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Financial advisers and the move to democratized investments and investor control

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At a recent financial conference, I found myself engaged in a conversation that highlighted investment advisers' reluctance regarding non-platform private market investments. The question was simple, "Why does the system make it so difficult for quality sponsors to be placed with your clients?" The answer was as telling as it was straightforward: "career risk." This is not the first time I've heard this feedback.

Understandably, advisers are wary of attaching their reputations to sponsors that don't have household name recognition, opting instead to align with major players, even if they fail to deliver returns. After all, it's hard to fault the adviser if everyone fails together. This mindset underscores resistance within the industry to adapt to what is already happening — democratized access to private market investments outside the investment advisory community.

The parameters of a healthy portfolio have changed, and much has been written about the evolution of the traditional 60/40 portfolio mix of stocks and bonds to the "new" 60/40 mix of public and private assets. Institutional players have paved the way for significant inclusion of alternatives and private market assets into their portfolios, and the strategy is trickling down to high-net-worth and mainstream investors alike.

The Jobs Act of 2012, which allowed for general solicitation, heightened visibility of alternative investments, spurring investor interest and initiating a push for inclusive access. A decade later, this shift has broadened opportunities for nonaccredited, tech-savvy millennials, who stand on the brink of a historic wealth transfer, with the potential to reshape the investment landscape for everyone.

We are witnessing a critical realignment within the industry, in which investors are claiming control of their financial futures. Today's investors are becoming "mini-institutions," opting for hands-on asset allocation to meet more aggressive return expectations over conventionally advised funds. In line with institutional models, some investors are allocating upward of 40 percent of their portfolios outside of public markets, and direct-to-investor platforms are growing to meet the need.

These platforms offer investors high-growth opportunities in the alternatives space, such as real estate, art and collectibles, farmland, and other previously inaccessible sectors, traditionally the domain of the ultra-wealthy or institutional investors. Mainstream investors are beginning to ask themselves, "Why limit my alternatives allocation to Blackstone Real Estate Income Trust, which just recorded its worst year since inception, when a private multifamily development investment projecting a 2x multiple is just a few clicks away?"

Disruption is sweeping through all levels of traditional wealth management, extending beyond access to alternatives. Technologies such as Wealth.com employ AI to generate estate planning documents affordably, while self-directed IRAs and private equity crowdfunding applications gain traction. Moreover, platforms such as Robinhood for trading public equities and the heed paid to online investment forums — though often financially imprudent — signal a strong push for investor autonomy.

This transition toward self-directed investment strategies may raise uncomfortable but necessary questions about the future role of investment advisers. When faced with the decision on how to manage their inherited wealth, will millennials be willing to hand over the reins once they become accustomed to engaging directly? And if so, will they be willing to confine themselves to the rigid boundaries of a predefined advisory platform?

There is a window of opportunity calling for greater integration between advisory and direct-to-investor platforms. This may involve advocating for greater flexibility in client advising beyond traditional platforms, or for broader investment options within them. There is risk, of course, in taking bold steps to embrace a democratized frontier, as well as reward.

Ultimately, the "career risk" for advisers is inaction. Staying relevant means accelerating to keep pace with our industry's rapid disruption.

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