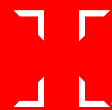

The revolution coming to Financial Services is not Robo.

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Nicolaus Copernicus was a Polish mathematician who formulated and promoted a model of the universe that placed the Sun rather then the Earth at the center of the universe. Today, the financial advice industry is wrestling with whether to continue to speak to clients using traditional investment lingo. That's interesting in that the traditional language was built around institutional investment needs and goals not individuals' objectives. For example:

Point in Time Risk: An institutional investment time horizon is in perpetuity, which allows them to take advantage of the law of large numbers or market averages. An individual's investment horizon, in contrast, is over a specific period in time that-in turn-magnifies the market returns (and risks) over his specific investment period. An institution, e.g. JP Morgan, which traces its roots back over 200 years, can weather a variety of markets. The individual is stuck bearing a particular market, e.g. the retiree in 2008.

Performance Statistics: Because an institution invests in perpetuity, their understanding of their investments are rooted in statistical terms (standard deviation, mean, etc.). However, as an individual is seeking to understand his or her specific journey, these traditional institutional measurements start to cloud the conversation around how to measure their outcome. While it is important to know the metrics of one's investments, they are just numbers to the individual if taken out of their individual context.

Categorization of Investments: There are thousands of indexes, mutual funds, and ETFs crammed into categories or as some would say "boxes." An institution may take product proliferation as a distinct positive because they will always desire new ways to diversify or take advantage of statistical anomalies or truisms. But importantly, this proliferation not only confuses the individual but also paralyzes their quest to distinguish investment offerings. Currently, investments are not categorized by the types of goals they should be used to attain. Rather, they are organized by their very specific niche in an overspecialized tradition of irrelevancy, e.g. small-cap Jamaican drum companies. One can easily wonder if much of the new products are merely the byproduct of an overactive quantitative exploitation of markets.

Risk Tolerance Questionnaire ("RTQ"): Institutions follow investment policy statements while individuals are mapped to investment offerings through risk assessments. Institutions use these policy statements for guidance, evaluation, and audit. Yet, individuals cannot use their assessments for the same purposes because RTQs are based on the institutional investment lexicon, e.g. using standard deviation, beta etc. The individual assessment might assert that a certain investment portfolio has a certain risk level but does not relate that to the individual investor's needs and goals.

From the use and categorization of investments to how they are measured, the industry is in desperate need of change. How individuals speak in a needs and goal language is much different from an institution. Therefore, a new investment dialect needs to be adopted, so that advisors do not make the mistake of continually describing an investing experience with language that does not reflect their client. This reality is the difference between goals-based and traditional frameworks. Traditional frameworks have ruled the day. But the change needed for the individual is a Copernican investment revolution. A revolution for the individual investor where the investments make sense, measurements actually mean something, and the evaluation criteria reflect their reality. A Goals-Based investment approach puts the individual at the center of the investment universe with a new language to describe it.