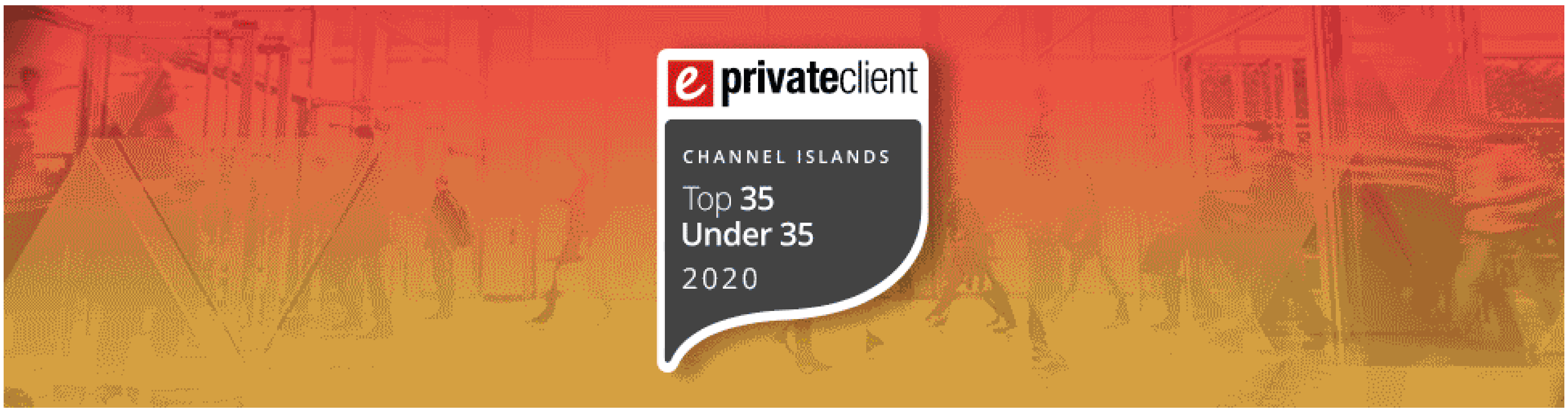


Leveraging technology to manage wealth during extended periods of volatility

ERIC MELLOR, 30/03/2020

By Eric Mellor, wealth management specialist, Temenos

My inbox and social media channels are awash with advice at the moment: How to navigate these uncertain times, how to manage market volatility, how to communicate effectively with my clients, how to understand and reduce anxiety and of course, how to maximise productivity from the confines of my living room.

The rapid escalation of the Covid-19 outbreak has forced companies across the globe to test business continuity plans that many hoped would never be needed.

Hindsight is 20/20 and it's only during times of crisis that those who are blessed choose to reveal themselves. For the rest of us, we implement the plans that we have made, briefly regret the areas we neglected, scramble to keep ahead and try to overcome the new challenges that present themselves.

During most periods of crisis, be it the outbreak of conflict, an unprecedented act of terrorism or, as in this case, a global pandemic, the wealth management industry will face the same challenges – scared and uncertain clients that in turn, drive volatile and unpredictable markets.

The fatal flaw of modern portfolio theory has always been an underlying assumption that investors are rational – in reality, they are often anything but, and this is never more clearly demonstrated than during periods of extreme volatility.

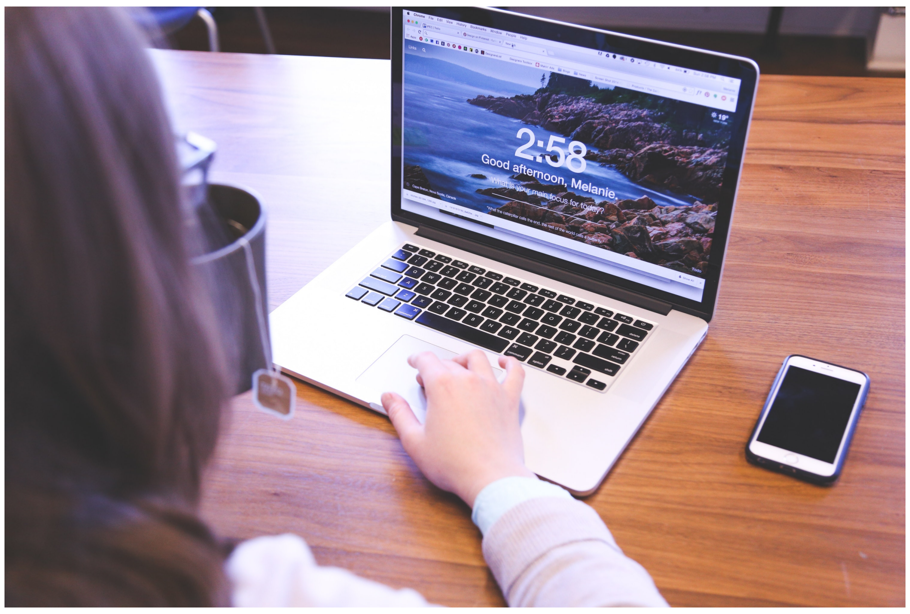
Many wealth managers may have never faced more challenging environments.

Even during the unknowns presented by the global financial crisis, communication channels were open and markets responded well to early fiscal intervention.

The current restrictions on travel and requirements for isolation in most parts of the world have left investors feeling isolated. Markets are displaying unprecedented volatility and uncertainty is the only constant.

At a time when traditional wealth managers are already facing tightening regulations and competition is emerging from new industry entrants this industry shock could not have arrived at a worse time.

It should be noted however that it is during the most challenging times that wealth managers are best able to demonstrate the true value they can add to their client relationships.



Investors are irrational, long term goals are quickly forgotten, uncertainty leads to panic and fear leads to poor decisions.

Nobody likes to be the bearer of bad news and our natural instincts may be to avoid difficult conversations with fearful, disappointed, and even angry clients.

We can however make use of a number of tools that can not only make these uncertain times easier to manage but can also help wealth managers to demonstrate true value to their clients.

Below are some examples of the most common tools which may be utilised.

Secure co-browsing functionality

One of the core challenges many wealth managers may face, especially those with clients based in regions they are unable or restricted from visiting, is maintaining frequent contact and conducting regular meetings.

In my experience, clients who fully understand the underlying reasons for excessive volatility will likely remain patient and be prepared to sit tight and await a recovery.

Those who endure (on paper) losses will be forgiving but only if they are kept informed, if access to their wealth manager remains open and if they are provided with frequent and detailed information on their personal circumstances.

There are numerous co-browsing and screen sharing tools available that permit and enable secure remote meetings. These allow wealth managers to speak to their clients via video or audio and to walk them through charts, updates and valuations and even, if necessary, to assist them in undertaking portfolio maintenance via self-service channels to which they may have access.

The added advantage of these co-browsing platforms is that wealth managers can conduct more meetings in less time and, once clients are provided instruction on the use of self-service functionality, they may be more willing to undertake basic tasks themselves in the future, further reducing the wealth manager's burden.

CRM System with notifications, alerts and multi-client messaging

CRM systems have evolved and should no longer be viewed simply as a backup diary and repository for your client's contact details.

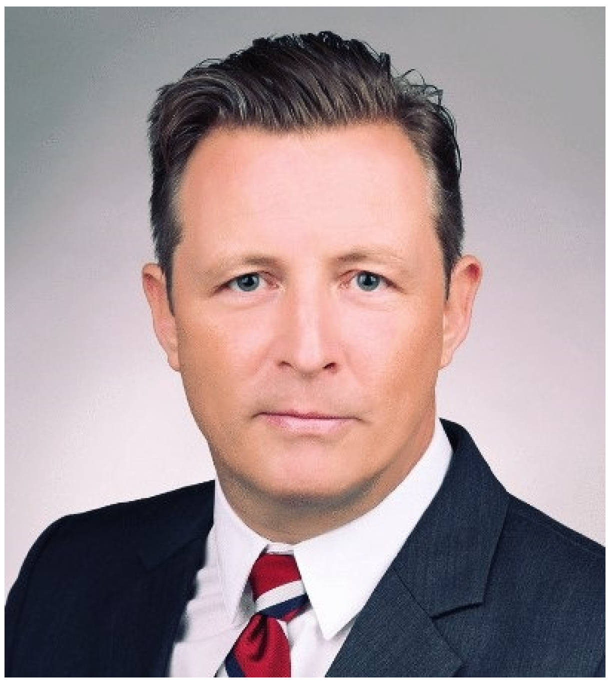
Modern CRM platforms can serve as integrated work-flow tools to help sales teams to monitor and increase wealth manager productivity, engage with clients and collaborate across teams such as compliance and marketing and communications.

Notifications and alerts can be configured to nudge wealth managers to contact clients when it may be necessary to undertake suggested portfolio maintenance or to contact a client for a scheduled review meeting.

For example, an automated alert may be configured for clients deemed to have a low tolerance for investment risk, prompting their wealth manager to make contact should the value of their portfolio reduce by a certain limit.

Marketing and communications may leverage the same platform to distribute tailored or semi-bespoke messages to similar client types informing them of the firm's outlook, the reasons for underlying volatility or other more general market related information.

In times of increased volatility, consistent, accurate and timely information is valued and a modern CRM platform should help to facilitate efficient delivery.



Eric Mellor

360 view, real time valuations

Again, on the themes of timely information, clients may wish to have access to detailed, real time (or as near as possible) portfolio valuations, available via any channel and on any device.

Many wealth managers may prefer to restrict access – hourly calls from frantic investors watching values fall in real time can be a drain, but again, an educated investor is a sensible investor and the calmest people are generally the best informed.

API first technology makes consolidated real time statements relatively easy to produce and this offering will be a true value add to most wealth management customers.

Goal-based planning tools with risk simulations

In order to meet tightening regulations around product suitability and to promote deeper and more sustainable client relationships, we are seeing more and more wealth managers make use of goal based planning and other holistic wealth management tools.

The best of these solutions will perform scheduled or ad-hoc Monte Carlo type simulations and can, if required, alert clients or their wealth managers if market volatility has impacted the achievement of their defined goals.

In addition to helping clients to remain informed, such alerts may serve to trigger actions such as portfolio rebalancing, increasing contributions, re-evaluating risk tolerance or adjusting defined goal timeframes. That they may also help to demonstrate suitability to regulators is simply an additional bonus.

Automated portfolio rebalancing tools

The sharpest market falls are often attributed to algorithmic trading platforms and their automated trading patterns are often cited as the reason for most stock market trading suspensions.

Whilst I am willing to accept that algorithm strategies may have their place, I'm not entirely convinced that a fully automated, that is a purely algorithm driven platform would be the best tool to utilize in periods of sustained market volatility.

An automated portfolio rebalancing tool however, may be very beneficial. A robo type tool receiving manual instructions in place of an algorithm but still capable of automating the rebalancing of multiple client portfolios linked to a single master.

Inaction in portfolio maintenance during volatile periods may be attributed to multiple factors. The sheer scale of the effort, the duration of trade settlement during rapidly changing periods and of course associated transaction costs.

Any tools capable of automating rebalances across large portfolio numbers will allow wealth managers to demonstrate agility. To stem losses, to take advantage of new opportunities and to demonstrate a value add to their investment customers.

If the recent outbreak of Coronavirus has showed us anything it is that the world is now more connected than ever and nowhere is that connectivity and inter-reliance more evident than in global markets.

Historically, significant market shocks were limited to certain asset classes or geographical regions. Global shocks were considered once in a generation events, virtually impossible to predict and difficult to mitigate.

Depending on your definition of 'significant,' the last 20 years has seen four or five sustained periods of increased volatility, driven in part by events such as the collapse of the technology bubble, the Sovereign Debt Crisis, the Global Financial Crisis and 9-11.

Whilst these events remain difficult to accurately predict, we do have more tool at our disposable to help our organisation and our clients to navigate the uncertainty they often present and to lead us towards more successful outcomes.

Effective communication remains key to managing client expectations during periods of fear and uncertainty but the most successful wealth managers will make use of all the tools that are currently available.

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