

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

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First Union Securities Raises the Bar for Independent Brokers/Dealers, Creates First Union Financial Network

First Union Securities is the first major national brokerage firm to enter the independent broker/dealer market and has brilliantly triangulated its market presence and how it supports financial service professionals, forever changing the dynamics of the independent broker/dealer business model. You can either be an employee of First Union Securities, the nation's sixth largest brokerage firm, or you can be an employee who participates in Profit Formula where the firm unbundles its services for a higher pay-out and you pay for the level of support you choose, or you now can be totally independent and join First Union Financial Network. The same core support infrastructure serves all three businesses. It is just a question of which model best suits the needs of the broker, planner, PMer or consultant. First Union Securities is the first major firm to acknowledge that a broker can build significant value in their practice as an independent advisory services business and is willing to provide the high level support infrastructure necessary to make the independent financial advisor successful. Not only is this configuration of choices unique, but it portends a much

more dynamic business environment for our industry's most successful financial services professionals.

Up until now, when a broker was considering going independent, they had to make compromises. Most do not want to create their own broker/dealer, and yet independent brokers/dealers are known to serve the

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lower end of the financial services food chain in productivity and assets under advisement that focus on high turnover trading strategies or high commission insurance and annuity products, neither of which are conducive to high level fee-based advice. Our industry's most successful senior consultants typically find they have more assets

under advisement than the 1,000+ independent brokers combined at most of the independent firms. The range of financial products and services at independent firms have not been a drawing card nor has their advice program menu been competitive. Investment minimums are high; there is no access to top institutional quality managers, and independent brokers/dealers (Linsco Private Ledger, SunAmerica, Securities America, etc.) still charge commissions on transactions within their wrap fee programs. With a

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Salomon Smith Barney Makes Pricing Breakthrough In Separately Managed Accounts, Drops Cost To 38 Points

As the financial services industry and its leading practitioners become increasingly aware that the industry must evolve from commission brokerage to high level, comprehensive, expert advice, the cost structure of investment vehicles have also come under increasing scrutiny as the embedded cost structure of investment vehicles affects what a consultant may charge for their on-going professional investment and administrative counsel. The average, all-encompassing consulting fee, including compensation for the consultant, their firm and the money manager, has declined from 3% to 2% to soon 1.5% for retail accounts. Unlike commission brokers, retail consult-

ants who serve individual investors with assets between \$100,000 and \$1.2 million, are faced with the challenge of running an advisory services business, pricing their services and managing cost. Once the consultant has paid for the money manager, paid for their firm's services, paid for office expenses not covered by their firm to include staff and technology, whatever is left over is the consultant's compensation for their on-going professional investment and administrative counsel. Thus, the consultant is unusually sensitive to the cost they incur in engaging money managers. For example, the average mutual fund has a cost structure of 142 basis points, not including trading

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- rules for making a decision. You simply use questions to find out.
- 5. Avoid interrogating.
- 6. The power of these questioning techniques means you need never feel defensive. Asking leading questions such as "I notice you feel quite certain. How did you come to that conclusion?" or "What consequences will it have?" or "What if X, Y and Z were part of the consideration, how might you change your thinking?" Always ask about who, what, when, why, and how as the context dictates your purpose.

- 7. Focusing on the future keeps the objective pointed toward what can be done once agreement is reached.
- 8. Be prepared to change your own mind and agenda. Remember, they will make some strong points, too.
- 9. Learn from the wealth of information that they are providing you whenever they answer any of your questions. You are getting a good look into their minds and motivations.
- 10. Maintain a "curious state" regarding their point of view.

- 11. Observe reactions carefully.
- 12. Be flexible.

In Conclusion

This approach can be used in almost any situation – from working with clients to working with friends and associates, and even teenagers. By gently questioning another person you find your way through the dark room. With additional, gentle questions, you can lead them to the light. Rather than giving someone your opinion, try the questioning approach to lead them to your opinion. ■

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high pay-out structure, these independent financial services firms do not retain enough of their gross revenues to build a support infrastructure or a culture that are even remotely close to that of a first quality firm like First Union Securities. First Union can clearly demonstrate it truly cares about their brokers and their clients as is manifested in their support infrastructure and their employees who are in every day contact with their brokers. The independent broker/dealer community simply cannot compete on with the vision, resources, technology and people that First Union Financial Network brings to the table. This bodes very favorably for First Union Financial Network.

First Union Financial Network was created by the acquisition of J.W. Genesis, a 500-broker firm with 130 branches, headquartered in Boca Raton, Florida. Marshall Leeds will remain chairman of the renamed First Union Financial Network, and Mark Staples of First Union Securities will become president. Staples has extensive experience in investment management consulting, having run the investment management consulting business unit at Wheat First Securities, the precursor to First Union Securities, and prior to that, having worked with the legendary Dick Schillfarth who invented wrap fee programs in the late 1970's, which were the precursor to investment management consulting and today's new advice business model.

Staples said, "There are two major trends that have really excited me. The first is fee-based advice and my being involved in its infancy and evolution. The second is in reshaping the support infrastructure of our industry to be responsive to the needs of highly successful financial services professionals who

are best served by building an independent business. There are many brokers, planners, PMers and consultants who are advising more assets than they would have ever imagined, who have gone from selling financial products and services to managing a highly successful advisory services firm. The staffing, technology and division of labor within these businesses have outgrown the commission brokerage business model. These businesses are best run as independent companies. Similarly, some of the most outstanding people

**THERE IS A SENSE OF TRUST
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in our industry are the very top people at independent brokers/dealers who would welcome a higher level of support and an association with other highly successful financial services professionals. There are brokers who are making the transition to fee-based advice, who aren't established million-dollar producers well-suited to our Profit Formula program, who need the flexibility of an independent firm structure that offers them the financial latitude to better accommodate the technology and staffing necessary within their practice to provide high level advice. I am excited to be able to help so many of our industry's top professionals find the right home that they can be comfortable with for the rest of their career."

First Union Securities is indeed unique among major firms in that it has created and maintained an almost family atmosphere. The collegiality of their employees and the responsiveness of their Richmond, Virginia-based support infrastructure was honed at Wheat First Securities, Butcher & Singer (Philadelphia) and the first-quality region firms (Prescott Ball & Turbon in Cleveland; Blunt, Ellis & Lowe in Milwaukee; Bateman Eichler Hill Richards in Los Angeles; Boettcher & Company in Denver and Underwood Newhaus in Houston), which comprised Everen Securities. Everen, in turn, merged with Wheat First Union Securities to create First Union Securities, and First Albany Securities was later acquired by First Union Securities. Nearly half of the premiere regional financial services franchises in the U.S. have been aggregated into First Union Securities. These regional firms had a much stronger identity with their local communities than the major wire-houses, and their top brokers were partners in making the firms extremely broker-centric and collegial. This environment still exists today.

There is a sense of trust that everyone is working together for the best interests of the broker and their clients. The broker is very much the center of attention. What they say or need is actually important. This is particularly self-evident in the creation of First Union Financial Network. How many firms would acknowledge that the broker owns the client? How many firms would acknowledge the legitimate interests of a broker in building liquid, transferable value in their practice? How many firms would acknowledge that building and running an advisory services business requires a totally different set of staffing and technology-

ical parameters within which one must work than that required by a commission salesman? By being open to the broker, understanding their needs and genuinely trying to be as responsive as possible, First Union Securities is raising the bar of service for all financial services firms, whether they be wirehouses or independent brokers/dealers. Highly structured, command-and-control business models that are rigidly driven from the top down, common in large bureaucracies at major firms, not only discourage innovation and thinking "outside the box," but as a consequence, do not foster high level support or a sense of well-being on the part of the broker. First Union Financial Network is tangible evidence that firms can and must be more collaborative if they are to succeed in responding to the needs of their brokers and their clients in a dynamically changing business environment. First Union is listening and responding with innovative ways to help financial services professionals become more successful. It could not be more clear that the success of their brokers is far more important to First Union Securities than rigidly maintaining status quo. Innovation and responsiveness is part of the First Union culture.

This level of collaboration is evident in the support First Union provides its brokers and draws on the strengths of the nation's sixth largest bank and the sixth largest brokerage firm. First Union Securities is not comfortable in just talking about its potential, it is actually creating a most formidable delivery platform for financial products and development. John Chapman, director of professional development, and Danny Ludeman, president, along with many others are working on the next generation financial product and service delivery platform which will likely make First Union Securities the first firm in the U.S. to move from a product management organizational structure designed to distribute financial products to a process management organizational structure designed to empower the broker to add value. Consider how much more powerful this process management support infrastructure is relative to the old product management structure in helping the broker to win business. If the broker is competing for high net worth business, the process manager of the high net worth market segment has created a process (asset study, investment policy, strategic asset allocation/investment strategy, manager search and selection/form of

ownership choice and selection/portfolio construction, performance monitor, tactical asset allocation) that empowers the broker to deliver an unprecedented level of professional investment and administrative counsel specifically for investors in the high net worth market segment.

All the client's assets and liabilities are incorporated into a virtual, real-time balance sheet and income statement. There are basic core services comprised of checking, savings, credit cards, mortgages, lines of credit, home equity loans, and life and casualty insurance on home and automobiles that are tied to the virtual real-time balance sheet and income statement, and supported by a call center 24-hours a day, seven days a week. One 800-number backed by thousands of professionals provide immediate responsiveness on all core services. All the client's investment assets are supported by a statement of investment policy which is confirmed and/or adjusted each

FIRST UNION SECURITIES WOULD BE PROVIDING A MUCH HIGHER LEVEL OF SUPPORT FOR ITS CONSULTANTS, HAVE A MUCH LOWER COST STRUCTURE THAN ITS COMPETITORS, HAVE HIGHER EARNINGS AND MARGINS, AND EXPAND ITS EARNINGS MULTIPLE BY A FACTOR OF THREE BECAUSE ITS COMMISSION REVENUES WOULD BE CONVERTED TO RECURRING-FEE REVENUES

quarter based on changes in client circumstances or the capital markets, which drives an investment strategy that is perfectly attuned to each client's goals and objectives, and unique needs and circumstances. Values such as risk, return, tax efficiency, liquidity, cost structure and progress relative to goals and objectives are reported in real-time. Secured electronic document storage instantaneously produces, by client password, trusts, wills, tax returns, mortgages, loan agreements, insurance contracts and legal documents. All tax reporting information is compiled electronically throughout the year and automatically triggers tax-saving strategy ideas for the broker to recommend. The client's investment portfolio can be electronically rebalanced against holding benchmarks. Style drift is electronically detected on each money manager against their style benchmarks. A sector, style and cap size rotation

model will automatically reweigh and rebalance the client's portfolio and investment strategy based on current market conditions. This is the comprehensive investment process technology top consultants demand long advocated by this publication. But imagine a custom investment process designed to address and manage the specific investment and administrative needs of each of the eight major market segments (high net worth, defined contribution, foundation and endowment, defined benefit, public funds, profit managing, Taft Hartley and ultra high net worth) of the institutional and high net worth markets. With dedicated process managers creating and managing the process for each market segment and providing wholesale support to the broker-cum-consultant in each market segment in which they compete, the First Union Securities broker is not only offering comprehensive, expert advice but anyone offering anything less will be at a competitive disadvantage in the depth and breadth of the investment and administrative values they address and manage, and most certainly, in the value they add. All a product management organization structure is designed to do is to facilitate the distribution of financial products as a series of disjointed, unrelated transactions which, by definition, make it not possible for the commission broker to add value. Process management is the ultimate in responsiveness to both the brokers and the client's needs. This is the next generation of financial product and service support infrastructure and whoever gets there first will immediately seize market leadership in the U.S. financial services industry.

Because of the unique collaborative environment at First Union, their genuine interest in being of value to the broker and their clients, their consulting orientation and organizational structure that already has product neutral marketing and research functions, incorporating all products, First Union Securities will likely be the first major firm to move to a process management organization structure. The strategic implications of First Union being the first to adopt a process management structure are huge for First Union Securities, Profit Formula and First Union Financial Network. First Union Securities would be providing a much higher level of support for its consultants, have a much lower cost structure than its competitors, have higher earnings and margins, and expand its earnings multiple by a factor of three because its commission revenues would

be converted to recurring-fee revenues. First Union Securities could well leap ahead of many of its larger brokerage competitors in terms of market capitalization.

To say the financial services industry is changing is an understatement. The creation of First Union Financial Network puts many issues on the table that have heretofore been ignored or handled autocratically. Historically firms have owned the client, thus what value is created accrues to the shareholders of the firm, not to the brokers who actually have built the client relationships. Historically firms have been in the commission brokerage business which is not geared to adding value, and any special technology or staffing necessary to support investment management consulting

must be paid for by the broker out of their 40% share of their gross revenues generated. Historically firms have assumed no accountability for their investment recommendations in the form of account reporting, establishing the precise returns generated in a commission brokerage account, the risk that is being assumed or the tax efficiency, liquidity or cost structure of the client's assets as an investment portfolio. Historically, the support infrastructure and training of firms are narrowly focused on financial products that is designed to perpetuate and sell hot product sales stories whose extraordinary returns, by definition, cannot be sustained. All these questions are answered by First Union Financial Network. First Union Securities understands at the highest levels, it is

process, or what you do with financial products, that adds value, not financial products.

It is First Union's empathy and identity with its brokers and their clients that make it so extraordinary. First Union Financial Network answers many questions which have long gone unanswered. It represents a fresh, new, credible voice for all financial services professionals who have the well-being of their clients first and foremost in their minds, who are looking for a home that will listen to and respect their needs, where they can grow professionally among other like-minded professionals. For financial services professionals looking for answers First Union Financial Network is a good place to start. ■

The Advice Continuum: What Would A McKinsey & Company Say To The Financial Services Industry?

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question that leading financial services firms must ask is not how to breathe life into their commission brokerage business; but how long can the financial services industry afford to ignore the new advice business model, given a declining commission brokerage rate environment and a commission brokerage support infrastructure geared to the mass market that focuses on 90% of the investors but just 10% of the assets? McKinsey & Company would suggest not long.

Like almost every other industry in the U.S., the financial services industry must now begin to retool and reengineer the machinery of commission brokerage. It must redefine itself in the context of the new advice business model and must create a fail-safe advice strategy. Because you only have one chance to get it right, you must get it right the first time. Because the stakes are so high and the competitive business environment is so supercharged, this requires professional assistance. Thus, leading strategy consulting firms like McKinsey & Company, with a sure and certain methodology, would have much to say to those financial services firms that would like to know how to effectively compete in this new advice business model.

Firms like a McKinsey & Company are engaged to help companies create a fail-safe business strategy for any business in any industry. Their methodology is, in principle, very simple but very difficult to execute. The difficulty in execution is not related to formulating strategy or knowing what to do. The

difficulty is having firms take an objective, unbiased look at themselves. This is why only the best-run companies engage the services of McKinsey-like organizations. They are the best-run companies because they are willing to have an objective assessment made and to be self-critical. The truth is painful but understanding the problem is more than half the solution. If there is not an objective assessment, then the course and direction of the firm is essentially based on one man's view of the world which is, more likely than not, an exten-

THE THREE C'S REPRESENT THE INPUTS NECESSARY TO MAKE SMART CORPORATE DECISIONS AND DELIVER PROFITABLE NEW PRODUCTS AND SERVICES

sion of status quo, rather than reflecting an objective, studied view of the firm, its products, services and market. The McKinsey methodology first assesses the firm's capabilities, then it looks at all the firm's competitors, evaluating their relative strengths and weaknesses, and finally it analyzes the firm's clients to determine their needs. These three C's (company capabilities, competitor's strategies and client needs) represent the inputs necessary to make smart corporate decisions and deliver profitable new products and services. One could argue in a dramatically changing busi-

ness environment that the blind spot of this benchmarking approach to corporate strategy is that in evaluating competitors, their strengths may be in commission brokerage as well, thus perpetuating status quo, and if laymen investors could articulate high level, comprehensive, expert advice, there would be no need for investment professionals. This is why corporate strategy is as much an art form as it is a science and why it is essential for top managers who influence strategy to think "outside of the box." Because only a very small number of executives at the very top of most firms are encouraged to think "outside the box," the value of McKinsey & Company's work and that of other corporate strategy firms is invaluable. Thus, in today's dynamically changing business environment within the financial services industry, it is essential that the engaged corporate strategy firm have an intimate understanding of all aspects of the new advice business model. Otherwise, just benchmarking status quo will only give firms more of the same, which will put them in an even more untenable position. So, it is essential that the corporate strategy firm understands (1) high level, comprehensive, expert advice as it pertains to each of the eight major market segments of the institutional and high net worth market segments; (2) the processes, methodology, technology and support infrastructure necessary to empower the financial services professional to deliver world-class investment and administrative counsel for a fee; and (3) the cultural, structural and technological impera-