Syntax

In Recognition of Financial Advisors– What They Do and Where They Are Going

Paul Kenney June 12, 2025

The role financial advisors[1] play is both important and complex. Their guidance can be invaluable to clients who need assistance in achieving financial security, and their job requires a depth of knowledge in order to provide a range of valuable advice – all within the context of understanding the goals of each individual client amongst a large client base. The position also places an emphasis on relationship skills that allow them to successfully help clients manage through difficult markets and life events that will impact their financial planning. This paper offers an appreciation for:

- The work financial advisors perform for their clients.
- How they have been proactive in capturing the benefits of new technology to lower fees for their clients and better manage their businesses.
- How they have been closing the gap between retail and institutional investors

To illustrate the breadth and scope of financial advisors' work, we begin by examining institutional investors in order to then connect these insights to financial advisors and their clients.

Characteristics and Traits of Institutional Investors

There are many different types of institutional investors, each with their own needs and constraints. Below we highlight the distinct approaches and key characteristics of five different categories of investors: corporate defined benefit plans, corporate defined contribution plans, healthcare systems, endowments and foundations, and family offices. Interestingly, there are components of each of these group’s approaches to investing that can be applied to the work that financial advisors perform for their clients.

Corporate Defined Benefit Plans: Increasingly, the pension asset allocation model has moved away from a total return focus to liability driven approaches where the asset allocations are increasingly fixed income focused. This has the benefit of asset and liability valuations moving in tandem to minimize funded status, thus reducing the risk of unplanned pension contributions. Compared to most other types of investment programs, corporate pension plans manage risk in this asset liability matching framework.

Defined Contribution Plans: DC plans are shaped by an interesting premise within behavioral economics — the simplification of choice. Nobel Prize winner Richard Thaler has written extensively about how too many investment options can be paralyzing to plan participants. Behavioral economics has driven structural changes to DC plans that include companies automatically enrolling employees in a plan as soon as they are eligible, and defaulting participants into age-appropriate target date funds to eliminate their need to make asset allocation decisions. There is also a keen focus on managing fees to help minimize what the plan participants pay and maximize what they gain.

Healthcare Systems: The investment programs of large healthcare systems can be surprisingly complex and can include operating assets, pension plans, endowments, insurance pools, and defined contribution plans. Enterprise risk management is important as there is a need to develop asset allocations that reflect the financial condition of the organization and the needs of each asset pool. There are interrelationships between portfolios that need to be recognized and managed. For example, contributions to a pension plan need to be funded from the operating portfolio; therefore, the performance of the pension plan impacts the operating portfolio and the organization's financials.

Endowment and Foundations: Most endowments and foundations (E&F's) have a perpetual time horizon which supports the use of aggressive asset allocations. This often includes significant allocations to alternative investments with the goal of earning returns in excess of public equities to support return and spending needs. E&F's have a huge opportunity set of liquid, semi-liquid, and illiquid strategies to choose from. This can be both a blessing and a curse. The blessing is it provides the freedom to pursue best ideas across asset classes, and as such, E&F's are often first-time adopters of new strategies. On the flip side, this can lead to very complex portfolios with reduced transparency tied to the meaningful allocations to private assets.

Family Offices: Comparisons have been drawn between family offices and snowflakes:

no two are alike. Their level of complexity can range from straightforward to remarkably complex, particularly when accounting, tax, and estate planning considerations are included. Given their typical resources, family offices can use a bevy of external advisors including investment consultants, accounting and tax advisors, and external legal counsel.

Overlaps Between Advising Institutional Investors and Retail Clients

While there can be differences in size and complexity, there is considerable overlap in the type of work financial advisors perform for their clients and what institutional consultants do for their clients.

Consider:

Corporate Defined Benefit Plans: Developing asset allocation solutions requires the ability to model assets and liabilities, which is analogous to the financial planning analysis performed by financial advisors. The liabilities may be different (pension payments vs. personal spending needs); but at the end of the day, they both involve cash flows. Pension plans also have the benefit of not needing to deal with tax considerations, whereas financial advisors do not have this luxury.

Defined Contribution Plans: DC plans utilize principles from behavioral economics, which suggest that a large number of choices can hinder decision-making for individuals. Financial advisors work with clients with varying levels of financial sophistication. Consequently, they incorporate aspects of behavioral economics into their role to simplify the decision-making process for their clients where required. Like DC plans, there is a focus on managing fees and expenses as well.

Healthcare Systems: The complexity associated with healthcare systems is in part linked to the number of different asset pools within the organization. There are parallels here that exist with financial advisors and their clients. While a financial advisor may not direct all of the investments of a family, it is hard to develop a comprehensive plan without understanding how all the pieces connect. An individual or family's portfolios could hold:

- Investments in brokerage accounts, trusts, IRAs, 401k plans, and 529 plans that could be for individual family members or in joint accounts.
- Insurance products such as term life, whole life, annuities and disability insurance.
- Other assets including real estate holdings, a family business, stock options,

or an ownership interest in a business.

The interrelated aspect of a healthcare organization's investment portfolios often exists within the clients of a financial advisor.

Endowments and Foundations: The gap between the investment options and sophisticated strategies available to E&F's and financial advisors is not as wide as some may think. While financial advisors predominantly utilize liquid investments, there is no shortage of complicated strategies they can access, including buffered and levered ETFs, long / short strategies, defined volatility, and factor-based products.

Investment managers are increasingly focused on the retail space given the opportunity tied to the massive amount of intergenerational wealth expected to be transferred over the coming decades. Additionally, while private markets have traditionally been the domain of institutional investors, this is changing. Wellington Management, Vanguard and Blackstone have formed an alliance and recently filed with the SEC to launch a fund to invest 25% to 40% in private markets.[2] The acquisition of Preqin by BlackRock and Pitchbook by Morningstar points towards the growing integration of public and private assets in the portfolios of both institutional and retail investors.

Family Offices: Family offices and individual investors both deal with taxes and personal issues around estate planning. There are obvious differences in the complexity of the investment approaches and resources available to these two groups. However, while individual investors are much less likely to need the level of support required by a family office, they often require their financial advisors to be their primary source of information across a range of topics.

Areas of Appreciation

Of all the things that financial advisors do, not enough appreciation is given to items that fall outside of investment-specific activities, including:

- **Taxes**: Many institutional investors do not have to deal with taxes. There is no way to get around it – taxes can get complicated and simply cannot be ignored by financial advisors.
- **Retirement Planning**: Planning for retirement includes tasks like optimizing social security benefits, withdrawal strategies for 401(k)s and IRAs, and considering the nuances of Medicare. These items are outside the scope of institutional investors and consultants, but are part of daily life for

financial advisors as they help their clients navigate retirement.

- **A Difficult Business Model**: A reasonable consultant client load at a large institutional investment consulting firm could vary between eight to fifteen clients depending upon the markets served and the firm's business model. In contrast, the Investment Advisor Association estimates that on average a state-registered advisor has 52 clients[3]. SmartAsset AMP notes the number of clients an advisor may have is often between 50 and 150.[4] Managing this volume of clients and understanding their needs requires a lot of energy and effort.
- **It's Personal**: One of the biggest distinctions when working with high-net-worth families versus institutional investors is the personal connection to the investments. With institutional investors (aside from family offices), the analysis and discussion of performance is often spoken of in terms of performance relative to benchmarks and peers, even when markets are down. Conversations with a family or an individual are much more tangible, particularly when markets are down. Discussing performance in percentages and in relative terms quickly becomes secondary to knowing the decline in the dollar value of a portfolio and how it impacts the client's financial security. Financial advisors spend much more time living in an absolute return world compared to the relative world of many institutional investors.

Closing the Gap with Institutional Investors

Financial advisors and their clients as a group have been viewed as being at a disadvantage relative to institutional investors, with the latter possessing advantages tied to economies of scale, resources, investment expertise, and behavioral traits associated with retail investors that may contribute to an inability for this group to match institutional returns. Investment industry trends and advancements in technology are narrowing these gaps, and in certain cases, financial advisors are leading innovation.

Consider the following:

- Many financial advisors now have access to sophisticated tools like BlackRock's Aladdin system; technologies once available only to institutional investors have moved downstream to wealth managers serving retail clients.
- Technology is creating efficiencies that are helping financial advisors improve

their economies of scale. A recent Capital Group article noted AI is assisting advisors with client note taking, client emails, marketing, analyzing large documents, and tax planning.[5]

- Financial advisors have been at the forefront of direct indexing solutions for their clients, democratizing access to investments that traditionally had high fees and account minimums.
- The fee advantage of institutional investors tied to their asset size and economies of scale is dissipating based on the general trend of lower investment management fees, zero commission trading, and other cost savings. At the same time, certain institutional investors are increasing use of higher fee alternative investments like private equity.
- The growth in the ETF market has been driven by financial advisors seeking lower fee investment options and a more tax-efficient investment vehicle than mutual funds and commingled vehicles often used by institutional investors. ETFs also offer enhanced transparency relative to mutual funds.

Closing Thoughts

There is a tremendous amount of change taking place within the investment markets today. The lines are being blurred between the retail and institutional investment markets given trends around the democratization of the private markets, advances in technology and its integration, and growth in sophisticated investment products available to the retail market. Not to be lost within this changing environment is the important role that financial advisors play. We recognize and appreciate their efforts, and hope you feel the same.

1. Financial Advisors in this paper refers to those investment professionals that provide holistic investment and retirement advice to individuals and families, this group may include registered investment advisors and certified financial planners.

2. Industry Statistics - Investment Adviser Association

3. Average Number of Clients Per Financial Advisor

4. https://www.capitalgroup.com/advisor/practicelab/articles/ways-financial-advisors-use-benefit-from-artificial-intelligence-AI.html

5. https://www.capitalgroup.com/advisor/practicelab/articles/ways-financial-advisors-use-benefit-from-artificial-intelligence-AI.html

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