
THE FUTURE OF FINANCIAL ADVICE AND WEALTH MANAGEMENT

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In last week's podcast, I had the opportunity to interview Donald Calcagni, the chief investment officer of Mercer Advisors, a \$10 billion fee-only, independent wealth management firm, as well as Jason Barg, a principal at Lovell Minnick, a financial services private equity firm. Barg's background before starting at Lovell Minnick entailed covering financial services at Goldman Sachs in its investment banking division. Calcagni's background is in the wealth management and financial advice segment, where he has spent the last 25 years, approximately half of which has been with Mercer Advisors.

We discussed general industry trends for financial advice and financial services, and the start of the conversation centered on the trends of advisors who are [fiduciaries](#). Calcagni and Barg clearly have views that the future of advice is going toward non-commission-oriented advisors acting in a fiduciary capacity. Lovell Minnick is a large investor in Mercer Advisors, and Mercer has been growing both organically and through acquisitions that Lovell helped fund. Calcagni's firm completed six acquisitions of smaller advisory firms in the last six months.

Barg mentioned that since the financial crisis, we have seen a migration of assets from the large banks to independent financial advisors and registered investment advisors—something Lovell Minnick expects will continue.

"Robo" Technology Trends

We discussed the trends toward digital advice. That's a segment of the financial services industry Lovell Minnick has not yet invested in directly due to multiples on many of these venture-backed companies, but it does see tech solutions and offerings as critical investments in its portfolio companies like Mercer.

Calcagni highlighted how his firm is in the process of creating its own robo-solution, despite his belief that Mercer is not competing directly for the robo-oriented clients. Mercer Advisors' average account size is more than \$1 million, whereas the robo-accounts are not anywhere near those levels.

[Active](#) vs. [Passive](#) vs. Factor Exposures

Lovell Minnick is an investor in active management companies through a portfolio investment in Matthews Funds, one of the better emerging markets- and Asia-focused active management houses. Calcagni and I both agreed the trends for active management are difficult, and a growing number of investors are adopting factor-based investment strategies in lieu of active management.

Mercer's factor-based investment approach includes tilting portfolios to long-term factors it believes are rewarded in the academic literature—and that includes factors such as [value](#) tilts, [quality](#) tilts, [small-cap](#) tilts and high-[dividend](#)-yield tilts.

My discussion with Calcagni on the podcast was the first time we had met, but of course, given my own biases and the

WisdomTree factor Indexes, we absolutely agreed from a philosophical standpoint.

ESG Mandates Growing

Calcagni made an interesting point that one of the factors his clients are increasingly looking toward is the ESG line of investing (ESG stands for environment, social and governance). Calcagni said that less than 10% of his current client base incorporates ESG mandates, but it is the fastest growing segment of his accounts. Calcagni takes the view that much of this ESG work will be customized to individual investor needs and beliefs—as he even sees his clients on the West Coast having different desires to tilt portfolios than people the East Coast.

Mutual Fund Industry's Days Numbered

Calcagni believes the mutual fund industry's days are numbered. As technology advances and the cost of trading decreases, Calcagni utilizes both separately managed accounts to replicate indexes like the [S&P 500](#) at very low costs—so that he can do [tax loss harvesting](#) within the portfolios—and low-cost index funds as well. It was a bold statement but something he believes is already trending.

Other topics we discussed included:

- The case for private equity asset class generally, and financial services private equity that Lovell Minnick focuses on—how private equity firms enable companies to invest for the longer run compared to public equity markets
- How technology and the news spread can lead to behavioral investing challenges
- Implications for lower trading costs and discount brokerage fee cuts
- How alpha is becoming systematized in many areas, including alternatives and hedge funds
- How Mercer Advisors' real value add comes from managing behavioral elements

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DEFINITIONS

Fiduciary : An individual in whom another has placed trust and confidence to manage and protect property or money.

Active : Funds that attempt to outperform the market by selecting securities a portfolio manager believe to be the best.

Passive : Indexes that take a rules-based approach with regular rebalancing schedules that are not changed due to market conditions.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Quality : Characterized by higher efficiency and profitability. Typical measures include earnings, return on equity, return on assets, operating profitability as well as others. This term is also related to the Quality Factor, which associates these stock characteristics with excess returns vs the market over time.

Small caps : new or relatively young companies that typically have a market capitalization between \$200 million to \$2 billion.

Dividend : A portion of corporate profits paid out to shareholders.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Tax Loss Harvesting : Selling securities at a loss to offset a capital gains tax liability. Tax gain/loss harvesting is typically used to limit the recognition of short-term capital gains, which are normally taxed at higher federal income tax rates than long-term capital gains.