

# SENIOR CONSULTANT

The Voice of the Investment Management Consultant

## Where Do You Go to Build A World-Class Practice? The Consultant's Toolbox

Stephen C. Winks

One of the joys of publishing *Senior Consultant* is that a day doesn't go by that we don't get calls from financial advisors, both the newly initiated and established advisors with billions under advisement, on whether there is a better way to build a world-class investment management consulting practice. Indeed, investment management consultants have had to reinvent the wheel every step along the way, requiring you to exercise judgement in areas where there is not an objective, authoritative resource to turn to for answers. Though all financial advisors and financial services firms espouse the thesis of adding value, it is far easier to talk about adding value in the abstract than actually doing it. In principle, there is no difficulty in understanding what is risk, return, tax efficiency, liquidity or cost structure. Yet, in practice, there are very few practical resources that one can draw upon to address the "how to" of adding value, incorporating theory, process and technology into an easily executable form. Fundamental issues are often left unaddressed, like: Isn't there enabling technology required in order to add value? How do you gain access to this technology and how much does it cost? Nor are the tools, skills and credentials required to add value clearly delineated in the context of a complete thought on process and technology.

There is an almost unquenchable thirst for learning. Shouldn't an investment recommendation be made in the context of all the client's assets and liabilities in order for it to be possible to add value? Does a 5-question questionnaire and the resulting client profile really suffice for creating an investment policy statement? Shouldn't the full universe of investment options be considered, rather than just mutual funds or managed accounts? Shouldn't procedural solutions using trusts be preferred over investment solutions involving insurance in resolving estate tax considerations? This range of mission-critical questions transcends process and technology. They beg the question of whether adding value is indeed the focus and objective of the industry, the advisor and their supporting firm.

At the higher end of the market, there is extraordinary interest in practice management. Everyone who excels strives to continuously improve and differentiate themselves, especially our top investment management consultants. In a survey of 50 consulting practices which have more than \$1 billion under advisement, we found most consultants would choose to grow their practices differently. They would hire people in accordance to an over-arching plan rather than responding to pressing needs of the moment. Most large practices are beginning to wrestle with the division of labor and technology issues which would facilitate more service

at less cost without requiring anyone to expend 60-hour work weeks. Many consultants are finding they do not enjoy the role of manager as much as they enjoy building their client and asset bases. There is a very specific pattern emerging on how these firms are evolving as mature advisory enterprises.

Similarly, at the lower end of the market, there is also a clear pattern of how commission brokers and financial planners are

evolving toward investment management consulting and the engagement of their professional investment and administrative counsel for an on-going advisory fee. They create their own process (asset study, investment policy, strategic asset allocation, manager search and selection, performance monitor, tactical asset allocation) which establishes the depth and breadth of values addressed and managed, and ultimately, their value proposition. Yet, like their more successful brethren, they typically have had to reinvent the wheel every step along the way. By trial and error, they have had to find which technology and consulting tools work best together and learn how they can leverage their work through process, technology and a division of labor which frees time for higher value initiatives that exponentially grow practice revenues and service.

There are very specific answers to all these questions raised by the higher end and lower end of the market and all points in-between. But why is it that each financial advisor has to reinvent the wheel again

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and again and again? The question that determines how quickly the thesis of adding value and its associated advice business model will emerge and become preeminent within the financial services industry is whether we have learned anything as an industry over the past 40 years that would institutionalize the process and technology of adding value. Must the financial advisor continue to be put into a position of having to reinvent the wheel every step along the way? *Senior Consultant* poses a very interesting solution.

*Senior Consultant* has created the [Consultant's Toolbox](#) which offers literally everything you need to add value. Rather than having to reinvent the wheel every step along the way, the [Consultant's Toolbox](#) offers best-in-class resources for professional development, process and technology, practice management and investment products at their lowest available cost. If there is not a solution, *Senior Consultant* will work with leading technologists, money managers and consultant support organizations as a catalyst to create solutions as we are now working with firms on the development of the electronic asset study. The mission is to elevate and advance the practice of investment management consulting by recognizing, providing access to or acting as a catalyst in developing the resources necessary to address and manage a broad range of investment and administrative values. The [Consultant's Toolbox](#) offers a context within which one can build a world-class consulting practice, so there is a path to follow, based on the collective wisdom of top practitioners and leading experts, so no decision will be made in a vacuum for all who have free, registered access to [www.SrConsultant.com](http://www.SrConsultant.com). Consultants can now develop complete solutions dealing with the most authoritative resources available at the lowest possible cost. The [Consultant's Toolbox](#) deals with the four major areas in which consultants seek the most assistance: (1) professional development, (2) process and technology, (3) practice management and (4) investment products. Best-in-class solutions are objectively determined, and your own assessment will be registered so you can help those who follow to learn from your experience, delineating any limitations or areas in

which solutions can be improved. This assures continuous improvement/innovation for the benefit of all. Collectively, your opinion will move the market. *Senior Consultant* and its [Consultant's Toolbox](#) will keep abreast of best-in-class technology and resources so you can better manage and structure your process and practice.

### Professional Development

Industry surveys reveal that the vast majority of plan sponsors and individual investors have significant shortfalls in their investment process as required under UPIA, ERISA and MPERS. This reinforces the need

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of an objective third-party consultant to provide a more disciplined framework for investment recommendations which is consistent with the regulatory mandates of UPIA, ERISA and MPERS. It isn't just individual investors and plan participants who are struggling with investment decisions. Investment literacy needs to start with plan sponsors and investment advisors who have a major role to play in helping investors make informed investment decisions. Even the best investor or participant education will fall short if the advisor or plan sponsor has done a poor job in structuring investment policy, investment strategy and the investment portfolio. By virtue of the Department of Labor not yet having framed the details of a prudent investment process for plan sponsors, it is extremely difficult for plan sponsors to evaluate the effectiveness of their investment decisions. Similarly, for individual investors, the SEC has not defined for investment advisors the practices that constitute a prudent investment process (the objective of the Boehner bill), thus indi-

vidual investors who turn to investment advisors for assistance cannot differentiate between rogue brokers and competent investment advisors. The weight of the SEC and DOL has not been put behind an objective criteria for which the level of professional investment and administrative counsel could be gauged. Thus, we must go beyond the poorly defined "prudent man" criteria to define advice in the context of the prudent expert as specifically described by the regulatory mandate of UPIA, ERISA and MPERS. Therefore, best-in-class training would entail an indepth authoritative understanding of the "Prudent Investment Process" required by UPIA, ERISA and MPERS. By using the "Prudent Investment Process" as our guide for training, we institutionalize the best practices of prudent experts. This is, by definition, best-in-class training. The Center for Fiduciary Studies, affiliated with the University of Pittsburgh Katz Graduate School of Business and Stetson University, has created the first practice standards of care for financial advisors and fiduciaries that identifies 28 practices that define a prudent investment process as required under UPIA (individuals), ERISA (qualified plans) and MPERS (state and municipal employees). This is the authoritative basis of the six financial service investment process (asset/liability study, investment process, strategic asset allocation, manager search and selection, performance monitor, tactical asset allocation) through which a broad range of required investment and administrative values are addressed and managed. This is the authoritative basis of any Six Sigma training initiative upon which most professional development programs are based.

The best-in-class training in building a world-class investment management consulting practice involves several initiatives. In weighing the order of importance in training content on the professional development of the advisor, its direct impact on the investor and its impact on elevating the level of advice the industry provides, *Senior Consultant* recommends that to develop the knowledge to provide high level, comprehensive, expert advice, the following education initiatives should be pursued, in the following sequence, based on their market impact and practical application.



**The Center for Fiduciary Studies' Certified Fiduciary Audit Course**

A 3½-day course to certify fiduciaries, accountants, attorneys, and senior consultants to perform fiduciary responsibility/liability audits evaluating the 28 practices cited by regulatory mandate that constitute a prudent investment process. This positions the financial advisor to speak authoritatively on comprehensive, expert advice, citing the appropriate regulatory authority requiring the six financial service (asset study, investment policy, strategic asset allocation, manager search and selection, performance monitor and tactical asset allocation) investment process necessary in order to add value. (See "[Center for Fiduciary Studies Proposes Practice Standards, SEC and DOL Very Receptive](#)," *Senior Consultant*, December 2000-January 2001.)

**The Investment Management Consultant's Association's Certified Investment Management Analyst (CIMA) Course**

A one-week course at Wharton School of Business at the University of Pennsylvania, which provides basic knowledge of the language, tools and processes of investment management consulting with emphasis on investment manager evaluation and portfolio construction.

**Association for Investment Management and Research's Chartered Financial Analyst (CFA) Course**

A three-year, self-study course that requires one to pass three levels of examinations (CFA I, CFA II and CFA III) given once a year. Each CFA examination is six hours. The CFA is the definitive certification for financial analysis recognized worldwide as being of more value than an MBA for those who are interested in finance with broad-based application in investment management, investment banking, investment research and investment advisory

services. There are 39,000 CFAs and 74,000 candidates enrolled in the CFA program.

**Certified Financial Planners Standards Board's Certified Financial Planner (CFP) Course**

An 18-month program entailing 5-7 college courses and a 10-hour, 2-day examination providing best in class training for advising individual investors, particularly on estate taxation issues. There are 39,000 active CFPs.

**Process and Technology**

The six financial service prudent investment (asset study, investment policy, strategic

structure. Many firms, notably Merrill Lynch, Wachovia Securities and Salomon Smith Barney can report via the web on all assets custodied in-house. Yodlee and Kinexus, the two leading account aggregation firms, can deliver aggregated asset and liability information on a client's accounts from all sources but cannot provide analytical tools which manage aggregated account information in terms like overall portfolio risk, return, tax efficiency, etc., useful for advisors and their clients. Leading firms like Merrill Lynch are developing electronic asset and liability study capability which can establish the returns that clients or prospective clients have actually achieved in all their accounts, the risk the client has assumed, the tax efficiency, liquidity and cost structure of all their assets and liabilities, whether custodied at Merrill Lynch or not.

Best-in-class electronic asset study capability is made feasible by screen scraping technology, pioneered by Yodlee, and live custodial links, pioneered by Advent and Kinexus, which provide aggregated account information. Separate analytical tools are required to translate the aggregated account information in terms of risk, return, tax efficiency, liquidity and cost structure to facilitate an electronic asset/liability study capability which would diagnostically evaluate a prospective client's assets automatically, greatly reducing the labor intensity of high level advice. In a similar

but different vein, Dain Rauscher has developed an electronic means of classifying all client investments by their holdings which accurately establishes the performance characteristics of each investor's portfolio.

Because of the relatively small number of advisors using an electronic asset and liability study capability made possible through account aggregation technology, there are no capacity issues in its execution. However, if every advisor at Salomon Smith Barney or Merrill Lynch wanted to aggregate all their accounts, both assets and liabilities, so they can provide an electronic asset and liability study for all their clients as of the end of each prior business

**SIX FINANCIAL SERVICES ARE NEEDED TO PROVIDE PRUDENT INVESTMENT COUNSEL:**

- 1. THE ASSET AND LIABILITY STUDY**
- 2. INVESTMENT POLICY**
- 3. STRATEGIC ASSET ALLOCATION**
- 4. MANAGER SEARCH AND SELECTION**
- 5. PERFORMANCE MONITOR**
- 6. TACTICAL ASSET ALLOCATION**

asset allocation, manager search and selection, performance monitor and tactical asset allocation) process required by UPIA, ERISA and MPERS provides the structural framework through which the financial advisor is empowered to add value.

**1. Asset and Liability Study**

The asset and liability study is central to the thesis of adding value because only by evaluating an investment recommendation in the context of all the client's assets and liabilities is it possible for one to determine if it increased overall portfolio return, reduced risk or improved tax efficiency, liquidity and/or cost



day, there would not be enough bandwidth to move all that information in a timely manner. There is simply too much data, and the disk-swap speed between storage and processor today is inadequate to accommodate such a massive flow of information. However, both the bandwidth and disk-swap speed issues will be resolved within the next 18 months as a normal course of technological evolution. Thus, the electronic asset and liability study, which makes it possible to establish if value is being added should be used pervasively within leading firms within the next 36 months. Advisors and firms not prepared to address and manage a broad range of investment and administrative values over the next 36 months will be vulnerable to those that can clearly demonstrate the values they address and manage.

Charles Schwab will introduce in March 2002, their advisor-branded web sites in which it will serve as host. The advisor-branded web site will provide an electronic asset/liability study capability for the 3,300 independent Schwab advisors that have more than \$100 million in assets. The asset/liability study will allow Schwab's advisors to clearly delineate the depth and breadth of investment and administrative values they address and manage, and the value they add. Thus, Charles Schwab has best-in-class asset/liability study capability.

## 2. Investment Policy

The heart and soul of the investment process is investment policy which establishes the role of the client, the advisor and the money manager; defines the client and their objectives in very specific terms; and translates that client definition into an investment strategy and an investment portfolio. It establishes a corporate consciousness of the client's wishes and documents the services to be provided by the advisor to include when money managers should be engaged or terminated. Rowe Decision Analytics provides best-in-class institutional quality investment policy for the high net worth, ultra high net worth, defined contribution, defined benefit, foundation and endowment, public funds, profit sharing and Taft

Hartley markets, which translates into 36 different policy statements with unlimited customization while providing legal opinions that opine that policy and the resulting investment portfolios are in compliance with UPIA, ERISA and MPERS. Notwithstanding that the best policy statements are totally custom documents designed specifically for each client, most consultants do not have the time or ability to sufficiently charge for the hundreds of manhours required to create such a custom document to make it economically viable. With Rowe Decision Analytics, 80% of the work is

to construct portfolios which would achieve the client's objectives. In 1986, a Brinson, Hood & Beebower study found that 93.6% of investment performance was determined by the configuration of asset classes in which one chooses to invest. Recent studies by Ibbotson (2001) found 40% of the returns realized in two investment portfolios can be explained by to the configuration of asset classes in which investments were made. Ibbotson makes strategic asset allocation and the establishment of an investment strategy far more dynamic than the long-term strategic positioning of assets previously postulated by modern portfolio theory. Thus, the role of the financial advisor and tactical adjustments in asset allocation are today much more central to investors achieving outstanding performance. Yet, tactical asset allocation uses strategic asset allocation as a reference point from which tactical adjustments are made. Strategic or passive asset allocation has increasingly become a commodity which can be obtained by advisors and their clients for free from many sources. Ibbotson Associates offers the most progressive thinking and tools on asset allocation and are considered best in class.

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done. The consultant only has to modify 20% of the document, saving both time and money. Thus, institutional quality policy capability offered by Rowe Decision Analytics that allows for a high degree of customization, yet also provides a legal opinion that places it compliance with regulatory mandates, makes it economically viable for the consultant to deliver high level, comprehensive, expert advice. (See "[Creating a Statement of Investment Policy](#)," *Senior Consultant*, August 1998.)

## 3. Strategic Asset Allocation

Strategic asset allocation presumes if you can define the investor in terms of risk, return, tax efficiency, liquidity and time, and you can define the investments in the same terms, based on the historical performance characteristics of asset classes, one gains a mechanism in which

## 4. Manager Search and Selection

The advance of modern portfolio theory has brought with it the need for more disciplined, investment management style-specific, forms of asset management. Because fee-based advisors are required to disclose the cost of investment vehicles as well as their fees for providing counsel in portfolio construction, the cost to the investor of engaging professional investment and administrative counsel is a function of the cost of the advisor's services and the embedded cost structure of the investment vehicles used. The average, all-encompassing consulting fee is 178 basis points, but with the average mutual fund having a cost structure of 138 basis points, plus trading cost of an additional 100 basis points or more (which is not disclosed by prospectus), the typical conventional mutual fund has been priced out of the advice market. The 200-250 basis point cost of the mutual



fund leaves little or no room for the consultant, who is adding all the value, to price their services. Thus, managed accounts at 50 basis points, and folios and exchange traded funds (ETFs) at 15-30 basis points have become very important portfolio construction tools, as they provide more latitude for the consultant to price their services and they better approximate specific investment management style and/or sector mandates around which portfolios are constructed. As a result, there is a structural bias for managed accounts, folios and ETFs, because they are more sophisticated forms of investment, ideally suited for portfolio construction.

It should be noted that a new generation of style specific mutual funds pioneered by SEI Investments and structured like managed accounts are becoming very popular for financial advisors. This next generation of mutual funds actually goes further than the traditional asset management functions performed by a money manager. SEI actually assumes fiduciary responsibility for designing and building portfolios which will achieve the client's objectives.

In another approach to managing fiduciary responsibility, Invest<sup>MGT</sup> has created proprietary performance indexes geared to client objectives and has modeled multi-manager mutual fund portfolios similar to Frank Russell based on those indexes as a means to cost effectively achieve custom portfolio construction against the appropriate index for each client. Rather than going through a complex procedure to pick the appropriate configuration of money managers who would accomplish the client's objective, Invest<sup>MGT</sup> goes through a less complex procedure to pick indexes that would best describe the client's objectives. Invest<sup>MGT</sup> has also created a tool that extracts data from the three mutual fund data bases they use and maps that data to a fiduciary due diligence process which generates a one-page report that evaluates any mutual fund against mandated fiduciary responsibility and due diligence criteria. Invest<sup>MGT</sup> is creating the same capabilities for managed accounts. Thus, today it is possible to easily work within a role as a fiduciary to construct investment portfolios, resolving the issue of whether one assumes fiduciary liability or not. This allows those advisors who acknowledge the fiduciary

responsibilities incurred within the defined role and capacity of the consultant as outlined in the statement of investment policy to more fully price their services.

Manager search and selection is more than just gaining access to the raw data in the CompuStat, Mobius, Northfield or MorningStar databases. Prima Capital has created a completely outsourced due diligence and research function for managed accounts and mutual funds and will soon add exchange traded funds. Prima is widely acknowledged as being best in its class as evidenced by its impressive client list. Its web-based manager search and selection platform which provides a comprehensive quantitative analysis to include holdings and returns-based attribution analysis, qualitative analysis, an objective 13-factor ranking of managers and an opinion on

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and accountability for each manager recommendation. Institutions using Prima Capital can shift the weightings of the 13 factors that rank managers to reflect their own thinking and each client's unique circumstance. Thus, manager search and selection by design incorporates each user's proprietary methodology, resulting in a custom outsourced manager search and selection process for both institutional clients and their practitioners. For example, tax efficiency has a zero weighting for qualified plans but a high rating for high net worth individuals. Because Prima is web-based, institutional users provide all their advisors direct access to very powerful analytical tools for manager search and selection to help shape their professional investment counsel.

Because Prima is built around a relational database, its institutional users can use Prima information and analysis to create custom reporting and documentation, or for packaging of any end-product they wish. Thus, Prima provides broad-based access to very sophisticated outsourced manager search and selection

analysis in a form that reflects the user's own unique perspective. This is what makes Prima the best in its class for manager search and selection.

Prima is structured for financial services professionals working the middle market (between \$100,000 and \$10 million in investable assets). For the investors with more than \$10 million investable assets, Salomon Smith Barney has distinguished itself in managed account research, developing extraordinary capability that arguably makes them the best in the business in managed account research and due diligence, to include the largest institutional consulting firms. Yet, because that information is only actively used at the higher end of the market by several hundred Salomon Smith Barney senior investment consultants who have built their practices around it, Salomon Smith Barney's brilliant research has limited market access but must also be considered best in class. Because of access and technological considerations, Prima Capital, for most advisors in the general advisor population, is the best-in-class resource for manager search and selection.

**5. Performance Monitor**

The virtual real-time balance sheet and income statement is not here yet, but we are getting close. The intranet and straight-through processing will ultimately facilitate real-time information on publicly traded securities, yet there has been reticence on the part of the insurance and mutual fund industry to make real-time holdings, return, risk and cost structure information transparent to the investor. Thus, individual securities, managed accounts and folios will account for the vast majority of all investable assets as investors require more accountability and transparency. The cash balance and liability side of the balance sheet is available through commercial banks but batch processing does not lend itself to real-time data, resulting in a four-hour to one-business-day delay in information. Privately held assets, like private equities, real estate or personal property are evaluated at the discretion of the investor in the frequency they wish. Thus, it is possible today to report on all the client's assets and liabilities as of yesterday, which is a significant advancement to just reporting on a series of disjointed, unrelated transactions where it is



not possible to add value as is common in commission brokerage. Best-in-class performance monitors, which incorporate all the client's assets and liabilities and based on yesterday's data, are being provided today to a very small user base of consultants at Salomon Smith Barney and Merrill Lynch for a very small group of very high end clients. These state-of-the-art performance monitors incorporating the asset and liability side of the client's balance sheet will be democratized over the next 18 months as bandwidths and disk-swap speeds allow. This level of performance reporting is essential for advisors to add value. Thus, within the next 18 months, both firms and advisors must align themselves with the thesis of adding value or run the risk of becoming a high cost/low value option for trade execution.

Charles Schwab has announced its advisor-branded web sites to be introduced in March 2002, which will empower advisors to develop a totally custom web site, hosted by Schwab, that will report on all the client's assets and liabilities. Money managers and PMers using Schwab can report on the assets they manage in real-time. The web site will have a "virtual vault" where wills, buy-sell agreements, trust documents, tax returns, investment policy statements, etc. will be securely housed with access being controlled by the investor citing authorization to specific documents when needed. Because the advisor brands their own web site with content of their choice, they will have their sales and marketing materials, their unique value proposition, their process, client's reporting and ADV on-line. They can even have webcasts with their clients. The advisor-branded web site offered by Schwab is best in class in performance reporting as it will accommodate the most robust form and content of reporting possible.

The richness of the detail and the values quantified in the performance monitor ultimately determines the level of discernment and the quality of the investment and administrative counsel provided. Thus, the art of the performance monitor is to provide very sophisticated science-based insight in an understandable way

that clients would appreciate. Client's don't need to know how to make a clock, they just want to know what time it is. How we evaluate and explain performance and risk is central to the responsibilities of the financial advisor.

Performance attribution analysis takes the consultant and their clients deep into why the client's portfolio and the investment managers engaged perform as they do, evaluating whether performance is attributable to skill, luck and/or style. This type of indepth attribu-

Sharpe formulated what we now know today as attribution analysis and its commercial application was pioneered by Zepher which has the largest installed base of 400 licensees and nearly 2,000 users, 100 of which are at Salomon Smith Barney. Zepher has made many innovations that have made it easier for more advisors to use attribution analysis and in doing so, has greatly elevated the financial services industry. Because of its continued innovation, Zepher also has to be considered best in class.

One of the major differences between individual and institutional investors is how we explain and measure risk. Mean variance is used in the institutional market to measure risk because institutions have an unlimited lifespan and over an extended timeframe will approach median return and risk as espoused in modern portfolio theory. But individuals with a finite lifetime do not have the luxury to use time to mitigate risk. Thus, for individuals we must use a different measure of risk that more accurately reflect the arbitrary and volatile nature of the capital markets in shorter timeframes. Monte Carlo simulation is the best way to illustrate risk for individual investors, except those with ultra high net worth or sufficient assets that would far exceed the intergenerational needs of their grandchildren's children and/or a 50+ year time horizon. For most individuals, Monte Carlo simulation best describes the risk and returns they should expect to achieve over their lifetimes. Best-in-

class Monte Carlo simulation is offered by Financeware which helps investors and advisors understand the probability of their achieving their long-term goals and objectives. (See ["Putting Monte Carlo Simulation Into Practice," Senior Consultant](#), March 2000.) Attribution analysis and Monte Carlo simulation are essential for consultants who wish to offer the highest level of investment and administrative counsel.

## 6. Tactical Asset Allocation

When current market conditions contradict historical precedent, such as when fixed income returns exceed equity returns, tactical

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tion analysis represents an extraordinary differentiating skill set for the consultant. Attribution analysis is an strategic imperative for advisors who wish to offer high level, comprehensive, expert advice. There are several returns-based attribution analysis tools available, but there are limits as to what you can do with returns-based attribution analysis. There are only a few firms which offer holdings-based attribution analysis and only one that evaluates the impact of investment management style and does so at one-fifth the cost of many of its competitors. PPCA's StokTrib is the best-in-class attribution analysis as it offers holdings-based, style adjusted attributed analysis. Nobel laureate Bill



asset allocation better aligns the client's portfolio with the forces at work in the market. In recent research by Rowpyn and confirmed by the University of Chicago, it has been found that shifts in investment management styles (from value to growth, or from small cap to large cap stocks) do not occur hour to hour, day to day or even month to month, but it occurs over time spans that could be as long as four to six years. Thus, relying on actual market experience without arbitrary judgement (i.e., without market timing), if one can determine when the shifts in management styles occur, it is no longer necessary to be exposed to an underperforming management style for more than six months. Thus, by definition, Rowpyn's investment methodology would outperform index returns as long as style shifts persist for periods of six months or longer. Best-in-class, science-based investment methodology or tactical asset allocation is the Rowpyn Equity Investment Rotation Model which has generated 26.44% returns at less risk than the S&P 500 at 13.38% over the past five years (See "[Investment Methodology, The Holy Grail of Consulting](#)," *Senior Consultant*, September-October 2001).

**Practice Management**

Through process and technology, you can leverage your time so it is possible to address and manage a broad range of investment and administrative values for a large number of clients. Your training with the Center for Fiduciary Studies, the Investment Management Consultants Association, Association for Investment Management and Research and the Certified Financial Planners Standards Board provide you with the knowledge to be outstanding. But how do you put all this together as a business? How a consultant addresses practice management issues greatly influences their success in engaging their professional on investment and administrative counsel for an on-going advisory fee.

Practice management determines your marketing focus, your value proposition, the division of labor within the practice, the technology used, the skill set required for each supporting function, the most promising

market segments for future growth, sales and marketing strategy and client support strategy. Ultimately, practice management determines whether the consultant is creating liquid, transferable value within their consulting enterprise. There are many practice management issues which must be addressed, but two major issues are essential to your success: establishing your value proposition and building a high performance business team. These two issues are mission critical to a successful consulting practice.

**Establishing and Differentiating Your Value Proposition**

There is no question the financial services industry is fast evolving from commission brokerage to fee-based advice. Clients simply

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prefer value to be added than not. How things have been done in the past makes no difference. The ultimate question is: Can you create such demanding clients for the broad range of investment and administrative values you address and manage that it will be almost impossible for your competitors to make an inroad? You not only have to know your value before you can sell your value, but you must be able to so clearly differentiate your services that your clients get goosebumps when you articulate your value proposition. This means you must deeply resonate with the investor's own values, beliefs and experiences which transcends selling. You must answer for the investor: (1) who you are, (2) what you do, (3) why you want to do what you do, (4) how do you do what you do, (5) who have you done it for, (6) what makes you different and (7) why they should do business with you. In answering these seven questions in sequence, you will not only discover your unique value proposition

and differentiate yourself from your competitors, but you will end up with a passionate, beautifully polished presentation, which, without equivocation, establishes you as a world-class competitor for any client in any situation. No one does this better than Leo Pusateri of Pusateri Consulting and Training, who has been engaged by the industry's top financial services firms and practitioners (See "[What Is Your Value Proposition?](#)", *Senior Consultant*, January 2000.)

**Building A High Performance Business Team**

Most practices experience growth pains. Does it seem like you always are in a reactive mode? Do you cancel team meetings because you are too busy to have them? Are you spending enough time with your family? Do you find it difficult to keep good people? Do you know you should be doing a better job for your clients? Is there a high level of stress and frustration among your team members? Are you leaving dollars on the table because you don't have time to get them? Are you drowning in paperwork? Are you always scrambling to get things done in the last minute? Does your business depend too much on you? If these sound all too familiar, all highly successful consultants at one time or another have experienced these growth pains in building their business.

The challenge is that we almost invariably deal with symptoms and not the causes of the problem. We have too many clients, the wrong types of clients, understaffing, the wrong personality for a support function, the wrong skill set for the function, the lack of structure, the lack of systems, the lack of communication, the lack of management, the lack of leadership, etc. Building a high performance business team cannot be done overnight because it entails group dynamics and changing the way things are done. Steve Saenz of Paragon Resources helps million-dollar practices with three or more staff members to build high performance business teams. Saenz begins a complete business assessment by assessing goals and objectives, revenue and expense analysis, compensation study and an analysis of

accounts. This "big picture" evaluation of key practice management issues by the principal(s) of the practice sets the stage for the entire team to be actively involved in the complete business assessment. The complete business assessment entails a business system survey, team survey of practice marketing, team investment process assessment, team assessment of client services, team workload and staff analysis, assessment of strengths and weaknesses of the practice and the team, establishment of roles and responsibilities of each team member, 360-degree evaluation of colleagues, behavioral style analysis, personal interests and aptitudes, personal listening profile, personal learning profile, innovation with care profile, dimensions of leadership profile and coping with stress profile. This is the most comprehensive diagnostic evaluation of a consulting practice ever created and results in response that evaluates business effectiveness in client service, investment process, marketing strategies, sales process and team building. It takes as little as 2-4 weeks. The focus then shifts to creating an action plan which will realize financial objectives without sacrificing quality of life. This is called building a world-class business team. Every successful consulting practice that desires to be outstanding should engage Paragon Resources to conduct a complete business assessment to provide the necessary structure that aligns people, systems, technology and image that separates you from the pack and constitutes a world-class business team. (See ["Building A World-Class Business,"](#) *Senior Consultant*, March 1999.)

### Products

The engagement of one's professional investment and administrative counsel for an on-going advisory fee requires a more disciplined approach to portfolio construction because one is accountable for their investment recommendations, and must address and manage a broad range of investment and administrative values. One of the values most important to the investor and the consultant is the cost structure of the investment vehicles used as required under Subsection 7 of the UPIA and Subsection 404(a)(1) of ERISA. As a practical business consideration, the investment management consultant is obligated to disclose all fees and charges to include the fee they charge the client for engaging their services and the cost structure of the investment vehicles they use. Thus, the overall fees the client incurs and what the consultant can charge for services is greatly impacted by the embedded cost structure of the investment vehicles used. The higher the cost structure of the investment vehicle, the less latitude the consultant has in pricing their services. Most importantly, it is what the consultant does with the investment vehicle that adds value, not the

investment vehicle in and of itself. Thus, advisors who provide high level advice at the higher end of the market with the most assets and the most discernment, use different investment vehicles than at the lower end of the market where investors will not be as vigilant or hold advisors as accountable. Separately managed accounts, folios, ETFs and hedge funds are the best-in-class investment vehicles for more sophisticated portfolio construction required at the higher end of the market and are particularly well suited for the disclosure requirements of UPIA, ERISA and MPERS. They have a lower cost structure and a more disciplined investment philosophy, are more investment management-style specific and can be designed and managed for the specific needs (tax lot accounting) of specific individual investors, which is not possible in a mutual fund or for taking short positions, also not possible in mutual funds, etc. (See ["Folios: The Next Generation Investment Vehicle,"](#) *Senior Consultant*, February 2001 and ["Exchange Traded Funds: The Next Generation Investment Vehicle,"](#) *Senior Consultant*, March 2000. For an indepth explanation of managed accounts, see ["The Next Generation of Asset Management,"](#) *Senior Consultant*, August 1998 and ["Hedge Funds Go Mainstream,"](#) *Senior Consultant*, June-July 2001.)

### Summary

The [Consultant's Toolbox](#) draws upon the best information available from practitioners, technologists, vendors and consulting support organizations to provide you with as close to 100% information as possible on best-in-class resources in professional development, process and technology, practice management and investment products necessary to build a world-class consulting practice. We will never achieve 100% information because of innovation and the constant elevation of the counsel we provide. If there is something better, you tell us or we will find it. If existing resources can be improved, we will act on your behalf to facilitate innovation. If there are no best in class resources, we will work with leading service providers and vendors to develop those solutions as we are with the electronic asset/liability study. In essence, the [Consultant's Toolbox](#) is an objective resource that seeks best-in-class solutions that facilitate high level advice and supports consultants with best-in-class resources in building and growing their investment management consulting practice. With the [Consultant's Toolbox](#), you no longer are on your own in having to reinvent the wheel every step along the way in building a world-class consulting practice. *Senior Consultant* and [www.SrConsultant.com](http://www.SrConsultant.com) are here to help with literally everything you need to add value. ■

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Morgan Stanley Dean Witter  
Dick Smith  
Capstone Investment Group  
Jim Yanni  
Yanni Partners

## SENIOR CONSULTANT

1457 Crystal Springs Lane  
Richmond, Virginia 23231  
Ph 804-795-1642 ■ Fax 804-795-7703  
[WWW.SRCONSULTANT.COM](http://WWW.SRCONSULTANT.COM)