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Accepting Fiduciary Responsibility: What's An Advisor To Do?

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SEC chairman William Donaldson's edict that will require advisors and their supporting platforms to acknowledge their fiduciary responsibility by adhering to a code of ethics has been viewed by many as "revolutionary." Others simply see the mandate, scheduled to take effect on October 5, 2004 as "evolutionary." Undoubtedly, whether you're in support or opposition, the financial services industry is moving through an unprecedented paradigm shift. As the clock ticks down, advisors are scrambling to find the tools and support necessary to make the grade. Traditionally, professional wealth advisors and consultants seeking "best-of-breed" support services have had to lower their expectations to an amateur level.

The essence of a wealth advisor's value, is the ability to provide financial counseling in a timely and distinctive manner to their clients. The elements driving this process are the transactions and securities associated with the client's portfolio. However, it's the ability to transform this material from "raw"data into wisdom and knowledge that allows the advisor to add tangible value. Once terribly yoked by manual processing, this transformation has flourished under the rising tide of technology. As data has become more accessible, so have the options surrounding its manipulation and interpretation. This tidal wave of technology has brought on a proliferation of sophisticated vendors who have developed software and systems to better enable the wealth advisor to convert raw financial data into powerful knowledge. This has resulted in improved responsiveness and targeted value-added actions.

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Typically, advisors have been shackled to "bundled" platforms that rely on antiquated applications and legacy systems. Concepts such as "open architecture" and "best-of-breed" were simply unheard of. More often than not, the solutions available to the advisor have been unacceptable to both the advisor and their clients. As advisors migrate from firm to firm, the wrapper may change, but the contents inside remain less than optimal. Those specific solutions that meet or exceeded expectations on one platform are simply not portable to another platform. The grass is usually no "greener" on the other side of the fence.

Unfortunately, advisors seeking better solutions outside the confines of their platform, expose themselves and their clients to a predatory environment. Banks and trust companies that can offer enhanced and more comprehensive services often use these as "loss leaders" in an effort to capture the assets and cut-out the advisor. "Non-threatening" alternatives for advisors are simply few and far between.

Fortunately, the defined contribution (401k) marketplace provided the necessary impetus to unravel the tightly "bundled" world of financial services. Enlightened by the advances in technology in the early 90's, institutional plan sponsors demanded a movement from the traditional "balance forward" approach, to a "daily valuation" offering. In addition to daily valuation, 401k participants were demanding more control over their assets through self-directed accounts. Not only were participants demanding self-direction but they were also demanding flexibility as to where these assets could be traded and custodied – features not readily accommodated by traditional "bundled" providers.

It's no secret that the lion's share of revenue generated in the financial services kingdom flows to those who provide investment advice and management. Rather than follow the traditional approach of most bank and trust companies, several "Independent" trust companies have decided to part from the conventional paradigm and partner with advice providers, rather than compete in their space. By aligning with the advisors, they immediately created a distribution network for their services. Unburdened from having to invest large sums of capital for marketing and distribution, they are able to focus their financial and human resources on technology and service to the advisor.

The result is a dynamic, unbundled, best-of-breed platform that allows institutional clients the ability to choose the best advisor, recordkeeper, trustee and investments. At the center of this mosaic, is the *custodian agnostic, advisory neutral* independent trust company. Unencumbered by the limitations of traditional trust back-office processing and silo mentality, the "free-agent" trust company is poised to take maximum advantage of the powerful technological advances in data aggregation and financial services software. The list of services includes such essential things as performance attribution, portfolio analytics, overlay and tax optimization, on-demand reporting, regulatory compliance, trade processing and document management. As providers bring new and improved tools to the marketplace, the independent trust company can simply add these all-stars to their already impressive line-up of value-added services. And more importantly, unlike their competitors who are often saddled with obsolete proprietary offerings, they can easily replace a provider when a better solution becomes available.

On the opposite side of the spectrum from the institutional market, affluent and emerging-affluent private clients have also embraced web technologies that highlight integration and aggregation. Advisors to this group failing to recognize this trend have left themselves vulnerable to those that have aggressively sought to make these new technologies readily available to their clients. The independent advisor or "break-away" broker is leading this financial services revolution. In shifting their focus from products to services, and from asset allocation to managing investment risk, they are leveraging enabling technologies and open-architecture. Granted, efforts have often resulted in a loosely tailored hodgepodge of programs and applications. The disparity continues to be eluding. Software application firms cannot provide fiduciary services, and "independent" trust companies are rarely able to offer much in the way of technology integration.

As compensation structures for advisors and consultants are being squeezed by the wirehouse platforms, many are seeking the option of becoming truly independent. By outsourcing and partnering with traditional front, middle and back office service providers, they recognize the ability to liberate themselves from environments that impose restrictions and limitations on servicing their clients as well as reducing the demand on precious resources to process and maintain the data and systems.

Whether you have gone the route of becoming an independent advisor or continue to remain associated with a supporting firm, you have options. Established in 1991 as one of the first independent trust companies that are truly non-threatening to advisors, AST Trust Company established the framework from which other independent trust companies are providing needed fiduciary solutions to advisors. Administering assets of over $8 billion, the firm does not manage assets, provide advice or sell product. Where most firms talk about assets under management (AUM), AST refers to "assets under administration." AST has built interfaces to many portfolio accounting and recordkeeping systems, as well as perfected the task of data aggregation with hundreds of custodians, banks and other trust companies. In conjunction with Investment ScoreCard, an industry leader in web-based performance reporting, AST's proprietary interface allows advisors to offer comprehensive performance reporting for both institutional and private clients. AST can support the advisor in the not-for-profit sector through "Foundation Partner," a seamless processing platform that aggregates investment data for foundations and integrates with their back-office accounting systems. Finally, AST's Daily Valuation trading platform has assisted hundreds of advisors in offering cutting edge retirement plan solutions to their institutional clients.

With the cornucopia of outstanding service and software alternatives available, advisors have the ability to provide clients with a real-time, comprehensive investment strategy, tailored to a more holistic view of the clients financial needs. The "independent" trust company that is committed to augmenting and developing technology supporting this ideology is perfectly positioned to provide the critical integration necessary to make the fiduciary responsibility mandate an "evolutionary" reality. ■

About the Author

Mike Flinn, senior vice president of Wealth Advisory Support Services, has over 15 years of broad experience in the trust and financial services marketplace. As a member of the AST team since its inception in 1991, he has played a significant role in the development, architecture and integration of AST's software and operational platforms. Mike has been actively involved in consulting, speaking and strategic planning relative to the custodian-neutral independent trust business model. Mike is graduate of the University of Arizona with a BS in Systems Engineering.

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