwab inaccurately advertising its robo offering as “free.” See: Adam Nash makes direct ‘CEO-to-CEO’ plea to Schwab to rethink its robo.

Some tweeters took Bettinger’s comments to mean that not only was Nash disappointed and frustrated that his hoped-for purchase by Schwab not only wasn’t going to happen, but that Schwab’s new robo would threaten Wealthfront’s very existence by virtue of its heft. (An email sent to Wealthfront’s PR chief on this topic went unreturned.)

Thin line...

But in the next breath, Bettinger pivoted to say that despite the radical hype, that there is a role for automated advice in the industry and that Schwab will continue to broadly promote its own robo.

“There are aspects of an automated advice platform that make sense for clients, mostly the self-directed ones that are not accustomed to paying fees, so we will continue to invest to make the platform available to RIAs so that you can broaden your reach and serve more clients.” See: Schwab tells the SEC its robo-advisor has a 30 basis-point fee and big-time cash allocations held by Schwab Bank.

For the most part, these comments hit their mark, driving home that Schwab is the robo leader with \$5 billion-plus in assets, with RIAs contributing to a portion of that total.

Message: We listen

If there is a barometer of RIA industry evolution, it's the Schwab IMPACT conference. For a quarter of a century, the annual gathering of RIAs has reflected myriad changes, trends and developments that have shaped the world of independent advice.

In this, its 25th iteration, attended by 1,800 advisors, 1,500 vendors and a Schwab army of nearly 800, IMPACT might have shown some wear and tear as other competitors crowd into its sphere of influence and insert themselves into the leadership conversation. See: In a rare IMPACT appearance, Chuck Schwab predicts a 'significant turn' for the better.

But make no mistake, Schwab can definitely bring it on the event side, and the big bash in Boston went off flawlessly.

In the final sally of his opening remarks, Bettinger assailed the 401(k) industry. “401(k)s work for everybody — record keeper, asset manager, TPA — except the employee,” he said. Schwab has done its own soul-searching recently over how much to include RIAs in the 401(k) process. See: After cutting 401(k) middlemen out backfires, Schwab cuts them back in.

Bettinger let-'er-rip style was balanced Clark's more reserved remarks which, while polished, contained no announcement of any major new platform enhancements other than a refresh of past programs such as the “RIA Stands for You” website. See: Schwab is set to connect RIAs outside its referral network to HNW investors through its 'Got-milk'-style campaign.

In that respect, the first-morning keynote and welcoming speech broke with tradition. Normally, it's where advisors learn about the Schwab advancements, the rewards of which they will presumably benefit. Instead, Clark cozied up to RIAs, showing an emotional video

montage of clients of Schwab-associated RIAs who were grateful to their advisor for helping them.

“We’re not that smart,” Clark concluded. “But we do listen to you.” See: 9 questions to ask Schwab execs when you buttonhole them in Boston at IMPACT 2015.

And they’re off!

But things were about to perk up. Abby Wambach, U.S. women’s soccer hero, followed the Bettinger/Clark conversation with an inspiring speech on leadership.

Then it was off to sample the more than 90 sessions and keynotes on tap to slake advisors’ and vendors’ thirst for industry knowledge. Schwab declined to allow the event’s 50 journalists to attend a speech by Ford’s former CEO, Alan Mulally.

A large swath of the conference, including just about every tech vendor in the exhibit hall, immediately sprinted to catch a couple of first-day sessions hosted by Schwab’s technology leader, Neesha Hathi, to get the latest about Schwab’s technology strategy, progress and whether or not they would be included. See: Schwab bids to become the ‘Zagat’ of RIA technology and to nix ink signatures from RIA life.

Hathi, a polished presenter, backed up by her team of product managers, engaged the audience with a tour of the enhancements to the Schwab advisor platform and gave some previews of what’s to come in 2016. Chief among them were a number of investments in the “stability and security” of the custody platform, the launch of Schwab’s Institutional Intelligent Portfolios — the white label of its robo system — the latest updates on its multiyear overhaul of Schwab PortfolioCenter and the status of its Intelligent Integration initiative. RIAs can now see portfolio data on Salentica CRM. See: How Ric Edelman’s bounty of radio and TV leads pushed his \$12-billion RIA from Microsoft to GoldMine to Salentica.

“We have 1,000 firms representing 2,000 users benefitting from technology integration with our handpicked 12 third-party vendors, including our latest with Junxure Cloud, Advicent and Morningstar Office,” said Brian Shenson, vice president of Technology Solutions at Schwab.

Shenson described the slow progress Schwab was making in “re-imagining” Schwab Performance Technologies’ Portfolio Center through the SPT Connect platform development.

When asked if it would ultimately replace the existing PortfolioCenter, Shenson declined to offer specifics but allowed that, “Over the next decade, it will.” See: What Neesha Hathi has to say about Schwab’s oh-so-slow-but-steady technology initiative.

#### Robos on the side

On the robo-advisor front, Hathi reported that more than 500 advisors have signed up to use the Institutional Intelligent Portfolios platform, with most of them looking to better serve smaller accounts and go after new target segments. See: Schwab’s robo spikes suddenly to nearer \$5 billion as 500 RIAs sign on.

Successful RIA firms such as HawsGoodwin Financial and Steinberg Global were featured as advisors launching robos-on-the side, i.e. separately branded websites through the Schwab robo platform, to expand their market presence. See: Can Schwab, six years late to the robo party, ‘freeze the market’, catch up and blow doors?.

Along with the usual portfolio management trends, practice management content and financial planning updates, the agenda also included some compelling new investing opportunities, most notably the advent of peer-to-peer (P2P) lending, also known as marketplace lending. See: Bankers show muted confidence in competing with RIAs, Fidelity study shows.

Sam Hodges, co-founder of Funding Circle, a marketplace for commercial P2P loans, discussed the explosive growth of marketplace lending as traditional banks are withdrawing from many areas of finance, creating a void for technology players and investors to step into.

“Before the financial crisis, there were over 16,000 banks, and now there are only 6,000,” Hodges said. “As a result, there is now over \$1 billion in P2P loans being originated every month and this industry is growing at 100% per year. These are not lenders of last resort; rates are competitive and the client experience is vastly superior to that of going through a bank branch to get a loan.”

Hodges described the benefits of P2P for advisors looking for a compelling alternative investment opportunity for their clients, as these investments provide a steady, high yield that are not correlated to the market. Advisors can access these marketplaces direct or leverage P2P focused investment managers, such as NSR Invest, which has specialized trade order management technology to streamline the process and simplify access to P2P. See: Fiserv purchase of CashEdge could affect account aggregation space.

Still relevant

Another theme woven through the IMPACT agenda was how to manage growth and build enduring and sustainable businesses. A popular session on this topic was a panel discussion led by members of the Alliance for RIAs (aRIA), moderated by Advisor Growth Strategies' John Furey. These large RIAs have banded together to showcase best practices and develop industry content from their experiences.

"Your firm needs to be growing at 20% to offer opportunities to top advisors," said Matt Cooper of Beacon Pointe Advisors, while John Burns of Exencial said, "Your best employee is your competitor's top prospect. If you are not growing, then firms that are will poach your talent."

These types of business management issues were at the forefront of this year's IMPACT as all of the industry's custodians are hoping to provide guidance as RIAs mature and enter a new phase of business evolution from sole practitioners to large, complex enterprises. See: Part II: RIA custodians' answer to challenges to their monolithic control: We still have big-time scale advantages.

IMPACT has long been ground zero for the vendor ecosystem that supports RIAs, and as such continues to sell out its massive exhibit hall. True to form, the IMPACT exhibit hall designers drove traffic to and through hundreds of exhibit booths with playing-card-house builders, improvisational actors, craft-beer breweries, live bands, multiple dining areas and even military service dogs to celebrate Veteran's Day.

Orion sponsored a photo opportunity with George Wendt, AKA Norm, from the '80s sitcom 'Cheers.

IMPACT lived up to its reputation as an evening party scene hub, with soirees sponsored by deep-pocketed asset managers, flush with 12(b)-1 fees. Wells Fargo hosted the entire conference at the Boston Museum of Fine Art with a multilevel final night party. While there was no headline band, attendees enjoyed artwork while dining, dancing and imbibing on specialized beverages.

Brian Hamburger and MarketCounsel took advantage of the first night with a packed party at a local pub in downtown Boston, while a consortium of technology vendors led by Eric Clarke's Orion Advisor Services took the top honors with a late-night reception that featured

a photo opportunity with George Wendt, the actor who portrayed “Norm” on the popular 1980’s Boston-based sitcom, “Cheers.”

Advent Software, Junxure, Advisors Assistant and XLR8 hosted a hand-crafted cocktail event for advisors at an underground bar. There were also multiple competing high-end events sponsored by the mutual fund managers, also high on 12(b)-1 fees, including an inside tour of Fenway Park. The competition for advisor mindshare via the party channel was at a premium this year, as advisors struggled to hit the three to five events they were invited to each evening.

But of course, IMPACT’s capstone event remains Tom Lydon’s ETF after-party celebrating the growing success of both RIAs and ETFs. See: ETF makers mostly have \$500-million-plus-AUM RIAs to thank for growth, study shows.

The much sought-after invitation to Lydon’s masterpiece was again the buzz of the conference. Hundreds of attendees swarmed into a downtown Boston nightclub with celebrity DJs cranking up the beat well into the small hours of the final night.

To learn more about what went on at the 25th annual IMPACT conference, check out the many tweets on the #SchwabIMPACT hashtag on Twitter.

Disclosure: Welsh has consulted with some of the companies mentioned in this article.

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