



Growing the Managed Account Business from \$0.5 Trillion to \$5 Trillion

(continued)

and prefer disruptive technology because that is their competitive edge, while pragmatic mass market advisors want industry standards with as little disruption as possible. Visionary early-adopters take no pleasure in pulling together the whole product solution to provide a compelling value proposition, but they realize if they are going to have a competitive edge, they must assume the responsibility to create it while pragmatic mass market advisors want the whole product solution from the start. This includes training, process, standards, technology and the support staff necessary to achieve a compelling reason to buy. The dynamics of this market environment is that the early adopters will take massive marketshare in an almost predatory manner until the larger mass market adapts to new market conditions, reflecting the consumer preference that value be added. The consumer will ultimately require all financial advisors to add value.

Moore suggests that if we are going to take managed accounts from a small number of early adopters into the larger financial services mainstream, we are going to have to institutionalize the investment process and the associated technology through which the financial advisor is empowered to add value. The key to exponentially growing the managed account business is that we have to greatly reduce the labor intensity for a large number of financial advisors in the financial services mainstream to address and manage a broad range of investment and administrative values. This means we must create electronic asset/liability studies, electronic statements of investment policy, electronic manager search and selection, and electronic performance monitors in order to better articulate, package and deliver the thesis of adding value through a large number of financial advisors in the financial services mainstream. This is not the dumbing down of advice, but the elevation of the financial services industry. Yet, in doing so, Moore makes it clear that the visionary early-

adopter has nothing to fear with the institutionalization of advice from the advisor in the financial services mainstream as a competitor, as the level of detail managed and the level of understanding of today's pioneering consultants manifests itself into a far higher level of counsel than the mainstream advisor could possibly imagine. The mainstream mass market advisor will, in fact add value, but the client will perceive the richness of the detail managed by pioneering early-adopter consultants as adding far more value than is possible with the mainstream mass market investor. Not with-

TOTAL ENTERPRISE SOLUTIONS THAT PROVIDE DIRELY NEEDED EFFICIENCIES INTO THE MANAGED ACCOUNT BUSINESS ARE CRITICAL TO YOUR SUCCESS AND CRITICAL TO OUR SUCCESS BECAUSE THEY DRIVE THE NEXT GENERATION OF INFORMATION TRANSFER AND ANALYTICS ...

standing the technical skills of pioneering consultants, in order to grow the managed account business into the mass market, Moore suggests we must:

1. institutionalize the investment process;
2. reduce its labor intensity, through technology;
3. establish standards for professional investment and administrative counsel;
4. provide support staff to help the advisor leverage their time and work through technical analysts, who are necessary in order to manage a higher level of portfolio detail; and
5. establish training programs for consultants and technical analysts built around standards.

Moore also writes about the "whole product solution," which essentially says you must have the product in its entirety before you can cultivate the mass market. This should greatly concern us all. There is no question that we have breakthrough technology empowering the financial advisor to add value, that will exponentially grow the managed account business, but we have not yet pulled together as an industry to make the investment process and its associated technology, accessible and user-friendly enough to cross the chasm into the mass market. In order for managed accounts to grow exponentially, we must pull together as an industry and support the enabling institutions that are creating the standards, developing the technology and providing the support that makes everything work. The managed account industry cannot operate in a one-dimensional vacuum of just asset management because, in order for it to fully realize its potential, the technology and processes necessary to empower the financial advisor to add value must successfully emerge and prosper.

For you in the money management business, it is terribly important that you embrace **web-based**, not web-enabled, technology. Total enterprise solutions that provide direly needed efficiencies into the managed account business are critical to your success and critical to our success because they drive the next generation of information transfer and analytics that make things like virtual real-time balance sheets and income statements possible. Extraordinary work is being done in this area by Bevin Crodian (BCrodian@MarketStreetAdvisors.com) and Bob Lage at Market Street Advisors. I am familiar with all of the technology in this space and am blown away by their technology, their vision and their pricing. Total enterprise solutions transcend raw technology and imply a deep understanding of the managed account business. No one understands the managed account business from all technological



perspectives better than Bob Lage and Bevin Crodian.

Style-based attribution analysis is, without question, essential if one is going to engage their professional investment and administrative counsel for an on-going advisory fee. Holdings-based attribution analysis has its limitations, and Ron Surz's point in time, style-based attribution analysis is widely acknowledged as being the best tool of its kind in the marketplace. If you run a consulting program or platform, you need to buy [StokTrib](#) and get Ron Surz (Ron@PPCA-Inc.com) into your branches as soon as possible. In doing so, you accentuate the importance of style discipline in managing risk and return and, in accentuating the importance of style discipline, you not only elevate the counsel of your financial advisors and the value they add, but you accentuate the virtues of managed accounts and grow your managed account business. We need to make Ron Surz rich, so he can hire tons of people to go out and train tens of thousands of financial advisors on the virtues of style discipline. This stimulates the exponential growth we wish in the managed account business.

Investment policy is the heart and soul of the investment process and is the ultimate client deliverable. I would argue if you are not providing your clients with investment policy statements you are not adding value as required under the regulatory mandates of ERISA, UPIA, MPERS and the Proposed Uniform Trust Code. If you haven't figured out a way to empower your financial advisors to develop investment policy statements for their clients, I would encourage you to look at [Rowe Decision Analytics](#). This firm has created institutional quality investment policy that is acceptable in the \$100+ million institutional markets with legal opinions that state the portfolio and policy are in compliance with the appropriate regulatory authority. Eighty percent of policy is boilerplate; you just never know which 20% requires client-specific language. Rowe Decision Analytics makes it possible to create custom investment policy statements without having to spend hundreds of manhours, reducing the labor intensity of investment policy to just a few hours and provides an important tool to manage the client relationship.

If you are concerned about the liability and compliance issues associated with your financial advisor creating investment policy statements, you need to look at Tom Roginski's (TMR@AssetManager.com) Pegasus and Gateway Technologies. Pegasus and Gateway take all the values set forth in the investment policy statement that must be managed and creates gates for risk, return, tax efficiency, etc., that are, in turn, tied to your trade and order routing system. This makes investment policy statements a portfolio management tool because any trade that takes a client's portfolio out of compliance with the parameters set forth in the investment policy statement are electronically suppressed. The accounts are then flagged and managed by exception. This makes the compliance risk of a discretionary account less than a commission brokerage account because the client has signed off on investment policy and its associated investment strategy. It also empowers the financial advisor to manage an almost unlimited number of clients.

Your investment methodology will ultimately determine how well your clients are doing. If you believe your advisors are not

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capable of adding value through their own counsel, you should gain access to third party investment methodology like [RowPyn](#) (also see "[Investment Methodology, The Holy Grail of Consulting](#), *Senior Consultant*, September/October 2001) or [Bullrun Financial](#), which have consistently outperformed the major indices, especially in today's difficult markets. Bullrun even has real-time attribution and a global stock research engine that find a stock based on dynamic economic criteria.

The point is: Technology exists that will greatly reduce the labor intensity of high level, comprehensive, expert advice, which is essential to exponentially growing the managed accounts industry from \$0.5 trillion to \$5 trillion. We cannot assume that everything will fall into place on its own. We must consciously and deliberately work on the whole product solution. This requires neither substantial capital nor extraordinary intellect. It simple requires collaborative effort and the good will of a broad array of constituencies working with a common vision. An immense cooperative effort is required, particularly in technology, if we are going to cultivate the mass market. The managed account industry has everything to win and nothing to lose by simply acting in a collaborative manner in exponentially growing the managed account business.

Over the next several months, *Senior Consultant* will be publishing a series of articles at www.SrConsultant.com on technological breakthroughs that have occurred or are occurring, which are essential for us to cross the chasm into the mass market, thereby exponentially growing the managed account business. Virtual real-time attribution analysis is here. Last month, [we wrote about Bullrun Financial](#), which ties real-time attribution to four investment methodologies and a global stock research and search engine. Looking at a client's portfolio in the context of four investment methodologies gives you an opportunity to understand what is working in the market and why it's working, and creates a mechanism to develop extraordinary judgement and counsel in real-time. This is the technology that will drive the old-line private trust/bank and PMer businesses. Next month, we will write on account aggregation firms that are incorporating performance analytics into their technology and creating the first generation of electronic asset/liability study, the most powerful sales tool known to man. The electronic asset/liability study diagnostically evaluates all of a prospective client's existing holdings as an investment portfolio and positions the advisor to establish 20-30 ways they can significantly improve the prospective client's investment performance. Administrative considerations such as investment policy, reporting and defining values like risk

and compensation disclosure become very important.

We are also going to start our third standards initiative this fall. The Society of Senior Consultants has already created standards for professional investment and administrative counsel for the defined contribution and the foundation/endowment markets, working with leading Fortune 50 plan sponsors, fiduciaries, consultants and consultant support organizations. This is extremely rewarding work for all involved. If you would like to be involved in our high net worth standards initiative this fall, e-mail us at Info@SrConsultant.com so we can try to fit you in.

These are the best of times in the financial services industry for those of us who focus on high level, comprehensive, expert advice. Investment management consultants are the only constituency of financial advisors who are continuing to grow their businesses at a double-digit rate. Yet, our industry is changing and must change for the good of the investor, the good of the advisor and the good of the industry. Our industry is about to institutionalize the investment process and the thesis of adding value. I must admit I have mixed emotions about the institutionalization of the investment process, but it is the right thing to do. In doing so, the entire financial services industry will be ultimately reordered around high level, comprehensive, expert advice. Though this is not necessarily geared to the managed accounts business, managed accounts will win significant marketshare that will make it one of the cornerstones of the new advice business model and the new competitive business environment which is emerging.

I am terribly excited to be in the advice business, but terribly humbled by the work that must be done. If we pull together and support the infrastructure, standards, processes and technologies necessary to add value and necessary to grow the managed account business (to include this publication), then there is nothing we can't do. Now is the time to take stock, to reset our collective sights on the mass market and to pull together for the good of the investor, the advisor and the industry.

If you listen, the marketplace is trying to tell us something. It is telling us it wants value to be added. Each of you have an important role to play in executing this vision. We can exponentially grow the managed account business and greatly elevate the level of professional investment and administrative counsel provided. All it takes is a collaborative effort. I thank each and every one of you for all you do to enhance the counsel the investor receives, to elevate the financial services industry and to exponentially grow the managed account business. ■

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