April 1998, Vol. 1, No. 1

# SENIOR CONSULTANT

**The Voice of the Investment Management Consultant**

## The Asset Study

*Stephen C. Winks*

Would you like to create immediate credibility with your clients and prospects, and differentiate yourself from competitors?

Very few investors have ever had all of their assets looked at as an investment portfolio. They cannot tell exactly what assets they own or the extent to which they are exposed to risk. They are unaware of their portfolio's performance relates to their investment objectives and most certainly, do not know the estate or income tax-efficiency of the portfolio, not to mention its liquidity and cost structure.

Essentially, nine out of ten investor portfolios are in disarray, lacking a cohesive investment focus and materially underperforming the major market indices. In an environment which has generated 15% returns, the average return generated in a commission brokerage account is just 6%, according to a study done by the research firm Dalbar, Inc. The study also found that the average return generated in a client account when they invest on their own is 5%. This suggests that perhaps the single most important opportunity to add value within the investment industry is the integration of an asset study into the investment process of the investment management consultant.

**VERY FEW INVESTORS HAVE EVER HAD ALL THEIR ASSETS LOOKED AT AS AN INVESTMENT PORTFOLIO**

An asset study is an assembly, audit and evaluation of a client's assets as an investment portfolio and is an excellent way for the investment management consultant to differentiate himself/herself from competitors who operate in a transactions organization. Most clients want and expect a high level of investment counsel, but their actual market experience leaves much room for improvement. The asset study establishes that it is not possible to address and manage the fundamental investment values of risk, return, tax efficiency, liquidity and cost structure in the context of a client's objectives without looking at all of the client's assets as an investment portfolio.

So, for all these years that clients have had relationships with brokers who have executed series of disjointed, unrelated transactions on their behalf, there has been no point of reference that would make it possible for the broker to add value. Without looking at a client's assets in total, it is not possible to determine if a transaction improved portfolio performance, reduced risk or contributed to the tax efficiency, liquidity or cost structure of the client's portfolio as a whole.

Eventually, it will occur to most investors that their broker cannot be of value in making recommendations if they do not have a complete understanding of their portfolio. This raises the questions of suitability, accountability and objectivity   the key elements around which relationships are built. How can a broker be held accountable for making investment recommendations that are suitable for achieving a client's objectives, if they do not have an understanding of their client's portfolio or a context in which their recommendations are made. It would seem clear that whoever makes the effort to conduct an asset study has a very good chance of winning all of a client's business by simply dislocating established transaction-based relationships.

An asset study is a sure way to establish credibility with both retail and institutional clients, and as a result, there is a growing sentiment among key industry policymakers that registered representatives should be compensated on the basis of the on-going investment counsel and value they provide. This is in contrast to the prevailing system of basing compensation on trade execution. In fact, Warren Buffet, the most respected investor of our time, Dan Tully, chairman of Merrill Lynch, and Chip Mason, chairman and founder of Legg Mason, stated in their Tully Committee Report on compensation practices to SEC chairman Arthur Levitt, "If the retail brokerage industry were being created today from the ground up, a majority of this committee would not design a compensation system based on completed transactions. The most important role of the registered representative is to provide investment counsel, not to generate transactions revenues. The prevailing commission-based compensation system inevitably leads to a conflict of interest among the parties involved."

The Tully Committee has answered the single most important question that every CEO of every firm must ask: What are we in business for? Their answer is unequivocally: We are in business to add value in clear and certain terms for the investor.

The industry is beginning to respond. CapTrust, Interstate/Johnson Lane and Dain Rauscher have become the first firms to create the technology that will electronically classify all of a client's assets into an asset study. Wheat First Union and Lockwood Financial are also well on their way to developing similar capabilities. Such a capability will allow brokers at these firms to develop an asset study by simply running all of the client's assets through the system, regardless of whether they are custodied inside or outside of the firm. With the appropriate technology, what would otherwise be a time-consuming endeavor can now be done quite easily, becoming an extremely powerful sales tool in winning and dislocating business. In the process of discovering the many contradictions inherent in their portfolio, the client will discover that there is an extraordinary opportunity to reduce risk, enhance performance, and improve tax efficiency, liquidity and cost structure.

The asset study is the before-photograph that is a reference point for the value the consultant adds, and is the first step of a six-step investment process through which brokers are empowered to address the values most important to their clients. Each of the six steps or services that comprise the investment process adds value on their own, but when aggregated into a comprehensive investment process technology, they empower the broker to add an unprecedented level of investment counsel and value.

The asset study is the precursor to the investment policy which establishes the cohesive investment focus necessary for the client to succeed. It establishes the importance of looking at a client's assets as an investment portfolio guided by a long-term strategy designed to meet desired goals and objectives. And importantly, the asset study establishes an on-going advisory fee tied to on-going investment counsel, which will generate better results for the client than charging for individual transactions.

Once a client learns how a series of disjointed, unrelated transactions look as an investment portfolio, they will not quickly return to the practice of making trades without taking their long-term objectives and current portfolio positions into consideration. The asset study is the all important tool that puts everything into perspective. Whoever adds the most value wins. ■

**Notes**


**SENIOR CONSULTANT**

THE VOICE OF THE INVESTMENT MANAGEMENT CONSULTANT





**SENIOR CONSULTANT**

1457 Crystal Springs Lane
Richmond, Virginia 23231
Ph 804-795-1642 ■ Fax 804-795-7703