



PATPATIA & ASSOCIATES, INC.

The Advice-Embedded Paradigm: New Wealth Management Solutions



The Changing Wealth Management Paradigm

The wealth management marketplace has changed considerably over the past 10 years, and traditional financial advisor-driven planning & guidance no longer meet many investors' needs.

Financial services is no longer dominated by the high net worth and traditional “private client” channels - brokerage, trust companies, & private asset managers. Assets are increasingly concentrated in the retirement plans & savings of the underserved mass affluent.

However, the mass affluent have the same fundamental need for advice as the wealthy. The typical variable annuity may include over 50 different investment options and mutual fund platforms typically have thousands of offerings. Investors, and advisors, cannot effectively choose from the options - *a crisis of selection*.

Traditional advisory business models have failed in the mass affluent market. Training large sales forces in financial planning and relationship-based sales has proven impractical. Also, online financial planning platforms targeted at self-service investors within direct brokerage and retirement channels have lacked the actionability required to induce investors to pay for planning.

Firms are struggling with compliance concerns and liability around the advice that they do offer. Many banks and brokerages have allowed advisors to develop individualized strategies for each client. Investors in similar situations received conflicting recommendations. Unable to demonstrate a prudent, repeatable investment approach, these firms are confronted with significant exposures, in the face of growing litigiousness.

To reestablish their value proposition with their clients, financial services firms must reinvent the way they deliver advice. Advice must be actionable, it must be consistent, and it must be cost effective at reaching the mass-affluent.

Evolution of Mass Affluent Servicing

Commission
Product
Sales



Fee-Based
Financial
Planning



Wrap Fee
Model
Portfolios



Advice-
Embedded
Solutions

The Advice-Embedded Paradigm – New Wealth Management Solutions

The Solution: Advice-Embedded Offerings

Wealth managers must deploy guided investment solutions, where neither the client nor the advisor, make investment decisions. A limited number of investment strategies must be centrally developed for common financial goals and packaged with the implementing investment vehicles.

Advice-Embedded Offerings - translating investment strategies into turnkey products:

- Empowers producers with value-added solutions
- Limits liability across diverse clientele & channels
- Streamlines message for efficient sale
- Builds ongoing client relationships

Increased actionability, without needing extensive customization, to facilitate asset gathering

Advice-embedded offerings, where asset allocation, manager selection, and other elements of investment strategy are packaged into financial products, present the best alternative for purveyors to establish planning-based client relationships in a practical and cost-effective manner.

These products can be simple for advisors to sell - clients may be easily profiled and directed into investment solutions that evolve over time to meet their changing needs. Equally importantly, advice-embedded offerings are straightforward to oversee, as the investment advice is centrally managed.

Furthermore, moving advice delivery into the investment vehicle allows firms to monetize its professional guidance. Advice-embedded products fundamentally convert the amorphous value proposition of financial planning, frequently given away for free or for a onetime fee, into evergreen revenues.

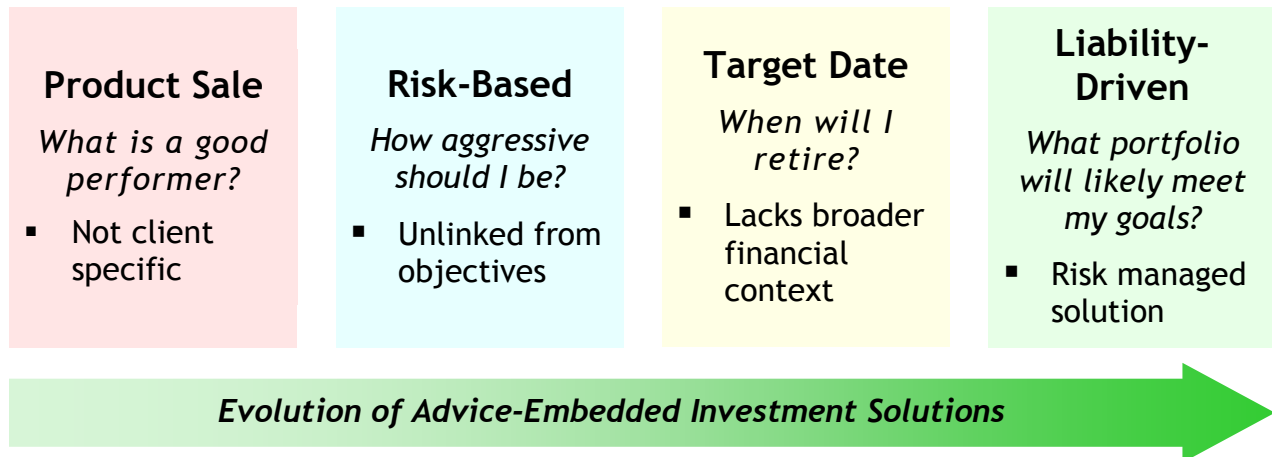
Advice-Embedded Solutions Suite					
Variable Annuities	Multi-Manager Funds	Target Date Funds	Mutual Fund & ETF Wrap	SMAs/ MSPs	DC Plan Portfolios

All advice embedded offerings, when proactively managed to common investment objectives such as retirement income, can become true wealth solutions

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The Solution: Advice-Embedded Offerings (continued)

Of course, none of these offerings are new to the marketplace. It is the way in which they are used that is innovative and newly effective.



Rather than being focused solely on risk-based portfolios for capital appreciation, new portfolio options, are being developed. Retirement income solutions, driven by actuarial modeling, are incorporating controlled decumulation balanced with continued capital appreciation. Select manufacturers are beginning to take this one step further, structuring portfolios or implementing hedging programs to build in principal & income guarantees. Other novel developments include retirement catch-up savings vehicles, with investments tailored to investors' anticipated retirement liabilities and current funding levels.

These new liability-driven solutions for individual investors are only possible due to their centrally controlled, advice-embedded nature. The analytics and investment strategies are too sophisticated to be implemented by most financial advisors.

Principal Protection & Income Solutions



Firms focused on deploying Advice-Embedded Products across the enterprise, bringing strategic growth & income solutions to all their mass affluent offerings - wrap programs, mutual funds, VAs, etc.

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Implementing Advice-Embedded Businesses

Wealth managers must select the offerings & roles in the asset management value chain that best fit with their capabilities and positioning:

<i>Portfolio Manager</i>	<i>Asset Gatherer</i>	<i>Hybrid Purveyor</i>
<i>Manufacture mutual funds, SMA strategies, structured products, and other proprietary investments</i>	<i>Distribute asset-based products (e.g. wrap fee programs) via “off the shelf” vendors</i>	<i>Develop custom strategies (asset allocation, portfolio models, LDI) with unique value, while outsourcing non-core functions</i>

Many services may be outsourced (e.g. manager due diligence) to lessen required investments and speed time to market. However, assembly needs to focus on ensuring sustainable differentiation:

- Unique asset allocation strategies, built solely for a firms’ particular customer segments and distribution models (e.g. advisor, self service, bank channel)
- Incorporating unique money managers with contrasting investment approaches
- Development of accompanying advisor or online tools to easily vector clients to solutions
- Assembling proprietary offers, as opposed to employing turnkey vendors (i.e. TAMPs), providing greater control over revenue and profitability dynamics

Of course, purveyors face several challenges in deploying competitive advice-embedded solutions. In particular, for many financial advisor-driven channels it requires shepherding a significant change in advisors’ behaviors, training them to focus on relationship management rather than investment selection. Similarly, the packaging of the sales process must allow advisors to demonstrate personal value to their clients, in spite of day to day investment decisions being taken out of their hands.

At Patpatia & Associates, we focus on answering a number of questions to ensure that your Wealth Management initiatives meet market needs and your strategic objectives, while ensuring effective execution:

Industry Benchmarking:

- What lessons may be learned from leading wealth managers - products and services, platform design, channel management, producer technology?
- What successful tactics may be adapted to suit your environment?
- How should you prioritize enhancements to your current capabilities?

Distribution Channel Organization:

- How can your channels best service the mass affluent, affluent, and high net worth markets, including the exploration of alternative distribution sources through both person and technology channels?
- How can you recruit and train effective wealth managers?
- How can you compensate your producers to foster the adoption of relationship-based advisory activities?

Platform Development:

- How should you package your offerings into unique advice-embedded solutions?
- Which offerings will be attractive to your customer segments (e.g. mass affluent, retirement plan participants) and allow you to remain competitive?
- How can your wealth management support organization be structured to ensure effective integration with the field?
- How can mergers, acquisitions and/ or strategic alliances help to supplement your capabilities? What pitfalls might inhibit their success?

Technology Deployment:

- What enhancements are required to your current advisor desktop?
- How may new managed wealth management solutions be integrated with existing front & back-office processes and legacy systems?

In working on these strategic issues with our clients, we have found that problems typically arise due to a failure to address the above issues in a disciplined fashion. Firms that proactively face these questions will place themselves ahead of the market.

We help firms to build strategies and execute tactics to take a leadership position in Wealth Management.

Asset Management

- Assemble the components of a diversified, fee-based revenue stream for investment distributors
- Rationalize the global product & servicing platforms of manufacturers (both retail & institutional)

Distribution

- Establish multi-channel (FA, direct, RIAs, branch) investment platforms to maximize asset gathering
- Unlock value in mass-affluent & HNW clientele & advisors via segmented asset mgmt. programs

Retirement Solutions

- Deploy comprehensive retirement income solutions - wrap programs, target payout funds, VAs
- Participate in retirement plans & IRA rollover assets via new sub-advised investment vehicles

Front & Back-Office Platforms

- Assembly of advisor toolsets and online wealth planning workstations
- Integrate disparate organizations assembled through mergers and acquisitions for consistent customer experiences and efficient operations

We focus not only on strategic development, but also on *knowledge-based tactical implementation*

Representative Clients

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|------------------------|------------------------|--------------------------|
| ▪ Ameriprise Financial | ▪ MetLife | ▪ Capital Group |
| ▪ Wells Fargo | ▪ New York Life | ▪ UBS Financial Services |
| ▪ American Int'l Group | ▪ Manulife Financial | ▪ The Dreyfus Corp. |
| ▪ Fidelity Investments | ▪ Fortis Investments | ▪ Allianz |
| ▪ ING Investment Mgmt. | ▪ Prudential Financial | ▪ Zurich Financial |

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