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Your Real versus Stated Value Part IV: Professional Knowledge and Sophistication

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When dealing with complex financial issues it is virtually impossible to add value purely based upon your own resources. Technology and strong strategic relationships are required. In my opinion, many financial advisors do not truly add value, and they provide an inferior level of service to their clients. They don't have the supportive technology, infrastructure or the know-how to use the technologies available to them. They should have access to authoritative professionals from other investment disciplines. Unfortunately, they try to do it alone – drawing upon their personal knowledge of investments and the *Cliff Notes* supplied by their firms. While this may be adequate for the average client who has simple investment needs, it is totally unacceptable when working with complex issues and large sums of money. The high net worth market requires substantially higher levels of service, sophistication and competence.

Many of the long-term readers of *Senior Consultant* specialize in the high net worth markets. They have created the infrastructures and developed the knowledge and relationships needed to deliver high level, comprehensive advice. They have created the benchmarks to which many advisors and financial firms are striving and upon which industry standards will be based. The practices of these industry leaders are substantially different than the vast majority of financial advisors.

This article has four primary goals:

1. Identify many of the key practices of the industry's best wealth managers.
2. Allow everyone to determine which of these best practices benchmarks they are meeting and/or exceeding.
3. Dispel unfortunate illusions permeating the industry regarding the concept of "value added."
4. Motivate readers to progress to higher levels of professionalism.

> ... KEY PRACTICES FALL INTO FOUR PRIMARY CATEGORIES:
> (1) SALES AND CLIENT STRATEGIES,
> (2) BUSINESS AND MARKETING DEVELOPMENT,
> (3) PROFESSIONAL KNOWLEDGE AND
> (4) PERPETUATING MOTIVATION

Identification of Key Practices

Key practices were derived from numerous interviews, conferences and training sessions involving thousands of top advisors. These key practices fall into four primary categories: (1) Sales and Client Strategies, (2) Business and Marketing Development, (3) Professional Knowledge and (4) Perpetuating Motivation. Within each of these categories are common "skill sets" that are vital. Every financial advisor, for example, should be able to profile their prospects and clients based on financial and risk tolerance factors, and know how to make persuasive presentations. Of course, the skill level usually varies with experience and training. Yet it's disturbing to see some experienced advisors delivering skills at a rookie level.

Benchmarks

These are not formal measurements of competence in the traditional sense. Rather, they are a listing of practices that the vast majority of world-class advisors employ. Some are subjective, but most are quite objective. For example, it is easy to answer "Yes" or "No" to such questions as: "Do you conduct quarterly performance reviews for all of your clients?" and "Can you write/create an Investment Policy Statement?" Previous articles dealt with benchmarking questions in the Sales and Client Strategies and Business and Marketing Development categories. This article will deal with the third category: Professional Knowledge.

Dispelling Industry Illusions

A common criticism of many financial advisors is that they think they are a lot better than they actually are – that their actual value is equal to or greater than their stated value. Unfortunately, the reverse is usually the case. Previous articles offered a number of analogies and examples of how "smoke and mirrors" have

permeated the industry. We discussed how advisors are making wonderful marketing presentations and convincing prospects and clients that they really do add significant value but then don't have the substance to back up their claims. Unfortunately, the only value many of these advisors add is the enhanced marketing messages from the "Value Added" seminars they have attended. It is important to realize that these seminars offer very important marketing tools and can help competent professionals present themselves appropriately and professionally, but many advisors find it too easy to believe their own press and don't have the professional maturity to realize what they know and, more specifically, what they don't know.

So, how does one dispel illusions? One approach is by answering simple "Yes" or "No" questions to see how you stand relative to the benchmarks discussed within this article series. (Of course, there are many other specific benchmarks against which you may judge yourself, but they are too numerous to be included in our limited space here.)

Progress to Higher Levels of Professionalism

By taking the various benchmarking tests – one from each of the four practice categories – you will be able to identify areas of skills and practices that you must improve, if you are to effectively compete at the highest levels. You answer "Yes" or "No." You either "Do" or you "Don't." If you aren't employing a key practice or skill, you should consider addressing the issue. Then, within a relatively short time, you'll be raising the bar and will be able to compete at higher and higher levels. Eventually, with consistent improvement, you'll be able to compete with the best-of-the-best in the high and ultra-high net worth markets. Those who fail to raise the bar are usually relegated to mediocrity. This is true in all areas of life.

Benchmarking Professional Knowledge and Sophistication

Assessing levels of knowledge is very difficult without some sort of test. Yet, tests can't take into account experience, intuition, pedantic information and understanding of how things work together, and therefore, can't make precise assessments. But, you can definitely benchmark yourself against defined levels of expertise using the "Yes/No" tests of previous articles.

The following questions will assist in benchmarking two main areas: your expert team and the processes/technology used in your practice. Answer "Yes" or "No" for each of the following questions.

Regarding Your Team of Experts

Top advisors know that they cannot do it alone, that they cannot possibly know everything they need to know and cannot possibly keep up with all the markets and tax/regulatory changes that impact their clients. Therefore, they develop synergistic relationships or strategic partnerships with other professionals. These professionals may be on their own team, as is the case with many of the mega producers, or by employing the services of other professionals such as CPAs, attorneys, insurance

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specialists, etc., who bring their combined expertise together while working on specific client cases. Answer "Yes" or "No" to the following questions.

1. Do you have a team of experts that you can draw upon to get assistance in the following areas:
   a. Fiduciary responsibilities
   b. Tax and estate planning
   c. Investment strategy
   d. Charitable contributions
   e. Legal
   f. Investments
   g. Forms and strategies of ownership
   h. Account administration
2. Does each of these experts have their own infrastructure that allows them to deal with topics beyond their own levels of expertise?
3. Are you familiar with each of these infrastructures, i.e., who is expert in what? (For the sake of this exercise, name 12 members of your extended team and their areas of expertise.)
4. Do you meet regularly and provide overviews of important changes in each of your individual areas and discuss how those changes may impact others at the table?
5. Does your client realize you provide such a high level team?
6. Does your marketing literature reflect this capability?

Regarding Processes and Technology

These questions deal with consistently delivering high quality advice – each and every time, whether or not you are there to supervise the process. Mega producers and other top advisors have rigorous, defined, objective and systematic approaches to almost everything they do. These approaches are often documented in a procedures manual so that nothing slips through the cracks. The following benchmarking questions focus the delivery of a high level services. (There is no attempt to provide a comprehensive list of questions that is pertinent to all market segments. Depending upon the particular market segment you service you may wish to ask a more narrow range of questions of yourself.)

1. Do you have a defined, objective investment process that you feel comfortable explaining to a jury of your peers? (They wouldn't have to agree with it because of stylistic differences, but it should make sense and have validity.)
2. Do you have the appropriate mechanisms to conduct manager searches? (Most mega producers are able to conduct independent searches, even if they have manager search capabilities available through their firm. They often want to verify that they are getting the best managers and are hesitant to totally delegate that decision.)
3. Can you make your own asset allocation decisions? (You should have access to investment management tools and the knowledge to determine if the recommendations are on target.)
4. Can you write a complete Investment Policy Statement – without the use of software? (Of course, you would leverage your time by utilizing policy templates, but the real question is whether you can do it without computer software assistance. If "Yes," then you can discuss the process with any of your client's other advisors and answer their pointed questions without having to essentially say, "This is our standard language." This same logic applies to manager search and selection, attribution analysis, etc.
5. Can you provide seven specific criteria that you employ to determine which managers are providing real value, i.e., outperforming their peers based on their ability to select investments?
6. Can you assess the risk associated with each investment and within an entire portfolio?
7. Are you familiar with methods to evaluate portfolios based on peer groups and benchmarks while eliminating the biases of each approach?
8. Can you assess liquidity throughout a portfolio?
9. Can you assess tax efficiency and tax consequences of the investment strategy?
10. Is there a specific client focus that would cause you to develop specific expertise?
11. Have you established a division of labor that would allow you to maximize client acquisition servicing while minimizing administrative tasks?
12. Are you always exploring faster/better/cheaper ways of managing the values that you are engaged to perform?
13. Are you willing to measure your client's satisfaction?

In Conclusion

It becomes obvious that the value you bring to the table comes from your knowledge, experience, relationships and ability to consistently deliver a good product. Anything you can do to increase your personal value will pay huge dividends. ■

About the Author

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