MLB Managers Can Coach Advisors Through The Robo Revolution

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As the Major League Baseball season kicks off every April, team managers begin the tedious tasks of posting lineup cards, pointing to bullpens, and stepping up to post-game microphones. Since the birth of the sport, managers proved their worth with mysterious baseball instinct earned over a long career of watching and playing the game. Thanks to the rise of Sabermetrics, some say managers have become little more than high-paid robots programmed to execute choices based on statistical analysis. Today, nothing needs to come from the “gut” of a former player past his prime. Instead, teams can rely on the numbers to determine batting orders, position placements, and defensive tactics.

As baseball managers apparently face obsolescence, financial advisors must contend with similar technology disruption, particularly in the form of robo investment solutions. In fact, a recent KPMG study estimates robo assets under management will reach a staggering $2.2 trillion by 2020. In a digital world, why listen to the supposed expertise of a manager or advisor when a computer can determine which decisions yield the best outcomes? Every manager, player, advisor, and client now has access to the same information. As the robots continue to consume market share, traditional advisors need to rethink the way we provide value.

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Like managers, advisors believed their value came from some unique and superior knowledge. Managers thought they could outwit the opposing manager in the other dugout while advisors thought they could outsmart markets and gather more returns than the advisor across the street. In truth, this misconception has forever represented a far more serious threat to survival than any technological change. We've never fully understood the importance of the intangible human element. And as big data and technology finally level the playing field, the human element has become our most important differentiator.

The most effective MLB managers knew this all along. They knew that supposed intuition of when to pull a pitcher looks impressive, right up until the batter hits a game-winning home run. They understood that true success didn't come from some secret strategy, but from human interaction and leadership. They harnessed new advancements as tools so that menial aspects of the game didn't distract from their ability to actually coach. They remembered that management meant something inherently human.

It's time advisors remember what it actually means to advise. Our distinguishable worth above others doesn't reside in our "unique" portfolio strategy. On the field or in the markets, even the best analysis can't always avoid the unpredictability of poor performance. Instead, an advisor's ability to coach and deter clients from poor decisions represents the biggest differentiator among advisors. A Vanguard study quantified this "advisor alpha" and showed that investors missed out on 3% in returns per year without professional help. Behavioral coaching, or hands-on guidance in all aspects of a client's financial and personal life, constituted the largest piece of that increase.

Great baseball managers prove the power of the human interaction through accountability. The sense of guilt from disappointing a leader pushes players to perform and compete. In financial planning, clients will likely never feel accountable to a computer screen. They won't feel remorse for going against the plan when they get nervous and click "sell" on a down day in markets. Without a human to disappoint, they won't worry about spending a bit more than they should, failing to sign the will, or disregarding life insurance.

Ultimately, advisors need to remember the importance of providing proactive, person-to-person advice. Rather than fearing faceless robots, advisors can leverage innovation to provide a more streamlined, transparent, and intuitive client experience. The most successful MLB managers gladly give up tedious tasks to technology to spend more time fostering relationships and building trust with players. Until clients feel guilty for betraying algorithms, advisors that truly advise will survive the robo revolution.

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