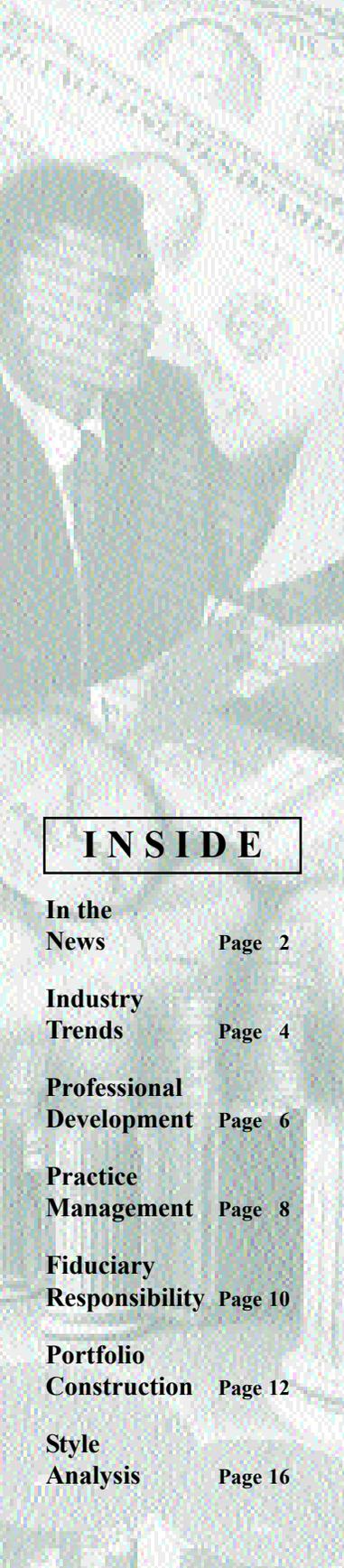


# SENIOR CONSULTANT

The Voice of the Investment Management Consultant



## Spencer Trask To Provide Greater Access to High Level Advice Technology

For the thousands of investment management consultants who are pioneering high level advice, there long has been frustration with the cost, complexities and inefficiencies of the technology required to provide professional investment and administrative counsel. Even with all the external market forces converging, which compel the financial services mainstream to move to high level advice, most major financial services firms are not yet at the point of creating the culture, structure and technology necessary to make high level professional investment counsel possible. These firms sense they have to move toward advice, but they have not yet made the connection between high level advice, adding value, process and technology. They do not understand it is not humanly possible to add value for a large number of clients without process and technology. The CEOs of these firms are immersed in the commission brokerage business and are not likely to commit the resources of the entire organization to building a new financial product and services delivery platform built around

high level advice. In fact, it is only when such a notion is expressed that you discover how far away the firm is from empowering you and your fellow financial advisors to provide high level professional investment and administrative counsel. So where do you and your firm go to secure the processes and technology that would empower you to deliver the highest level of professional investment and administrative counsel possible?

**THE INVESTMENT SOURCE COMPANY WILL OFFER A COMPREHENSIVE INVESTMENT PROCESS TECHNOLOGY TIED TO A VIRTUAL, REAL-TIME BALANCE SHEET AND INCOME STATEMENT, WHICH WILL BE AGGRESSIVELY PRICED TO ASSURE DEEP AND BROAD MARKET ACCEPTANCE**

Until a few days ago, there was no such place, but with Spencer Trask's recent acquisition of Computer Aided Decisions, a new firm, The Investment Source Company, has been created to fill this technological vacuum. The Investment Source Company will offer a comprehensive investment process technology tied to a virtual, real-time balance sheet and income statement, which will be aggressively priced to assure deep and broad market acceptance. The technology will be built around best practices in each of the major market segments of the institutional and high net worth markets, and will be con-

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## Merrill Names Stan O'Neal To Head Its Brokerage Unit, Firm Enters Phase II of Internet Revolution

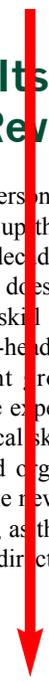
Stanley O'Neal has been appointed by Merrill Lynch to head the most visible of its four business units – its retail brokerage operation. O'Neal, 48, succeeds Launny Steffens as president of the brokerage group, a position Steffens has held since 1985 and is the favorite to succeed chairman and CEO David Komansky as the firm's president when Komansky retires in 2004 at age 65. As the brokerage industry and Merrill Lynch embark on a major strategic shift towards advice and away from trade execution, O'Neal is the perfect candidate within Merrill's deep talent pool to lead the brokerage unit through what will become a period of unprecedented change and innovation.

O'Neal is the first person to lead the Brokerage unit who has not come up the brokerage ranks, but because over the next decade literally everything a broker now knows and does will become outdated or obsolete, a different skill set is required to move the firm forward. As co-head of the firm's corporate and institutional client group with Tom Davis, O'Neal brings extensive expertise in financial engineering which is a critical skill set as the firm must streamline its cost and organization structure to reflect the realities of the new advice business environment. More recently, as the firm's chief financial officer, O'Neal worked directly with Komansky and

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## Spencer Trask To Provide Greater Access to High Level Advice Technology

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tinually upgraded to reflect best practices by market segment.

Until now, most of the technology of advice has been a series of disjointed, unintegrated technologies that required a full-time person to make these expensive and inefficient technologies function as a system. Most internet advice technologies focus on a narrow market segment like the 401(k) market, offer limited functionality like reporting, have a primitive financial planning approach to portfolio construction targeting low net worth investors, or have a limited investment menu typically of high cost mutual funds and do not add value. These companies that offer parts of the solution will, in the final analysis, offer too little, too late. In the advice business the more value you add, the better. Thus, there is only room for the broadest and deepest applications. Many understand the importance of advice but do not understand the depth and breadth of advice: the full range of investment options, how advice is translated into tangible, quantifiable investment services or the full range of values to be addressed. Most of today's internet advice technology companies are too narrowly focused and are undercapitalized, if they are going to have impact. Only a few are designed for use by financial professionals, and none are designed for high level advice. The Investment Source Company is the exception. It is designed for high level advice to be used by financial professionals who are looking for complete solutions that can leverage productivity of their staff while adding more value and reducing cost. By consolidating technologies, The Investment Source Company will provide substantial cost savings, much higher practice operating efficiencies and far greater service and value to the client.

Spencer Trask is the same firm that financed Edison's light bulb and in recent years has been the quiet capital behind many new technology enterprises built around technological breakthroughs in areas such as biotechnology. The firm invests in companies that have the potential to grow to a billion dollars or more in market capitalization. Kirk Loury of Spencer Trask appreciated the sophistication, integration and the comprehensive nature of Computer Aided Decisions' technology. Eighty percent of the raw technology of a comprehensive investment process is in place. Having previously

No longer is technology a significant barrier to entry for high level advice. No longer do consultants have to spend \$250,000 just to get into the business of offering high level advice. In fact, there is no longer any capital required at all for either the financial advisor or their firm to provide high level advice. Literally anyone and any firm can be in the high level advice business, if they choose. This conscious choice is profoundly important as many believe that everything the commission broker knows and does today will become obsolete within the next 10 years, not because securities will not be bought and sold but because one will not be able to charge for those services. The future of the industry is in adding tangible, quantifiable value for the client through engaging the professional investment and administrative counsel of the investment management consultant for an ongoing fee. Thus, Spencer Trask's venture, The Investment

**THE OBJECTIVE IS TO CREATE AN  
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helped New York Life create and launch their highly successful 401(k) product and having had the vision to build what is now Barra/Rogers Casey's widely accepted "Investworks" product, Loury understands the institutional and high net worth applications of the investment process. Loury's in-depth understanding of the advice business, its technologies, applications and processes, in concert with his understanding of technology, the brutally competitive e-commerce market, and what it takes to build and brand a killer application ultimately led Spencer Trask to buy Computer Aided Designs. The objective is to create an aggressively priced, comprehensive investment process technology solution for investment professionals and their firms. The resulting technology will profoundly change the financial services industry.

Source Company, is an important development in the evolution of the financial services industry toward advice.

Computer Aided Decisions is the most sophisticated and comprehensive investment management technology firm in the U.S. Twenty years ago, it created the first zero trading cost environment in the U.S. with the California Public Employees Retirement System that was the precursor of today's electronic communications networks (ECNs). Computer Aided Decisions was the core technology behind Barr Rosenberg's original work that led to today's Barra model portfolios and much of Barra's black-box technology. Computer Aided Decisions has stayed beyond the state-of-the-art by always working with the industry's best and the brightest to plow new ground in finding solutions, which for the moment would

change the world. Thus, Bud Weiler and Charlie Hunt at Computer Aided Decisions will turn their considerable talent to creating an inexpensive, easy-to-use, comprehensive investment process technology which will empower the financial consultant to deliver an unprecedented level of professional investment counsel and value to each of the major market segments of institutional and high net worth markets.

The implications of a comprehensive investment process solution are quite significant. There is no question the financial services mainstream is fast-evolving toward a new advice business model, away from trade execution and commission brokerage. Over the next three years, the cost of the average commission trade will drop nearly 60%, and half of retail trades will be lost to the internet. This means a commission broker not working on an internet-enabled platform will, in the next three years, have to generate five times the revenues in order to achieve today's earnings. If trends persist, over the next five years, they will have to work 10 times as hard to maintain present earnings. In the weeks and months ahead, more than a few brokers and their firms will see the wisdom of giving away trade execution and charging for their advice which requires an entirely new advice business platform.

This is a new advice business model. It requires an entirely different culture, structure and technology than that which is available within the commission brokerage mainstream, which is geared to facilitating trades in volume, not to adding value. If the financial advisor and their firms are going to be effective at adding value, the entire enterprise of the financial services industry must be built around advice. It is a firm's technology and associated investment process that largely determines the investment values that the financial advisor can address and manage. Unlike in years gone by, when cost structure and accountability for account performance was not an issue, today the democracy of the internet makes it very clear what services firms are offering, whether value is being added and what their pricing and cost structure are. To be effective, firms must find strategic partners like The Investment Source Company to cost effectively help them get into the advice business.

In this new advice business environment, the marketplace will demand faster, cheaper and better total solutions. Why would a firm or its advisors pay \$10 per account per month for stand-alone performance reporting when superior reporting services can be obtained for pennies per account per month, is electronically tied to investment policy, trade and order routing, and are operating in one highly efficient, easy-to-use technology that electronically keeps all accounts in compliance with investment policy? The internet demands faster, better, cheaper total solutions. If a solution is anything short of complete and is not favorably priced, it is a non-starter. This faster, better, cheaper total solution is the thesis behind The Investment Source Company.

Large progressive financial services organizations that want to make advice their core business strategy but do not have the time, resources or know-how to quickly and cost effectively develop their own advice technology would view The Investment

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Source Company as a perfect strategic partner. Firms are increasingly tired of technology service vendors making them look insensitive, unresponsive or worse to their most successful financial advisors by only being interested in selling the technology they have and not providing what the firm and their advisors want.

Because the technology is created outside the firm, there is no internal conflicts in its development. All the energies of the firm can be refocused on adapting the culture and structure of the organization so it is more conducive to the new advice business paradigm.

For individual consulting practitioners, this same technology will be available outside their firms. Thus, firms will compete on the basis of how effective they are in helping the financial consultant add value for each of the major market segments in

which they compete. This is why it is so important that firms either totally embrace the culture, structure and technology of advice, or create an affiliate that does. Over the next 36 months as margins in the commission brokerage business collapse and as firms have to more aggressively manage their cost structure, most are likely to conclude they need to streamline their entire organizational and cost structure around a comprehensive investment process technology that will empower their financial consultants to deliver an unprecedented level of professional investment counsel and value. Having both commission brokerage and investment management consulting business platforms will not result in the single most cost-effective delivery platform for either enterprise, unless they were totally autonomous. Thus, if the future is advice and if it's true that in order for a firm to be most effective it must be built around and be driven by advice, then the demand for a strategic partner like The Investment Source

Company and its comprehensive outsourced technology solution should be extraordinary.

Dr. James McKinney of Harvard University observes, "Today's amalgamation of back office systems and procedures within the financial services industry grew in response to particular needs as they occurred, but with no overall design . . . thus, the paradox. In a time when technology costs are dropping like a stone, the technology cost of the financial services industry continues to increase." McKinney's solution is to have an overall design built around the thesis of adding value in terms specifically meaningful to each client. The discipline of which McKinney speaks is investment management consulting and its six stand-alone financial services that when aggregated, constitute the investment process through which the consultant adds value. The six financial services that comprise the investment process are: (1) asset study, (2) investment policy, (3) strategic asset allocation, (4) investment manager/form of ownership search and selection/portfolio construction, (5) performance monitor and (6) tactical asset allocation. This is the comprehensive investment process technology that The Investment Source Company is creating for each of the major market segments of the institutional and high net worth markets (advice is differ-

ent for different clients). With the advent of the internet, technology moves from the back office to the broker's desk and is now absolutely imperative if the financial consultant is to add value. Not one major financial services organization in the U.S. today can tell each client in real-time the rate of return realized in their account, what their risk exposure is, the income and estate tax efficiency of their portfolio, its cost structure and liquidity, and progress relative to goals and objectives. In the next 36 months, with the help of The Investment Source Company, this will become the threshold criteria for investment literacy for all financial advisors. The organization structure of the industry will move from product management to progress management, cutting its cost structure by more than half, while expanding its earnings multiple by a factor of three. It is not the investment product that adds value, it is what one does with the investment product or the investment process that adds value. Thus, it is how each firm approaches process management that determines the value the consultant adds.

McKinney says, "In sum, the architecture of the future must support an instantly accessible, one drawer file of all relevant past transactions (virtual, real-time balance sheet and income statement with archive) and their contextual content (investment policy - client profile, goals and objectives) as it relates to the business of managing securities portfolios.

The pace of change which will occur will confound off-line recordkeeping systems. On-line analytical and trading systems information is essential to maintain on-line portfolio status, evaluate automated trades, derive and award corporate actions (dividends, splits, etc.) and sustain up-to-date portfolio data to continuously support dynamic on-line analytical trading and reporting systems (the six service investment process)."

In essence, McKinney's solution to improving the efficiency of financial services systems technology and reducing cost is a unifying design to add value which would streamline the organizational and cost structure of the industry while exponentially enhancing the value the industry adds. The Investment Source Company will provide firms and investment professionals access to this technology that makes it possible for

them to compete on the basis of the value they add.

The Investment Source Company's business strategy in rolling out this technology is brilliant. Because the financial services mainstream has yet to make the connection between advice, process, technology and adding value, a comprehensive investment process technology would not be particularly meaningful or relevant to the financial services mainstream as there is no context. Thus, rather than immediately overwhelm the industry with a comprehensive investment process technology, The Investment Source Company, within 60 days, will offer a virtual real-time balance sheet and income statement which is the precursor to a comprehensive investment process technology. Though this technology tells you how well you are doing, there is no investment process overlay through which the financial advisor adds value. However, with this technology, the industry goes through a self-discovery process and learns how poor per-

**AS A STRATEGIC PARTNER, THE INVESTMENT SOURCE COMPANY WILL HELP FIRMS MAKE THE TRANSITION FROM PRODUCT MANAGEMENT TO PROCESS MANAGEMENT AS IT APPLIES TO EACH MAJOR MARKET SEGMENT**

formance is in commission brokerage accounts, thus establishing the importance of the investment process through which the consultant adds value. Until the question of "how to improve client account performance" surfaces as an issue, the investment process is not even on the radar screen of most firms because the financial services mainstream is not aware it is not adding value. This virtual real-time balanced sheet and income statement will be offered at a compelling price that would make all serious firms and practitioners at least consider and likely adopt the technology.

The brilliance of this strategy is that it maximizes the value of the subsequent offering of a comprehensive investment process and technology, while price is kept low to assure broker acceptance. The strategy also greatly enhances The Investment Source Company's position as a strategic

partner for firms and consultants who come to the realization that they have to compete on the basis of the value they add and that technology and investment process largely determine the investment values they can address and manage.

Over the next 10 years, as we watch the average brokerage commission drop from \$66 to \$28 to \$14 to \$0, everything the commission broker does and knows will become obsolete, including their systems technology. Investors will want to know in real-time how well they are doing, what major forces are at work in the market and what that means to them and their portfolio. They will want to know the risk exposure they are taking relative to their risk tolerance and the risk of the market. They will want to know how income and estate tax-efficient their portfolio structures are. They will want to know the progress made in achieving their long-term goals and objectives. They will want to know the cost structure of their portfolio, including administrative, asset management, trade execution and consulting fees. None of these things are possible today in commission brokerage. Yet, in the next three years, if firms and advisors are not providing this level of service, they will be vulnerable to those who do or will be out of business.

The Investment Source Company will not just provide advisors and firms the investment technology and process to provide high level advice, but as a strategic partner it will help firms make the transition from product management to process management as it applies to the major market segments (high net worth, defined contribution, foundation and endowment, defined benefit, profit sharing, public fund, Taft-Hartley, family offices, etc.) of the institutional and high net worth markets in which its financial advisors are engaged. The entire industry must be rebuilt around the culture, structure and technology of advice, and Spencer Trask sees the opportunity in this metamorphosis to build a substantial billion-dollar technology company. Firms and their advisors have to quickly and cost effectively react, and yet the firm's culture, structure and technology are firmly entrenched in the old commission brokerage business model. Thus, an outsourced comprehensive investment process solution and The Investment Source Company becomes an attractive solution. Large massive bureaucracies do

not have the luxury of taking the time to learn what they do not know. With an outsourced solution, firms not only get the technology they need, when they need it, but help in reconfiguring the entire enterprise around advice, creating perfect synergy for firms and advisors seeking solutions and thus making The Investment Source company the perfect strategic partner.

Spencer Trask's timing could not be any better. Over the past decade, as advanced systems technology has converged with Nobel Prize-winning investment theory, it has become possible to deliver an unprecedented level of professional investment counsel and value to the investor. The pioneering practitioners of investment management consulting, who have developed the culture, process, methodology and technology of consulting, are about to see their work and the thesis of adding value embraced by the financial services mainstream. This is not because firms necessarily want to be more responsive to the needs of the investor, otherwise it would not have taken 40 years for modern portfolio theory to be introduced to the financial services

mainstream. The brutal reality is that internet brokerage has forever repriced trade execution, and firms cannot sustain their existing operations based on the brokerage commission rates of only a small fraction of today's rates. No one and certainly no organization wants to go through the agony of reorganizing their entire organization around advice. Yet, firms must learn how to add value through their professional investment and administrative counsel and engage their services for an ongoing fee, or they will have no reason for being. There will be denial and certainly the dislocation and disenfranchisement of people, functions and systems, but the bottom line is: "Firms can't sustain their present overhead at \$28 trades much less \$14 trades or trades for free."

The Investment Source Company softens the harsh reality of the marketplace, allowing firms and their advisors to successfully make the transition to the new advice business paradigm. The transition for the advisor will be relatively easy. With the right technology platform and support, in a half day of training every financial professional in the country could be taught how to address and manage the investment values

most important to each investor in achieving their goals and objectives.

There is extraordinary enthusiasm on the part of the financial advisor in literally becoming the value added for their clients as their professional stature and standing is greatly elevated, as is their earnings. In learning how to interview the client, the consultant establishes an uncommon level of investment literacy and can establish credibility at will with any prospective client, whether they be an individual or an institution. The challenge is not the financial advisor. Because of their client relationship skills, they view the investment process through which they add value as the ultimate in positioning and marketing. In fact, consulting is the ultimate product. The challenge is in their firm's supporting the investment process and associated technology so that the highest level of professional investment and administrative counsel can be offered for the full range of investors and fiduciaries. This is the new frontier, where Computer Aided Decisions is at its best, and The Investment Source Company has the most to offer its strategic partners. ■

## PROGRESS Model, Part IX - Synergy

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Consider this analogy: If you were the manager of a professional sports team, you would want to precisely coordinate everyone's effort to achieve victory. You couldn't afford to have a "ball hog" who refuses to work with other players. Neither would you want players "doing their own thing" or doing it their way. They all have to follow the rules of the game and execute the precise strategies that you had all rehearsed. Everyone would have their individual assignments and responsibilities.

Without belaboring the analogy, your business should be run like a professional team. How does your business team shape up? Are they as professional and coordinated as they would have to be in athletics? Are you personally in top competitive form?

Here are some synergy-oriented questions:

- What are the dynamic relationships between you and the other important people to your business . . . your secretary,

administrative assistant, operations personnel, manager, etc.?

- Is everyone on your team aware of their interdependencies, i.e., how they rely on each other?
- Have people been cross-trained?
- What are the exact job responsibilities for each position on the team?
- What are the necessary steps to fulfill each of the primary job functions (client acquisition, client retention/satisfaction, portfolio analysis, etc.) of your business?
- Can one person take over for another?
- Can someone take over for you?
- Does the team have a mission statement and shared values that can be verbalized to reflect a sense of purpose?
- What do your clients see when they visit you? Do they get a sense of the powerful and efficient organization that you represent? Always remember that the impressions that people receive influence future thoughts and beliefs.

The answers to these and similar questions allow you to identify some of the areas that will allow you to manage your business even more effectively. More importantly, the answers to these questions can identify you as a first- (or third-) class organization.

Space prevents me from providing a series of self-assessment questions for each of the four areas covered throughout this series: Environmental, Systemic, Personal, and Interpersonal. These cannot be considered separate areas – while independent, they are also interdependent, like strands braided into a rope. Completing a self-assessment regarding synergy may help you discover strengths and weaknesses of which you were previously unaware. Based upon the experience of other top-level professionals, the results would definitely be worth the effort.

### The Next Steps

The following are a series of "Next Steps" that you can take to develop and ensure synergy. Each is individually simple,