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Elevating the Practice of the Advice Professional

## Armageddon or Nirvana? Your Call.

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# Armageddon or Nirvana? Your Call.

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**WARS AND PLAGUES** aside, artificial intelligence (AI) may prove to be the most disruptive force humans have ever encountered. Barely three years after its public introduction, it already is seen as a “general purpose technology”<sup>1</sup> destined to transform society fundamentally, like the printing press, steam engines, and electrification before it.

In February 2026, that reality hit the market. Sentiment turned from skeptical that AI would justify the hype to petrified about the disruption it could cause. “SaaSageddon”<sup>2</sup> was followed sequentially by rapid meltdowns in financial services, logistics, and cybersecurity stocks. Then, in a stunning tribute to the power of narrative, a thought piece about how a looming “intelligence crisis” could lead to systematic economic failure caused another storm of selling.<sup>3</sup>

The financial advice industry has a lot of adjusting to do. To help advisors navigate the new era, this issue describes several specific applications for AI in financial advisory practices. But before we get there, let’s ask the critical question: What are the bigger implications for financial advisors, and how might their value propositions evolve?

That answer depends on how an advisor chooses to react. It is exactly in the times of greatest uncertainty that the value of trusted advice (and especially financial advice) is most valuable. Advisors who seize this moment can burnish their perceived value and distinguish themselves in the eyes of clients and prospects. But advisors who try to muddle through without adapting will face real challenges from the technology itself, and from those advisors who embrace, and leverage, the new environment.

## Context: The Breathtaking Pace of Change

Surprisingly, the AI “big bang” of 2017 arose from a relatively straightforward observation. Google language translation researchers realized that all the world’s languages could be translated through a single basic learning architecture (a “transformer”), and then, more fundamentally, that everything—music, physics, mathematics, you name it—is a type of “language,” susceptible to that same approach.<sup>4</sup>

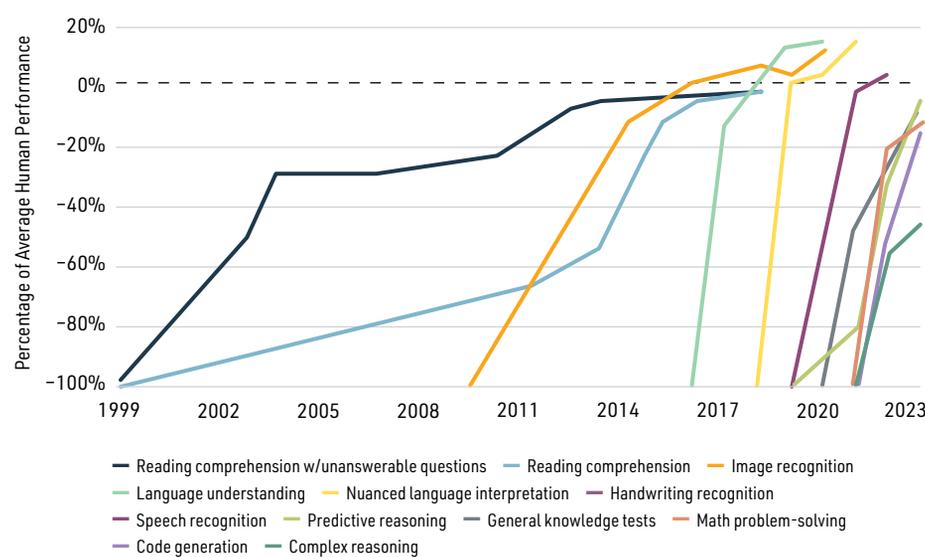
From there, AI models made enormous, almost instant leaps in capabilities, getting to a level of human or near-human level expertise in almost no time. The slopes of the curves in figure 1 tell the story of AI’s rapid evolution and revolutionary impact.

But the ever-accelerating pace of these improvements is what’s so shocking. In barely

three years, we’ve gone from the release of ChatGPT to models that operate, in one well-respected expert’s opinion, at 97 percent of “artificial general intelligence,”<sup>5</sup> a common definition of which is: “AI that can understand, learn, and apply knowledge at a level equal to or exceeding human capabilities across virtually all cognitive tasks.”<sup>6</sup> Others believe that threshold has been passed already.

Current models will look childish soon enough, driven by a boost in chip-processing power and intense competitive pressures. Over the next year or two, autonomous orchestration of independent AI agents (the proximate cause of the software stock meltdown), humanoid robots and physical AI feedback loops, and new continuous-learning techniques likely will drive continuing step-function increases in capabilities.

FIGURE 1 Getting Smarter, Faster—Human Performance vs. AI



Source: Our World in Data, 2023.

## A Career Inflection Point

The financial advice industry will be reshaped by AI, just as most others will be. Of course, the tools and systems that advisors employ will change dramatically, and much of this issue of *Investments & Wealth Review* discusses some of those early use cases. But for now, let's take on that bigger question: What happens to the advisor's core value proposition in all this?

To answer, look at it from the client's point of view. Clients, too, are drowning in the AI news tsunami. But unlike most news, these developments are hard for them to absorb at pace and difficult to translate into a personal context. It's head-spinning and sometimes downright scary.

**IF YOU CAN EXPAND ON YOUR ALREADY-TRUSTED ROLE BY HELPING CLIENTS COPE WITH THEIR AI ANXIETY, YOU WILL BE CREATING A POWERFUL NEW CONNECTION. AND YOU'LL BE MEETING HEAD-ON THE CHALLENGE THAT MANY ADVISORS FEAR MOST ...**

Most clients already are concerned about the potential impact on their careers, companies, and especially the employability of the next generation, just as you may be. But here's the key question: With whom can they talk about it—not in the abstract, but about how it may impact their family's financial well-being? What they're likely to want is the ability to have an intelligent discussion on the topic with the person they already trust to steward their capital.

So if you can expand on your already-trusted role by helping clients cope with their AI anxiety, you will be creating a powerful new connection. And you'll be meeting head-on the challenge that many advisors fear most: that they'll be replaced by some sort of "investment agent" created by Claude or OpenAI. The more you're involved with the AI conversations clients already are having, the better you'll be able to demonstrate that you do, and can continue to, serve them in ways AI cannot.

So let's turn to five very specific ideas for making AI an inflection point that catapults your practice.

### *Discuss Behavioral Finance with Clients*

Anxiety and volatility are the ideal backdrop for poor decision-making. Clients will be more inclined to panic in reaction to headlines and market moves. They will become less willing to take rational investment risks and more likely to resist taking rational losses in the hopes of getting back to breakeven (Nobel laureate Daniel Kahneman's famous "endowment effect"). More generally, even for investors who have not suffered significant losses, dramatic news about price disruptions for

specific sectors and companies may make the market seem to be not nearly so safe a place as it has been for the past many years.

Now is the time to acclimate clients to what is likely to be a bumpy ride over the next weeks and months, quite likely extending over years. You'll be laying a solid foundation for future discussions but also reminding clients, today, of the unique and critical value you provide.

Situational awareness, preparedness, wisdom, and comfort build bonds that AI can't replicate.

### *Talk About the Elephants in the Room*

Be direct. Surface the concerns the clients nearly certainly have, and you have too. One way to start the discussion may be around the suddenly interesting question of the financial return on massive college education expenses. (We're now seeing young high school graduates spending less time unemployed than peer college graduates, for the first time in a

generation.<sup>7</sup>) There's also the most common question of the day: If they go to college, what do they study?

Of course, this opens the general planning discussion and leads to other key questions, such as: Must we plan to provide ongoing support for children after graduation, given that the job market may be providing fewer entry-level positions? From there, we get to hard questions such as: Might the client's job be at risk in the next two to five years, and how should we plan for that? Also, do all these factors imply greater liquidity buffers in the portfolio, or new rates of saving and spending?

These dialogues may well lead to an expanded role in planning and perhaps even to a broader role for you as a financial coach. If nothing else, raising these issues builds your value proposition—especially when other advisors may not be going there yet.

### *High-Tech Enables High-Touch*

The most fundamental benefit of AI tools is efficiency. You'll be able to do routine tasks better and in much less time. You can create more repeatable systems and processes with AI, enhancing planning cadence, financial wellness monitoring, communication, verification, and documentation.

But two other big takeaways are at least as important. Smart use of AI will allow you (1) to create and maintain deeper, more up-to-the-moment comprehension of client circumstances; and (2) to respond quickly with customized observations and suggestions.

Power-user, "high-tech" advisors can become "high-touch" advisors. Smartly deployed technology will enable personalization, proactive monitoring, scenario analysis, and complete documentation and synthesis of clients' histories and circumstances.

With that foundation, advisors can become high-touch, with more frequent communications focused on managing fear and greed, enhanced spending and savings coaching, predictive nudges, and help with family dynamics and life transitions.

High-tech, high-touch advisors will be high-value advisors, too.

Another huge advantage of being a power user of AI is this: You'll avoid (and help clients avoid) a lot of mistakes that will be easy to make by simplistic use of AI for investment recommendations. For many, it will be far too easy to rely on generic AI answers that provide reasonable-sounding advice but lack deep client context. AI easily can personalize narratives that feel true but aren't, providing a kind of confirmation bias at scale. Quality advice, on the other hand, will factor in taxes, insurance gaps, estate issues, benefit plans, liquidity constraints, and dozens of other important but subtle factors (for which, in turn, you can use AI to help monitor on a per-client basis, factoring them into your now customized, trusted advice).

### Consider Adjustments to Investment Strategies

The most basic response to greater uncertainty is greater diversification.

Of course, that can take many forms. One is increased international exposure (even for AI-investment fans, because so much of the necessary chip production is in Asia). Another is private markets exposures, perhaps especially in real assets, energy, and infrastructure in this environment. A third is the use of derivatives, structured notes, defined-outcome funds, and hedge strategies to build floors for portfolio value as well as reliable income streams.

And a fourth, perhaps easiest and most surprisingly, is a renewed focus on active management—at either the fund or practice level. It's worth taking a minute to understand why that might be particularly useful for the markets ahead.

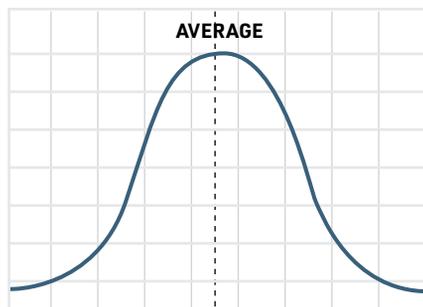
February's market meltdowns were driven by questions (not predictions) about the disruption AI eventually might wreak in given sectors. Unthoughtful selling—greatly exacerbated by index products, of course—followed.

Were the moves justified? Let's consider those enterprise software stocks for a moment.

Most certainly, the new agentic powers of the frontier AI models are turning even

**FIGURE 2 Bell Curve vs. Pareto Curve**

Average works well on a bell curve ...



Source: Tangent Capital

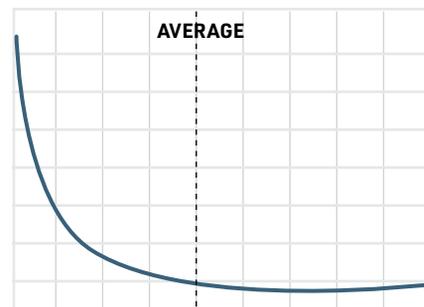
extremely complex coding projects into fast, accurate, and inexpensive exercises. But will that translate into equally horrible news for all enterprise software companies? Switching costs would be extremely daunting; replacing existing systems with AI-built ones would require entirely new types of internal expertise; and such systems would not benefit from network effects that drive legacy platforms' continuous improvements. The idea that big parts of all enterprise software customer bases will flee appears overly simplistic.

Meantime, a fundamental positive was ignored: The selloff victims are likely the primary immediate beneficiaries of AI's coding capabilities. Surviving software companies' expense levels should fall meaningfully because they should need fewer expensive employees (already an evident trend). Note that this also could allow them to lower prices if needed to retain customers that might be tempted to go it alone.

So, of the enterprise software stocks, which were babies and which were bathwater? No index, formula, style box, or label can answer that question. As the future spreads unevenly, management talent and adaptability, including ongoing game theory calculations about competitors, will become dominant determinants of success. Those are largely human and subjective characteristics, best evaluated by humans who are experts in the field.

More generally, as many have previously observed,<sup>8</sup> digital business competition is fundamentally different from that in the

but not so well on a Pareto curve.



industrial age. In an age of goods, companies were constrained by physical factors such as local workforces and factories, available physical commodities, and the costs of transport. Many companies with similar products could be successful simultaneously. Sector components largely moved together, which is why indexing at that level could work.

Digital business competition is different. As we've seen over the past decade, the winners are bigger, even dominant, and far fewer than is usual for industrials. Good news for one is likely bad news for competitors. Pareto curves, in which just 20 percent of companies earn nearly all the profits, are the primary motif; the bell curves of the industrial world are passé, and we're rapidly heading to a time in which all businesses, at their core, are digital.

This matters for a simple reason: The primary rationale of passive investing is to achieve average performance as inexpensively as possible on the premise that active managers cannot pick winners regularly enough to earn their fees. But in a Pareto curve world, average performance won't make investors happy (see figure 2).<sup>9</sup>

As performance dispersion grows through AI adoption, it may be easier to sort the wheat from the chaff. Perhaps products such as active exchange-traded funds, which combine active management with a tax-efficient envelope and generally lower costs than mutual funds, will become the new investment vehicles of choice.

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### *Cybersecurity and Communication Protocols*

Voice cloning, voice and video forgeries, and falsified documents will become common. Strongly consider validation of client identification through protocols such as oral-only passwords. Verification itself may become a core advisory value-add.

Of course, this is also an ideal conversational peg for more general conversations about people's comfort with uploading all their deeply sensitive and vulnerable data into anonymous AI servers. One thing that our current ecosystems deliver to clients is reliability and security, and that's got very real value on its own.

### **Conclusion: Take the Lead**

People will talk happily about their health issues over cocktails and their relationship problems over coffee, but they'll almost never discuss their most guarded information—their money—with anyone but you. You already play a unique, trusted role in most clients' lives. It's time to defend and expand it.

Be bold. Don't just be a power user of AI. Be a thought leader about its implications. The biggest advisory winners will be those who become users, explainers, and educators. The biggest losers will be those who stand pat.

It's not that hard. Read the tech columns of the major business news daily (or ask an AI to summarize them for you); subscribe to newsletters that explain AI in plain English (there are several); look for continuing education credits in the field. Try to learn to speak a

little AI. Fluency isn't needed; but traveler's AI will come in handy. For example, if you don't know the difference between training and inference, you should.

Next, create and distribute content on a regular basis, even if you're just forwarding a good, relevant news article. Drip on clients. Get on local talk radio to discuss how AI impacts investing. Schedule events where you showcase your facility with the topic featuring outside experts, because these events draw prospects.

"Thought leadership" is a much-overused term. A lot of it is more consensus than leadership, and hence does little to gain attention or clients. But, right now, smart commentary on AI can indeed gain attention and distinguish your practice on an issue of great concern to a huge number of clients and prospects.

Finally, please don't fall for the many excuses for inaction. It may be comforting to recall a time when an AI gave you a wrong answer. The current problems, however, like static on a black-and-white TV, are very likely to be solved. If you wait for AI to be perfect in every way, you'll never catch up.

In short, this is an historically rare opportunity to build more confidence, and more trust, among clients and prospects. And at the end of the day, those are the two factors that will sustain and grow your practice, whether your competition is human or digital. ●

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### ENDNOTES

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5. Dr. Alan D. Thompson, <https://lifearchitect.ai/agi>.
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