Volume 6, No. 11

SENIOR CONSULTANT
The Voice of the Investment Management Consultant

Enabling Technology and Infrastructure: The Key to Adding More Value, Advising More Assets, Winning More Clients and Making More Money Than You Ever Dreamed Of

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Every investor wants their financial advisor to add value, and certainly every successful financial advisor wants to add value and fulfill their fiduciary responsibilities. Yet, without access to the necessary processes, technology and support infrastructure, it is not possible today for the typical financial advisor to add value or to fulfill their fiduciary responsibilities. The key to the highest level of achievement in both client service and productivity lay in process and technology.

Reason with me for a moment, and I believe you will agree. As human beings, we are only capable of thinking in three dimensions. If we try to think in the fifth or tenth dimension, it is not humanly possible for us to fathom 25 or 100 possible interrelated outcomes. Now consider your role as a financial advisor. Let's suppose you wanted to help 500 clients with one objective, say retirement. If you were to address and manage the values of risk, return, tax efficiency, liquidity, cost structure and time as required by regulatory mandate (UPIA, ERISA, IMIFA, UMPERS) and were to use the 10,000 investment options at your disposal, each having at least 100 description points, you would have to manage a three-billion dimensional equation with nine quintillion possible interrelated investment outcomes. Not only has today's financial product and service menu become mind-boggling, but no one understands it in its entirety, much less can articulate it. Clearly, a process is needed in order to manage all this information in terms meaningful to each individual client. So, if you, the financial advisor, are left to your own devices, if you are limited to the three dimensional, there is, in fact, very little, if any, value that can be added. Thus, the depth and breadth of the values you address and manage is largely determined by the processes, technology and support infrastructure available to you. This article is written for the thousands of financial advisors who want to add value and fulfill their fiduciary responsibility, and would like to understand and be able to articulate what they need in order to attain the highest level of professional achievement.

IF YOU WANT TO ATTAIN THE HIGHEST LEVEL OF ACHIEVEMENT IN THE COUNSEL YOU PROVIDE, THE ASSETS YOU MANAGE, AND THE REVENUES YOU GENERATE, YOUR SUCCESS WILL BE DETERMINED BY PROCESS AND TECHNOLOGY

If you want to attain the highest level of achievement in the counsel you provide, the assets you manage and the revenues you generate, your success will be determined by process and technology. We are indebted to the work of pioneering investment management consultants who are active in the high net worth and institutional markets where fiduciary responsibility is viewed more seriously. These advisors, by necessity, have evolved a six-financial-services investment process (asset/liability study, investment policy, strategic asset allocation, manager search and selection, performance monitor and tactical asset allocation), which consistently allows them to address and manage a broad range of investment and administrative values necessary in order to add value and fulfill their fiduciary responsibility. Research by the Center for Fiduciary Studies, citing case law, statutes and regulatory opinion letters confirms the six-financial-services investment process (see "The Center for Fiduciary Studies Proposes Practice Standards, SEC and DOL Very Receptive," *Senior Consultant,* December/ January 2001, http:// www.SrConsultant.com/Articles/2000-12-FiduciaryStudies.pdf).

I know this may sound like a foreign language and realize many of your supporting firms may not have prepared you to even entertain such a discussion. But regardless of whether you are a commission broker, financial planner, insurance agent or banker, the firm supporting you will likely only compensate you when

you sell something. Thus, your support is geared to selling financial products, rather than adding value. Though it would be nice if you added value, it is not essential for the firms that support us. This is why a discussion of process and technology is so important to elevating your role as a financial advisor and in elevating the counsel you provide. Virtually all advisor support organizations are structured as commission brokerage firms and do not acknowledge fiduciary responsibility or its associated liability. They maintain that no advice is being rendered by their advisors; the advisor is just making the client aware of investment alternatives. Essentially, it is *caveat emptor* or buyer beware. The investor must serve as their own counsel, exercising their own judgment. By extension, if no advice is implied, provided or supported, how is it possible for the advisor to add value?

This is perhaps the most perplexing conundrum the financial advisor faces today. You are compelled by your clients and your professional integrity to add value and fulfill your fiduciary responsibility, but there are no institutionalized support or enabling processes /technology to do so. In fact, even if you could add value and fulfill your fiduciary responsibility, there is the question of whether your firm will allow you to do so because of the implied fiduciary liability. This is ultimately what advisor support organizations fear the most. There is the legitimate fear that a different skill set is required of both the firm and the advisor to address and manage a broad range of investment and administrative values as required by regulatory mandate. There is also the very real fear that more advisors will want to add value than are capable. So, it is prudent for firms to limit their role to product access, trade execution and facilities management. Yet, in the absence of your firm's assistance, if value is to be added and fiduciary responsibility to be fulfilled, you have to assume this initiative on your own. This is why a very small number of advisors advise a disproportionately large portion of investable assets at the high end of the high net worth and institutional markets, where more than 90%of the assets are. We will walk you through the process, technology and support infrastructure necessary for you to join this very small number of highly successful advisors in adding value and fulfilling your fiduciary responsibility. You will see there is a significant difference between commission sales and running an advisory services enterprise, where you engage your counsel for an on-going advisory fee. If you are interested in adding more value, advising more assets, working with fewer clients and making more money than you every dreamed of. This is how you do it.

None of what we are about to discuss is rocket science, so don't think any of this is beyond you. In fact, addressing and managing values like risk, return, tax efficiency, liquidity, cost structure and time is not beyond the comprehension of the typical investor, which is why the opportunity is so great. The transparency of the internet is making account performance increasingly clear to the investor, and investors are beginning to understand it is not possible to add value through a series of disjointed, unrelated transactions that we know as commission brokerage. Technology is working in your favor. Only when you can look at an investment recommendation in the context of all a client's holdings can the advisor know if their recommendation actually improved overall portfolio return, reduced risk or enhanced the tax efficiency, liquidity or cost structure of the client's holdings as a whole. Investors are beginning to realize there is no accountability in commission sales for investment recommendations once the product is sold, the trade has cleared and the commission is earned. Indeed, a highly structure investment discipline (the six-financial-services investment process) and associated technology is necessary in order to add value. It is not the investment product that adds value, it is what you do with the investment product, or process, that adds value. You become the value added, not the investment product. In commission sales, once the investment product is sold, the job of the commission salesman is completed. But once the investor engages the counsel of an investment management consultant, the consultant's job is just beginning.

Let's briefly discuss the investment process, the technology and the support you need within your practice in order for you to add value and fulfill your fiduciary responsibility. As you will see, none of this is beyond the reach of any financial advisor if you are sincere in wanting to attain the highest level of achievement and in elevating your counsel. Any advisor who follows this model will be able to provide an extraordinary level of counsel, win clients at will and build a massive business, as there are far more investors who want value added than there are advisors capable of adding value.

YOU ARE COMPELLED BY YOUR CLIENTS AND YOUR PROFESSIONAL INTEGRITY TO ADD VALUE AND FULFILL YOUR FIDUCIARY RESPONSIBILITY, BUT THERE ARE NO INSTITUTIONALIZED SUPPORT OR ENABLING PROCESSES/TECHNOLOGY TO DO SO

The Process

There are six financial services that comprise a highly disciplined investment process that enables you to fulfill your fiduciary responsibility and to address and manage a broad range of investment and administrative values as required either by regulatory mandate (UPIA, ERISA, UMIFA, UMPERS proposed Uniform Trust Code) or client directive. Each of these six financial services adds value in their own right, but when these financial services and their deliverables are aggregated, they constitute an extraordinary level of professional investment and administrative counsel.

The six financial services are:

1. Asset/Liability Study
2. Investment Policy
3. Strategic Asset Allocation
4. Manager Search and Selection
5. Performance Monitor
6. Tactical Asset Allocation

An understanding of how these six financial services work together in sequence tells us what high level counsel looks like.

Asset/Liability Study

Most investors have no idea of what all their assets (and liabilities) look like as an investment portfolio. They can't tell you the return they have achieved on all their holdings as an investment portfolio. They can't tell you if they have taken 150% of the market's risk for 50% of its return. They don't know if their assets are structured in an income and estate tax-efficient manner. They have no idea of the cost structure of their investment portfolio. They don't know that mutual funds are three times more expensive than managed accounts and that ETFs and folios are just 40% of the cost of managed accounts. They don't understand the trade-off between tax efficiency, liquidity, cost structure and performance. They don't understand that they have contradictory investment positions. Essentially, nine out of ten investment portfolios are a mess. Investment counsel has been confined to a series of disjointed, unrelated stand-alone transactions where none of the investor's many financial advisors have assumed the initiative and responsibility for the investor's on-going financial well-being. Investors want someone to be accountable, and the asset/liability study helps to fill that vacuum.

The asset/liability study evaluates all the prospective client's assets as an investment portfolio. It is the before-photograph that establishes a reference point for the value you add after your prospective client engages your on-going investment and administrative counsel. Your diagnostic assessment will provide you with 20-30 specific recommendations that will significantly improve your prospective client's financial well-being. In nine times out of ten, you will convert a highly desirable prospect with substantial assets into a client through an asset/liability study. Invariably none of the disclosure requirements necessary for an advisor to fulfill their fiduciary responsibility have been made, and there is huge room for improvement in portfolio construction. Importantly, the asset/liability study allows you to demonstrate the depth and breadth of your investment and administrative counsel in a very dynamic and understandable fashion. It clearly establishes your accountability and a much higher level of counsel than the client has heretofore been exposed to. In the mind of the client, you are not thought of or even put in the same category as a commission salesman. Rather than selling investment products, you are addressing and managing a broad range of investment and administrative values essential to the investor achieving their goals and objectives. For this, the investor is more than happy to pay you an advisory fee to help them on an on-going basis with all their holdings. You are accountable, are focused on their goals and objectives and have acknowledged fiduciary responsibility. You add value through a science-based investment discipline and engage your services for an on-going advisory fee. The investor is no longer receiving conflicting advice. There is no economic incentive for you to make an investment recommendation as in commission sales. You are in a different business than the commission salesman.

Investment Policy

Investment policy is a management document that defines the roles of the investor, money managers, custodian, administrator, recordkeeper and the investment management consultant whose investment and administrative counsel is engaged. It defines the investor in very intricate terms (risk/return, goals/objectives, tax sensitivity, special instructions, etc.) that serve as parameters against which their portfolio will be constructed and managed. It sets forth the conditions and criteria in which a money manager will be engaged and terminated. It quantifies, through diagnostic testing, key values like risk and tax sensitivity, and translates the client's stated goals and objectives into an investment strategy which is agreed upon by the client and consistent with a reasonable probability of the client achieving those objectives.

Investment policy is the heart and soul of professional investment and administrative counsel. It establishes a long-term discipline to achieve a very well-defined mission. When emotion compels the client to chase whatever investment product is hot at the moment, investment policy is the discipline that keeps the client focused on the long-term strategy, not highly alluring and highly elusive short-term returns. Fee-based counsel has no financial motivation to recommend or execute a transaction, its only motivation and accountability is to help the client achieve their long-term objectives. Investment Policy serves as the corporate conscience of all parties engaged in helping the client. Everybody is on the same team, working toward the same goal. The creation of a client Investment Policy is essential to one fulfilling their fiduciary responsibility and is the central tool in managing the overall investment process.

Strategic Asset Allocation

Technically, strategic asset allocation is a subset of investment policy, but because 93.6% of the value an advisor adds is in determining the appropriate configuration of asset class in which to invest, strategic asset allocation is sufficiently important to warrant acknowledgement as a key element in the investment process. (When there is a reference to a four-step investment process, typically strategic asset allocation is included in investment policy, and tactical asset allocation is not acknowledged separately.)

Clients perceive the investment process as a miracle as a financial advisor can interview; diagnostically evaluate circumstances, goals and objectives; and translate that information into an investment strategy that will accomplish the client's objectives within a reasonable probability. Nobel Prize-winning investment theory states: If you can define a client in terms of risk, return, tax efficiency, liquidity, cost efficiency and time, and if you can define investments in terms of risk, return, tax efficiency, liquidity, cost structure and time, then you have a mechanism in which you can construct a portfolio that, with reasonable probability, will approximate the desired result over a long timeframe.

FEE-BASED COUNSEL HAS NO FINANCIAL MOTIVATION TO RECOMMEND OR EXECUTE A TRANSACTION; ITS ONLY MOTIVATION AND ACCOUNTABILITY IS TO HELP THE CLIENT ACHIEVE THEIR LONG-TERM OBJECTIVES

Strategic asset allocation is based on the long-term historical performance characteristics of asset classes. Of course, there are periods of time where current market conditions contradict historical precedent. For example, fixed income may outperform equities, which is contrary to the generalization that equities typically outperform fixed income. In such periods, one would tactically allocate assets, rather than blindly follow an allocation appropriate to historical precedent. This is tactical asset allocation. Without question, the single most important decision an investor will make is the allocation of their capital assets among asset classes. An extensive variety of outsourced research and tools are available to assist in asset allocation.

Manager Search and Selection

Though most clients believe all the value added is in manager search and selection, the truth is most of the value has been added when the investment strategy is determined and strategic asset allocation has been recommended. Once you know a certain percent of the portfolio should be in large cap value, a certain percentage should be in small cap growth and a certain percentage in international, fixed income, etc., manager search and selection becomes a very straightforward task of objectively evaluating proven, accomplished managers against a very specific investment mandate. The advisor determines which large cap value manager(s) best represent the large cap value investment mandate set forth in investment policy. Of course, this is never as obvious as you would think and requires much work to adjust for style bias, skill versus luck issues, etc. Essentially, the manager with the most financial strength, consistency and skill with the highest return, lowest risk, lowest cost structure trumps their rivals.

The aspect of manager aearch and selection which is of huge impact, but not often spoken of, is the form of ownership in which the assets will be held. This determines the tax efficiency of the portfolio's structure and is where trusts, family foundations and other contractual means are used to move the ownership of assets outside of one's estate, thereby averting income and/or estate taxation. The tax efficiency considerations will be articulated in the investment policy and may result in a significant percentage of the client's assets being held and managed within a different entity such as a trust. The impact of addressing and managing the income and estate tax-efficiency consideration on portfolio returns is second only to the impact of strategic asset allocation.

Performance Monitor

The on-going value added by your professional investment and administrative counsel is your "continuous and comprehensive" monitoring of all your client's holdings. You are

accountable for addressing and managing the full range of investment and administrative values as directed by the client and quantified in the asset/liability study and investment policy, which are necessary in order for you to fulfill your fiduciary responsibility. The discipline of the six-financial-services investment process is manifested in the performance monitor. As Charles Ellis, a leading authority on investment policy observes, "In investment management, the real opportunity to achieve superior results is not in scrambling to outperform the market but in establishing and adhering to appropriate investment policies over the long-term that position the portfolio to benefit from riding the main long-term forces at work in the market." The emphasis in monitoring performance is not to chase short-term performance quarter-to-quarter but to focus on affirming and evolving long-term investment policy and strategy so it is consistent with the client's stated goals and objectives. Quarterly, you will (1) confirm the client's economic circumstances, goals and objectives, risk and tax sensitivities; (2) gauge the client's reactions to actual market conditions and circumstances, and accordingly affirm or evolve investment policy and strategy; (3) explain what is happening in the capital markets and how that impacts the client's portfolio; (4) review the performance of each investment manager against the investment mandate in which they were engaged to manage; and (5) adjust the client's portfolio as appropriate. Annually you will review all vendor relationships that impact custody, clearing and reporting; and comply with all required regulatory disclosure to include all forms of compensation derived from the client's account. This level of counsel has unique nuances for each market segment you serve, whether it be the high net worth market or defined contribution plans. The depth and breadth of your on-going counsel elevates your role as an advisor far above those engaged in commission sales.

Tactical Asset Allocation

Strategic asset allocation is based on the historical performance characteristics of asset classes over a long time period, ranging from five to sixty years, depending upon the model one uses. The longer this time period, the more reliable the model. Using historical returns as a proxy for future performance, one can exercise judgment as to what configuration of asset classes would achieve the desired result given a specific level of risk. Over a long period of time, this methodology has been very helpful in explaining the capital markets and helping the advisor develop the reasoning behind their investment strategy. Yet, there are periods of time when current market conditions contradict historical precedence upon which strategic asset allocation is based. For example, over the long term, equities always outperform fixed income, but there are periods of time in a declining interest rate environment where fixed income actually outperforms equities. This was the case for several years in 80's and 90's, which reflected the strongest bull market on record. During such periods, the wisest counsel was not to follow historical precedent. By overweighting fixed income, one actually reduced risk and enhanced performance. This is tactical asset allocation.

Today, as many advisors move to real-time attribution analysis, portfolio opportunity distributions (PODs), and post-Modern Portfolio Theory, we no longer have to wait a week or two after each quarter for peer group performance rankings in order to engage our counsel and evaluate manager performance. With less lag time in making corrective adjustments, our counsel is greatly enhanced and the promise of continuous, comprehensive counsel (required by regulatory mandate) is achieved by our industry's most accomplished advisors. If you want to add more value, advise more assets, win more clients and make more money than you ever dreamed of, process becomes very important.

THE EMPHASIS IN MONITORING PERFORMANCE IS NOT TO CHASE SHORT-TERM PERFORMANCE QUARTER-TO-QUARTER BUT TO FOCUS ON AFFIRMING AND EVOLVING LONG-TERM INVESTMENT POLICY AND STRATEGY SO IT IS CONSISTENT WITH THE CLIENT'S STATED GOALS AND OBJECTIVES

Technology

It is not humanly possible for an advisor to add value unless you are leveraged through a process structured to manage all the regulatory and investment considerations of the client. Today, that access is made possible by technology that can manage an incredible amount of data on both the client and the investment alternatives which drive the overall investment strategy. Thus, until recently, with breakthroughs in process and technology, high level counsel has historically not been within the reach of most financial advisors. But, with the advent of the web and advances in web-based portfolio management technologies, today it is actually economically viable for the financial advisor to create within their own practice the division of labor, the process and the enabling technology necessary to add value and fulfill their fiduciary responsibility. This makes it possible for advisors to attain the highest level of professional achievement by exercising their own initiative. Rather than pay your firm 70 basis points to work within their wrap fee program structure, the advisor brings in-house within their practice the process, technology and support necessary to add value and fulfill their fiduciary responsibilities. An advisor (or partnership of advisors) who has $50 million under advisement (200 clients at $250,000 each) can redeploy the $350,000 (70 basis points x $50 million) that they are currently paying their firm to work within a wrap fee program structure, to hire a chief administrative officer and portfolio manager and buy the enabling technology that would empower them to offer a pre-emptive value proposition to any wrap fee program offered by any major warehouse or financial services firm (see "How Are Top Advisors Growing Their Business in a Difficult Market," *Senior Consultant,* April 2003,

http://www. SrConsultant.com/Articles/ 2003-04-Top-Advisors-Grow.pdf). This is partly a function of wrap fee programs not being capable of incorporating all the client's holdings, thus making it impossible to add value, partly because major financial services firms have the well-reasoned fear of the fiduciary liability associated with all their advisors engaging their counsel for an on-going advisor fee and partly because our supporting firms ascribe far less importance to adding value than we would. For the first time, the financial advisor actually has an edge in executing technology over their supporting organizations. Because the advisor is closer to the client than the distant systems and technology personnel within the firm – who have little or no practical understanding of fiduciary responsibility or of addressing and managing a broad range of investment and administrative values – the advisor not only has better judgment but can act far more quickly and decisively than their firms. If you are interested in attaining the highest level of professional achievement, here is how you do it.

Infrastructure

The first decision you make in bringing your technology and support infrastructure in-house within your own practice is that a division of labor is required. Client acquisition/service (your strength) must be separated from portfolio construction/management and administration/operations. You will not only gain more time for client acquisition and service, but you will find others who may be far better suited to portfolio construction/management and administration/operations. By leveraging yourself with expert processes, technology and staffing, a truly extraordinary level of continuous, comprehensive counsel can be provided, and a truly pre-emptive value proposition can be readily executed without requiring extraordinary effort. The chemistry of this group is very important, as is its complementary skill sets. Client acquisition/service requires a totally different skill set from that required in administration/operations which, in turn, is totally different from portfolio construction/management. Both the administration and the portfolio management positions are partnership level positions. If your colleagues assume ownership of the positions, they become an integral part of your value proposition.

For the portfolio construction/management (PCM) position, a bright young MBA from a good school who is eager to learn and wants to work toward being a partner should run $55,000 to $75,000. You will spend $5,000 putting your PCM through (1) the on-line CIMA program offered by IMCA, (2) the on-line accredited investment fiduciary (AIFA) program offered by the Center of Fiduciary Studies and (3) enrollment in the CFA curriculum. If you haven't gone through the CIMA and AIFA programs, you should. In one week, CIMA gives you the language of high level counsel and educates you in how to evaluate money managers and how to engage in more sophisticated forms of portfolio construction. AIFA, in three days, gives you an authoritative understanding of fiduciary responsibility and provides the knowledge required to perform a fiduciary liability audit, which is particularly important at the higher end of the market. You should budget $10,000 per year for professional development within your practice. Your chief administrative/operations (CAO) person makes a complex array of technology functions into a seamless system that allows you and your firm to do extraordinary things. The CAO function is a partnership level position and should run $65,000 per year. Thus, the cost of starting and training your practice's support infrastructure is $150,000 per year, leaving $200,000 of your $350,000 budget for enabling technology.

BECAUSE THE ADVISOR IS CLOSER TO THE CLIENT THAN THE DISTANT SYSTEMS AND TECHNOLOGY PERSONNEL WITHIN THE FIRM ... THE ADVISOR NOT ONLY HAS BETTER JUDGMENT BUT CAN ACT FAR MORE QUICKLY AND DECISIVELY THAN THEIR FIRMS

Account Aggregation Technology

It is literally not possible to add value unless one can evaluate an investment recommendation in the context of all client's holdings, both assets and liabilities. Only then can we determine if a recommendation improved overall portfolio returns, reduced risk or enhanced the tax efficiency, liquidity and cost structure of all the client's holdings as a whole. The aggregation, verification, reconciliation and management of investment information provided by multiple custodians into a common format was cost prohibitve until recently. Thankfully, several account aggregation firms have emerged that have greatly reduced the labor intensity and cost of aggregating account information. These firms have incorporated analytics that will establish the risk and return characteristics of aggregated data. With a few analytical adjustments of your design which measure tax efficiency, liquidity and cost structure, you can achieve an electronic asset/liability study capability. This extraordinary time-saving technological breakthrough should run $65,000 the first year and $45,000 in year two for the first 220 accounts, and then $140 per account thereafter. This takes our $350,000 budget now to $135,000.

Investment Policy

Creating an investment policy statement is the heart and soul of high level counsel. It requires extensive knowledge of the client, fiduciary responsibility and investments, and takes hundreds of manhours. Rowe Decision Analytics has created an investment policy capability, soon be on-line at http://www. MyInvestmentPolicy.com that addresses the high net worth and all the institutional market segments. All these templates are designed to be customized for each client, reducing the time required to create an institutional quality statement of investment policy to just a few hours. Importantly, legal opinions can be generated to state that each investment policy statement and its associated portfolio are in compliance with the regulatory parameters set forth in UPIA, ERISA, UMIFA and UMPERS.

Investment policy capability should cost $1,500 per year, taking your $350,000 budget to $133,500.

Strategic Asset Allocation/ Monte Carlo Simulation

Strategic asset allocation is available at little or no cost from multiple sources. You and your firm may have an interest in going beyond strategic asset allocation and using tools such as Monte Carlo simulation (MCS), which helps explain the random nature of the capital markets and zeros-in on risk and the probability of achieving investment results in a more understandable manner for individuals than the more conventional institutional explanation of risk. You should budget $3,500 for tools like Monte Carlo simulation which help you better formulate a strategic asset allocation for your clients.

Manager Search and Selection

Manager search and selection lends itself to outsourcing because of the expense of analytical tools, access to managers and the on-going nature of due diligence in a dynamically changing investment environment. A second set of eyes fully dedicated to manage the research and evaluation of managers is well worth the cost, as it establishes you as the value added, independent of the firm that may be supporting you. By outsourcing manager research, your PCM can focus on portfolio construction, and management and monitoring investment strategies. To fulfill your fiduciary responsibilities, you are required to engage non-related “prudent experts” to manage your client’s assets. This requires expertise in evaluating managed accounts, mutual funds, ETFs, folios, hedge funds, managed futures, etc. Depending upon the strength of your PCM, you may want to engage outside counsel on specific portfolio recommendations until your collective judgment is seasoned. Even if it is, having a highly skilled second opinion is prudent. Prima Capital is emerging as the leading outsourced manager search and selection organization, and is used by the largest global accounting firms. Prima runs $9,500 for managed account and mutual fund research to $13,500 for specific portfolio recommendations. If you are active in the institutional market, research and consulting relationships with large institutional consulting firms (their focus is the $100+ million market) can be very helpful but will require a retainer fee of $100,000 per year. If we plug in $13,500 for Prima, that leaves $116,500 in our budget.

Performance Monitor/Reporting

In this day and age of the internet and real-time information, no financial services firm can provide all their financial advisors performance reports on all their clients’ holdings, including holdings custodied outside of their firm. Yet, without this information, it is not possible to add value. This is why the Excel spreadsheet is the industry’s top performance reporting tool as advisors are required to develop their own composite performance monitors. Account aggregation technology has greatly reduced the labor intensity and cost of aggregating account information in a usable form, especially for accounts custodied outside of your firm. We have already budgeted for account aggregation technology.

Real-time reporting, accounting, and trade and order routing technologies are essentially your core portfolio management engine that makes everything work. Systems like Advent’s Moxie (trade and order routing) and Axys (sub-accounting and reporting) have been very popular for financial advisors around which they build their practices. These web-based, AIMR-compliant systems can automatically report on any configuration of assets, automatically rebalance portfolios, offer extensive training and support, and are very expensive. By tying together Advent and account aggregation technology, you gain access to all your clients’ account information in a stand-alone system that makes it possible for you to deliver your value proposition. If you tried to replicate the functionality, accuracy and support of this technology and the level of counsel it facilities, it would be cost prohibitive. Advent should run $75,000 in year one, $25,000 in year two and thereafter. This leaves $41,500 in your budget.

One of the most exciting aspects of dealing with real-time information and web-based technology is that we can take data far beyond one dimensional performance reporting and use it to more dynamically manage our client's portfolios. Bull Run Financial's real-time monitoring, analytics and attribution technologies are extremely important in more closely managing a very high level of portfolio detail for a very large number of accounts. Rather than waiting each quarter to evaluate the key performance values (risk, return, tax efficiency, liquidity, cost structure, etc.) as outlined in the client’s investment policy (essential to each client's success), it is possible to electronically establish these values as constraints within which each client's portfolio that can be electronically managed. Upstream linking to Bull Run Financial in effect ties these electronic gating) values to a real-time performance monitor. Any transaction that takes a portfolio out of compliance with the desired values will be electronically suppressed, and the PCM can manage by exception. Real-time analytics (Quantal linked to Bull Run) can be brought to bear which allows your PCM to provide an extremely high level of continuous, comprehensive counsel as required by regulatory mandate. You will know at all times how each portfolio, each manager and each holding is performing. We have budgeted $12,000 for Bull Run and $10,000 for the links to Upstream and Quantal, leaving $19,500 in your budget.

IN THIS DAY AND AGE OF THE INTERNET AND REAL-TIME INFORMATION, NO FINANCIAL SERVICES FIRM CAN PROVIDE ALL THEIR FINANCIAL ADVISORS WITH PERFORMANCE REPORTS ON ALL THEIR CLIENTS’ HOLDINGS, INCLUDING HOLDINGS CUSTODIED OUTSIDE OF THEIR FIRM

With the advent of this real-time information, it no longer makes sense to wait 30-45 days after each quarter before peer group performance comparisons are available, in order to evaluate money managers and counsel our clients on their portfolio holdings. This 14-18 week lag in data is a significant detriment to the timeliness of our counsel and requires a much more dynamic means of evaluating manager performance. Ron Surz's PODs and PIPODs methodology allows for a more immediate assessment of manager performance adjusted for style bias, resulting in a faster and clearer view of manager performance. The PIPODs technology (see Senior Consultant's Toolbox at http://www.srconsultant.com/Toolbox/toolbox.html#PIPODs) offered by PPCA runs approximately $1,100, which takes your budget to $18,400.

Tactical Asset Allocation

There is the fear within the financial services industry that financial advisors are not capable of adding value through portfolio construction. This is why most firms will not acknowledge advice is being rendered or fiduciary responsibility is assumed. This is mitigated by your having a CFA-candidate PCM monitoring all client portfolios in real-time, by your engaging an institutional authority (Prima Capital) to assist in making or confirming portfolio construction recommendations, and by your buying proven, established tactical investment methodologies (research) that will guide your PCM in making tactical adjustments. Dynaporte, Quantitative Advantage, RowPyn and many other investment methodologies are available with documented results that significantly outperform their benchmarks. Typically, these investment methodologies either take the form of real-time buy-and-sell instructions (research) or tactical signals that require interpretation and individual execution. Typically, these investment methodologies run $20,000 a year.

Bull Run Financial has four investment methodology overlays that help you and your PCM understand what sectors are coming in and out of favor and why, by virtue of understanding how each methodology works. We have already budgeted for Bull Run. In year two when the cost of Advent drops from $75,000 to $25,000 and the cost of account aggregation drops from $65,000 to $45,000, we will budget for one or more of these investment methodologies to reaffirm our portfolio construction decisions. There are other tools your PCM may find valuable, like StokTrib, a real-time style-adjusted attribution analysis and post-Modern Portfolio Ttheory methodologies like Dynaporte which resolve several MPT myths that can significantly enhance performance and elevate counsel. In year two and thereafter, there will be financial latitude within your budget to secure those capabilities.

Summary

So, there you have it. It is within the reach of every financial advisor (or partnership of financial advisors) who advise $50 million in assets or who has 200 clients with $250,000 in investable assets, to personally create a pre-emptive value proposition to any major financial services firm with which they may compete. The advisor does not have to be an investment guru; they have a PCM who has access to investment gurus. The advisor does not have to be a technology expert; they have a chief administrative officer who makes non-integrated technology function as a seamless system that empowers an extremely high level of counsel. The advisor gains a division of labor that allows them to do what they do best – acquire and service client relationships in a manner that no institutionalized competitor can respond. The advisor doesn't have to have any capital. They simply re-deploy the 70 basis points they are paying their firms to participate in their wrap fee programs and build their own process, technology and infrastructure within their practice. This is how you can attain the highest level of professional achievement, provide a higher level of counsel, add more value, advise more assets and win more clients then you ever dreamed of. There are far more investors who want value to be added than there are advisors capable of adding value. That is why this is the marketing opportunity of our lifetime (see "Speaking the Unspeakable: The Marketing Opportunity of Our Lifetime," *Senior Consultant,* October 2003, http://www.SrConsultant.com/Articles/2003-10-Speaking-the-Unspeakable).

The rewards for early adopters are great. There are only 15 million U.S. households with more than $100,000 of liquid investable assets, where it is economically viable for an advisor to address and manage a broad range of investment and administrative values for an on-going advisory fee. The success of the early adopters in providing continuous, comprehensive counsel greatly reduces the pool of available clients and increases the difficulty for those advisors who choose to follow. Much like in the institutional markets, the high net worth market is becoming a zero sum game. In order to win a client, you must take them away from another advisor. The only way you take away business is by having a better value proposition and a better service culture. At last, you can now control your destiny. ■

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