COLDSTREAM

The COO Roundtable with Matt Sonnen

Episode 75 – Why AI Is Not Your Top Tech Priority

[00:00:00] **Matt Sonnen.** Welcome everyone to Episode 75. I'm embarrassed to say that I have officially failed you, our loyal listener. I think because the markets have been so volatile the past month or so, and because it's tax time, for the first time in six years of producing this podcast, I was unable to secure two guests who were willing to take the time to sit down for an interview.

[00:00:35] I reached out to many potential guests and many of them said they were interested in participating, but just now wasn't a good time for them. So I thought, well, geez, this might be the first month where we simply don't publish an episode. Last month, for Episode 74, I did a monologue episode where I riffed on a topic that I thought was important to all of our listeners.

[00:00:55] I discussed client segmentation in that episode, and if you've listened, you know that that topic is very near and dear to my heart. But I prefer to save those monologues for rare occasions. I've only done them about every 18 months or so. I really want this podcast to be about interviewing folks that are in the seat of running operations at their RIA and learning from them. I don't really want this podcast to be about me, so I thought having back-to-back Matt-only episodes was not a very good idea, but when the alternative was to simply not publish an episode at all, I started to warm up to the idea of doing another monologue. And I just got back from the RIA Edge Conference in Nashville, hosted by Wealthmanagement.com, where I spoke on a panel discussing how to use technology to build a memorable client experience.

[00:01:43] And I also just published my latest article at wealthmanagement.com, which is titled "Why AI Isn't Your RIA's Top Technology Priority." So I thought I had some decent technology content that I could share with all of you. I know you all are intimately involved in building your firm's tech stack and figuring out the best way to leverage technology to enhance the lives of your clients and your teams.

[00:02:06] So while I really hate the idea of back-to-back episodes with just me droning on and on, I hope this conversation is relevant to all of you and can help you think through some of your challenges that you're working through at your firm. So here we go.

[00:02:18] As far as the panel about the client experience, the main point that I wanted to bring to that conversation was the fact that too many RIAs, in my opinion, too many RIAs confuse things and think that they need to put technology in the hands of their clients.

[00:02:33] They start designing things really for the do-it-yourself investor. And that person is not a potential client of an RIA. Your clients want to give you their assets to manage on discretion, and they want to feel that you have their best interest in mind and that you're managing their assets for them, that you will keep your eye on their portfolio and guide them on the journey of achieving their financial goals.

[00:02:56] The client experience you're building should not be a tech enabled one. And I'll link to an article that I wrote on this topic several years ago. It was titled "High Tech Versus High Touch: What are clients really asking for?" And in that article I talked about: clients are not asking for technology to be in their hands. They don't want the ability to manage their own portfolios. Clients don't want to use technology to replace their advisor. They want to use technology to interact more often with their advisor and enhance the relationship with their advisor. So advisors should think of innovative ways to leverage technology to improve their communication channels with their clients.

[00:03:34] So that's text messaging or video conferencing through Zooms and Teams, or it's the two-way client vault that makes it easy to exchange documents securely. It's client surveys. We just did a client survey here at Coldstream and that was a tech-enabled solution for us to have contact with our clients.

[00:03:51] All of these tech tools should make the advisor more available to their clients and remind the client that you are there for them. So find ways to increase the human interaction through technology, but don't put the tech in their hands. I could even make the argument that from a technology perspective, your client doesn't even really need to see the performance of their assets.

[00:04:11] They just want access to their number. They don't want to have to call you or wait for you to call them back to tell them what their number is on any given day. If they happen to walk by CNBC and they see the market is up big on a particular day or if they walk by CNBC and they see it's down big on a particular day, they want the ability to log in really quickly and see their portfolio value.

[00:04:32] They know they gave you $10.2 million, for example, and they just - they just want to log in really quick and see that that $10.2 is worth $10.4 today, or maybe it's worth $9.9 today, but they want to log in, see that number, and then they log out right away. They aren't gonna spend a lot of time reviewing their performance of each individual position in the portfolio.

[00:04:51] Again, that's more of the do-it-yourself clients, and that's not who you're serving at your RIA. They just want access to their overall portfolio value. All of this reminds me of an article that I recently read by Matt Beecher. He's the Chief Revenue Officer at interVal. I don't know Matt and I don't really even know what interVal is, but his article is incredible.

[00:05:13] It's titled "The Tech You Use Doesn't Matter," and I'll link to that in the episode notes. But he writes, "technology needs to do something. It's not about the bells and whistles. It's about tangible impact: does it save time, expand your capabilities, enhance client experience, or improve profitability? If not, it is just noise." And I absolutely love that.

[00:05:38] If it doesn't save time, expand your capabilities, enhance the client experience, or improve profitability, it is just noise. On a recent COO Society member meetup call that we had, we talked about shiny object syndrome and how all of you as head of operations at your firms, how you deal with that never-ending barrage of suggestions from your teammates saying, Hey, I just saw a demo, or I just heard about this technology tool: we should implement that here. And on our call, Chris Pelch- he was on Episode 47 of the podcast-he's been a long-time member of The COO Society. He shared that he has an impact filter for dealing with shiny object syndrome. He's actually built a questionnaire that whoever is making that suggestion that the firm adopt a new technology: they have to fill out the questionnaire and that spells out what impact it will have on the firm.

[00:06:31] And I don't remember all the exact questions that Chris had laid out in his questionnaire, but this sentence from Matt Beecher's article is a great starting point. How does it save us time? How does it expand our capabilities? How does it enhance the client experience? How does it improve our profitability?

[00:06:49] Because if that person that's bringing that to you and asking you to spend a bunch of time and energy researching this tool - if they can't articulate beyond, oh, uh, I don't know. I just - it just seemed cool. Or they say, you know, I forgot to ask what the pricing was of the tool. If they haven't really looked at all of that stuff, it's - it's not worth your time to research it.

[00:07:09] And Matt Beecher, he goes on in his article and he writes, "too often, wealth managers fall into the trap of building expansive tech stacks to cover every conceivable need. This approach can lead to a Frankenstack, a convoluted mix of tools that don't integrate well and fail to deliver clear results."

[00:07:29] He says, "all-in-one operating platforms, while they're appealing, are not without their own risks and added cost to support. Instead, advisors should focus on technologies that directly support their goals and create meaningful outcomes." I say amen, Matt Beecher. He then recommends a core and satellite approach, and that's something that I've heard from other guests here on the podcast as well.

[00:07:53] He says, "simplifying your technology strategy starts with the core tools, and those are your foundational systems. The daily operations like CRM, financial planning software, or portfolio management platforms. These tools should be robust, well integrated, and central to your practice. Satellite tools, on the other hand, are enhancements."

[00:08:15] He says, "they address specific needs such as AI analytics, client engagement platforms, or forecasting tools." He says, "by treating satellite tools as modular, you maintain flexibility while ensuring each tool serves a clear purpose aligned with your strategy."

[00:08:35] Now tying all of this back to my panel at the RIA Edge conference, he writes, "here's the truth: your clients don't care about the complexity of your tech stack. They care about the experience you deliver. For advisors," he writes, "the value of technology lies in how it supports this client experience. Efficient, well-integrated systems reduce manual effort, save time, increase time to value, and enhance profitability.

[00:09:02] When technology simplifies your operations, you can focus on what truly matters, delivering exceptional service." So let me say it again: the client experience is separate from the technology you use. The famous Maya Angelou quote is very relevant here: "people don't remember what you said, they remember how you made them feel." And we can adapt that a little bit to the discussion here and say: clients don't care about the technology interface, they care about how you make them feel. Do they feel more confident or less anxious about their financial goals after speaking with you? The client experience is the handholding you provide. It's the guidance you give your clients through tough times.

[00:09:45] You know: Bob and I are getting a divorce. Will I have enough money to support myself? Or: Sally just got really bad medical news. Do we have enough to pay her medical bills and support our family without her income? Or: little Johnny is headed off to college. Could you sit with him and teach him about budgeting? He's never had to take care of his own finances and God knows he isn't gonna listen to me and my - and my wife about how to handle his money. If you could sit with him, he would learn a lot and we would really appreciate it.

[00:10:14] These are the important aspects of your client experience. To quote Matt Beecher, again, "the tech you use doesn't matter." So then he concludes his article by saying, "relationships are the cornerstone of wealth management. Technology can amplify your ability to deliver personalized high-value advice at scale. It's not about replacing human advisors, it's about empowering them," which is exactly what I wrote years ago in my "High Tech Versus High Touch" article.

[00:10:42] He then writes, "the temptation to adopt every promising tool is real, but it often leads to inefficiency and wasted resources. Instead, you need to focus on tools that integrate seamlessly with your existing systems, solutions that deliver measurable ROI, and focus on technology that is aligned with your goals and client needs." And then the last line of his article states, "the tech that you use doesn't matter. It's how you use it, why you use it, and how you explain that value proposition to your clients."

[00:11:16] I thought that was incredible and it tied very nicely into the conversation that I had at the conference. My panel, by the way, had a lot of ties to this podcast. Our moderator was Morgan Bell. She works with Lisa Crafford at Constellation Wealth. I know a lot of our listeners know both Morgan and Lisa, and Constellation is obviously run by Karl Heckenberg, who I interviewed on Episode 36 back when he was still running Emigrant Partners. And one of my fellow panelists was Dr. Jordan Hutchison from RFG Advisory. He was on a recent episode: he was on Episode 70. So it was a lot of fun to interact with all of those folks again that have been on the podcast. And then a few other articles that I've written on this topic over the years that I'll drop into the episode notes.

[00:11:58] Back in 2021, I wrote an article, "RIAs That Excel at Technology Do Not Look Like Tech Firms." And in that article I quoted the late Jud Bergman, the founder of Envestnet. In his keynote address at the Envestnet Conference in 2019, he said, "it's counterintuitive that by building a digital connection with the client, great technology can actually contribute to a stronger human relationship."

[00:12:23] Again, it's about the connection. It's about the relationship between advisor and client that's important. I really think it's a mistake to put technology between the advisor and the client. You want to enhance the relationship, not replace it or- or not complicate it.

[00:12:39] One other article that I'll link to, I wrote back in 2020: it was titled, "Identify Your Ideal Client Before You Determine Your Tech Stack." And to Matt Beecher's point, your tech has to serve a particular purpose. If you don't know specifically what type of client you're serving, you won't know what purpose a particular technology tool is giving. I concluded that article by saying, "with so many choices in the marketplace, building an integrated technology stack that gains full adoption across employees of the firm is very difficult. RIAs should look to simplify the process wherever possible. Starting with a clear understanding of who you are looking to serve and how you want to serve them will eliminate a lot of headache down the line." So both of those articles, while they're both over four years old, they're still very relevant to our discussion today.

[00:13:28] So now let's shift the conversation to the tech topic of 2025, which of course is AI - talk about shiny object syndrome, my goodness. Is there a better example of shiny object syndrome than AI? I am personally very tired of everyone's fascination with it. I am constantly contacted by friends and industry acquaintances, along with teammates here at Coldstream: they're constantly asking me, have you- have you looked at this AI tool? Have you looked at that AI tool? Are you thinking of implementing this AI tool at Coldstream? And I have a very historical take on AI. I am old enough to remember the late 90s and early 2000s when the internet was all the craze.

[00:14:08] And I remind those people that are frothing at the mouth today about AI: the internet obviously changed the world. It revolutionized the way we do business. It revolutionized the way we conduct our daily lives. It really, it revolutionized everything. Back in the 90s, I didn't think that the internet was a silly fad that was gonna go away.

[00:14:27] And I'm definitely not saying that AI is a silly fad that is gonna go away. It will revolutionize our daily lives in the same way that the internet did. But there were a ton of internet companies that crashed and burned in those early days: hundreds of them, thousands of them crashed and burned. Google is amazing, but Netscape came first and obviously Netscape is no longer around. AOL with that dial up connection [chrrr chrrr chrrr beep beep.]

[00:14:56] The famous AOL dial up- obviously, AOL was not the long-term winner in the race to dominate the internet, and I'm just- I don't want to put Coldstream and our 200-plus employees through the brain drain of adopting some AI tool that's relevant in 2025 when I know that the tool everyone is touting today is not going to be around long-term.

[00:15:18] It's not going to be one of the long-term winners. I don't want to build Coldstream's entire client experience on top of AOL's dial up modem, so to speak, when I know there is a Google coming in a few years. Absolutely AI is gonna revolutionize things, but I just have a hard time believing that the tools that are out there today that people are getting excited about, are going to be the long-term winners.

[00:15:39] And beyond the fact that today's AI tools aren't ready for primetime, if we take a massive step back, we need to acknowledge the fact that RIAs themselves are not ready for primetime either. And that's the topic I address in this latest article that I wrote, which is titled, "Why AI Isn't Your RIA's Top Technology Priority." There are thousands of RIAs out there, from a technology perspective, that have not learned to crawl or even to walk, and they're trying to skip the critical step and they're trying to tackle AI today before they know how to crawl or they know how to walk.

[00:16:16] As I write in my article, they're trying to build a skyscraper on sand. That's the analogy I used in the article, and we all know that that is not a sustainable solution. Many RIAs are grappling with foundational technology problems that must be addressed before they can even think about tackling the complexities of AI.

[00:16:36] If you're a member of COO Society, you've heard this speech many times before, and if you've been reading my blog for a long time, I've written about this six, seven years ago, but there are three core technology problems that RIAs struggle with, and I don't think these three core problems have been solved yet.

[00:16:53] RIAs either have too little technology, they've implemented the wrong technology, or due to shiny object syndrome, they've attempted to integrate too much technology at their firms. I'm willing to bet that pretty much every RIA out there is struggling with one of these foundational technology problems and trying to ignore those problems and skip right to implementing AI at their firms is- is kind of like dropping a 15-year-old with their learner's permit behind the wheel of a McLaren and say, why don't you get her up to 225 miles an hour and see how she handles. You're gonna crash and burn really quickly.

[00:17:29] So let's go through these three core technology problems. So the first one I mentioned: too little or insufficient technology. And we talk about this a lot on the podcast. This is the typical RIA owner who says, well, I'm willing to spend $20,000 a month on marketing, but I'm not gonna invest any money in software that promotes operational efficiency. This means employees are forced to perform manual tasks that could easily be automated. The simple fact is if it takes your firm two months after quarter end to process your billing, you are not ready for AI.

[00:18:05] If at the end of the quarter you call your employees into your conference room and everyone sits around the table and manually is collating printed out pieces of paper before you then put them in envelopes and mail them to your clients, you have bigger fish to fry before you attempt to tackle AI. If your advisors are manually placing trades through the custodial interface on an account by account basis, rather than having a rebalancing software that can trade across accounts and across clients with just a few clicks of a button, you are not ready for AI.

[00:18:36] If your idea of automated workflows and task management is dropping sticky notes on employees' desks, or if your contact management software is no more than Outlook, rather than a central repository of all your client contact information that everyone at the firm can access, you need to slow way down and solve these problems before you start demanding that AI starts automatically emailing your prospective clients for you, and then just magically setting up appointments on your calendar for you.

[00:19:06] So then the second big technology problem faced by too many RIAs is related to our earlier conversation. This is the problem of having the wrong technology or misaligned technology in place. As we discussed, too many RIAs adopt technology solutions without ever considering what they actually are solving for.

[00:19:24] So again, who is their ideal client and what service are they trying to provide them? While being informed about new tools is important, rushing to implement systems without proper due diligence and asking that important question: "what tangible impact will this technology make on my firm?" can lead to wasted investments.

[00:19:43] For example, an award-winning performance reporting tool might excel at reporting on alternative investments, but if an RIA doesn't invest in alternative investments, implementing such a tool would be a poor use of your hard-earned dollars.

[00:19:57] I remember many, many years ago sitting through a technology demo with an RIA owner: they were looking at replacing their performance reporting software, and the vendor went into this 45-minute presentation covering all the bells and whistles that their tool could provide. And after 45 minutes, they felt they had adequately dazzled this RIA owner. So then they finally paused and they said, "so what do you think?"

[00:20:21] And the RIA owner's eyes, they were completely glazed over, and he said: "let's start with this. Can we get our pie charts in color rather than in black and white?" He says, "I think that would be a good technology improvement for our clients." So again, knowing what technology problems you're solving for rather than implementing solutions to problems that don't actually exist at your firm can help you prevent misaligned technology.

[00:20:48] Another example of wrong technology at your firm. It may not be the implementation of new software that doesn't necessarily make an impact on your clients or your employees, but it could be that you have outdated technology at your firm. You've failed to recognize that your client base has evolved and the operational needs of your organization have changed.

[00:21:08] Or maybe you have all the right systems in place, but you've failed to build integration points between them. That's another common example of misaligned technology. Weak integrations between the various components of your tech stack can result in duplicative data entry, inefficiencies, and a lot of frustration for your employees.

[00:21:27] It's critical to resolve these misalignments before attempting to introduce AI. Without a cohesive technology stack tailored to the firm's needs, AI is- is going to just overly complicate things with added complexity rather than streamlining your operations, which is supposed to be the goal of AI.

[00:21:46] And then the third fundamental technology challenge by far is the most common. It's- it's not having too little or misaligned technology at your firm, but it's having too much technology at your firm. And this is caused by an RIA owner who- they've identified themself as a technology nerd, and they love to investigate new and exciting tools and assume that technology's the answer to any of their firm's problems.

[00:22:10] They think: we had too many trade errors last year? Well, it must be because we have a bad rebalancer. Let's just rip that rebalancer out and bring in a new one. Or they'll say, we didn't grow very much last year? Well, that must mean that our CRM is bad and that we can't properly track our leads. So let's bring in a new CRM- that will kickstart our organic growth.

[00:22:30] I wrote about this six years ago in an article titled, "RIAs Are Struggling With Too Much Technology, Not Too Little." And I talked about how the employees of firms like this fail to adopt technology tools because they know by the time they learn a particular tool, the owner is going to replace it with something else. They say, "yeah, my password to that system expired three months ago but I never bothered to reset it because I know that they're gonna bring in something else very soon, so why bother to to learn that technology?"

[00:22:57] Back in my consulting days, I'd interview employees at firms like this and they would say, "do you realize we have three client portals? We have two reporting systems, three financial planning tools, and two separate databases that house client contact information?" And the irony of all ironies is it's those firms that have these problems with data and all these disparate systems where the owner of those firms is going to be the very first one to say, "hey, we've gotta bring AI in here and solve all of our problems."

[00:23:24] But how on earth will AI be able to find the data needed when it's floating around in all those different systems? That is the last firm that will be able to use AI effectively. But ironically, it's the first one that is going to be spending money on these early AI tools that have no chance of success with the infrastructure that they have built.

[00:23:45] As I wrote in my latest article addressing AI, "redundant tools and unnecessary, complicated infrastructure will confuse staff, waste time, and reduce productivity as employees struggle to determine which tool to use for a given task. Simpler, more efficient solutions may be available that can better meet the needs of the firm without overwhelming the employees. Simplifying the tech stack by prioritizing essential well-integrated tools ensures that employees can work effectively and that AI can seamlessly enhance operations instead of adding to the chaos."

[00:24:19] And then to go back to Matt Beecher's concept of the core and satellite approach to technology, AI is a satellite solution. It is not a core component of your tech stack. It's an enhancement that requires a solid operational base to succeed. Yes, it is going to revolutionize our world. I've already admitted that, but RIAs must address these foundational technology problems first, whether that's investing in the necessary tools to serve your ideal clients, aligning existing systems with your specific business needs, or simplifying your overly complex infrastructure.

[00:24:54] So to wrap up this episode, I want to emphasize the core message that we've discussed today. Technology should serve to enhance the client experience, not complicate it. As we've said, the landscape of technology is ever evolving and AI, it offers exciting possibilities, I admit that. But we must first ensure that our foundational systems are robust and effective.

[00:25:16] The real power of technology lies not in the tools themselves, but in how we leverage them to foster relationships and deliver exceptional service to our clients. Remember, clients don't care about our tech stacks. They care about the confidence and support we provide them on their financial journeys. So be intentional about the technology you adopt at your firms. Focus on integrating tools that align with your goals, enhance your capabilities, and ultimately improve the client experience.

[00:25:45] These monologue episodes, they're a bit shorter than our interview episodes, so I encourage all of you to use that extra time to reflect on your current tech stack and consider whether it truly supports your tech vision.

[00:25:57] Go and read the many articles that we're going to link in the episode notes. Use those articles and the arguments that they lay out to help craft your tech stack and avoid shiny object syndrome.

[00:26:09] So thank you for joining me today. I look forward to our next episode. We're going to get back to our interview format, I promise, and we'll continue exploring how to elevate your practices and deliver unparalleled value to your clients.

[00:26:21] So that is a wrap on Episode 75. We will talk to you all soon. Thanks so much.

COLDSTREAM