

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

Is Your Wealth Management Team a 10?

By Steven Drozdeck & Lyn Fisher

This is the second in a series of FOR INVESTORS articles describing highly effective wealth management advisors and teams who provide superior services to their clients. The series covers both the expectations you, the investor, should have of a wealth management group and what they should expect from you. You will learn how to evaluate and choose the key financial and non-financial advisors who will help you attain your financial goals and life dreams.

In virtually all aspect of our lives, we've come to expect almost everyone, especially the professionals — doctors, lawyers, architects, general contractors, educators, restaurant owners, etc. — to have well-developed processes and reliable teams of competent individuals to help them accomplish their jobs. Attorneys retain paralegals and have access to other attorneys with different specialties. Doctors rely on their staff, trained medical assistants, and other specialists. This should also be true of various financial professionals — accountants, realtors, trust officers, mortgage bankers, financial planners and others — who impact our financial futures.

The five continuums presented below will help you determine what you want and might demand from a professional relationship. (Although presented from a financial services industry perspective, the credibility scale can be easily adapted to any professional or service provider.)

The Five Continuums

Think of the five principle areas of the advisor's practice; (1) Education, (2) Advice, (3) Compensation, (4) Capabilities and (5) Caring,

each representing advisor evaluation criteria on a ten scale value continuum. From this you can judge advisors in such key areas as skills, disclosure and service provided.

Even though you haven't read the description for each category, mark the graph on page 2 on how you would rate the professionals in your life — in each of the five categories on a ten scale. If you are like most people, you will probably rate them between 7 and 10.

Now, as you read the descriptions that follow, you can again determine where the various professionals in your life — financial and non-financial — rate. You'll be rating the individual professional and/or team.

1. Education Continuum:

In virtually all endeavors, the level of knowledge is directly proportional to the level of proficiency. In our estimation, a large percentage of all financial advisors have minimal industry knowledge. This may seem to be a harsh statement, but it's true. It requires relatively little knowledge to pass the licensing examinations. Advisors with less than 3 years of experience and without supplemental training represent the lower end of the educational continuum.

Financial advisors with five to 10 years in the business often are in the mid-range. They've gathered quite a bit of knowledge over the years and have learned through experience. Without continuing education beyond the minimal industry requirements (that is, not participating in one of the professional associations), you may wish to rate them in the four or five range on the credibility scale.

At the higher end of the spectrum are financial advi-

TEAMS ARE ESSENTIAL NOT JUST BECAUSE THE ADVISOR CAN'T AFFORD TO REDIRECT HIGHLY VALUABLE CLIENT TIME TO ADMINISTRATIVE FUNCTIONS, BUT IN ORDER FOR THE ADVISOR TO EXCEED CLIENT EXPECTATIONS, DIFFERENT SKILL SETS ARE NECESSARILY REQUIRED.



sors who continually upgrade their knowledge by attending industry conferences and who, therefore, have acquired advanced information on financial services topics. Numerous topics on insurance, financial planning, taxes, investment management and the like help ensure that the members are at the cutting edge of their professions. (Note: it's certainly quite possible to accomplish the same ends through self-study via books and professional journals.)

Here is a good experiment. Ask your advisor to describe in detail what he or she does to stay on the cutting edge. What books or professional journals do they read? Can you borrow a copy of one of the journals? If you get vague answers probe for specificity. If they can't be specific, then lower your education continuum rating.

You want to receive the best advice that your money can buy. You should be working with the best legal, tax, and financial minds available to you. Before you entrust significant portions of your net worth to someone, ask that person about his or her credentials and what gives that person the ability to offer financial counsel. Either that individual or another member of their internal or external team should have credentials that are important for your particular situation. Additionally, as part of your own due diligence, it is important to verify with the associations what the advisor has said about his or her designations and credentials. Ask them for the phone numbers and web sites of the associations they belong to. (More on this in a future article.)

Your advisor should have a strong team of experts available for consultation in other professional disciplines such as legal, taxes, estate, etc. Who do they work with and what are their credentials? (The Capabilities Continuum provides additional suggestions for this topic.)

Where is/are your advisor(s) on the scale? (Be as objective as possible. It's your wealth that is at stake.)

Education
1 2 3 4 5 6 7 8 9 10

Where should he/she/they be?

Education
1 2 3 4 5 6 7 8 9 10

2. Advice Continuum: Many people receive telephone calls from high-energy, persuasive promoters offering the latest hot stock that's going to double (at least) in the next few months. They only want a commitment

solution you'll receive. At the higher end of average are those advisors who ask more comprehensive questions and want to know about your retirement plan, insurance protection, etc.

At the top of the advice continuum are those financial advisors who will require a comprehensive understanding of your needs, objectives, life goals, current financial situation, and values. Their financial solutions are the best crafted and most precisely tailored to your specific needs. They go far beyond the computer-generated financial planning solutions that are currently the rage at many firms.

These high-level advisors will want to see your tax returns, retirement plan documentation, complete portfolio, etc. Making a recommendation without having this information would be like a doctor prescribing medicine without conducting an examination. Seriously, if an advisor doesn't at least ask to see tax returns and similar information, walk away.

PRACTICE EVALUATION CONTINUUM										
Value	Low									High
1. Education	1	2	3	4	5	6	7	8	9	10
2. Advice	1	2	3	4	5	6	7	8	9	10
3. Compensation	1	2	3	4	5	6	7	8	9	10
4. Capabilities	1	2	3	4	5	6	7	8	9	10
5. Caring	1	2	3	4	5	6	7	8	9	10

of a few thousand shares so that you can get your feet wet. They make sales pitches without knowing anything about you except that you have money. Such salespeople represent the extreme low end of the advice continuum. Such a person is only interested in making a sale. It is usually wise to avoid these people and those opportunities of a lifetime.

Moving up the advice continuum are the vast majority of financial advisors who offer a large array of financial products available through their firm. Those requesting minimal information about you before making a product/service recommendation probably belong on the lower end of average (that is, a three or four). Their recommendations often are based on the minimal information that is usually required to complete a new account form. In general, the less someone knows about you the more of a cookie-cutter

In addition to all of the above, the highest-level advisors will explore lifestyle needs and legacy desires, asking questions such as:

- What values do you wish to pass on to your children, grandchildren, etc.?
- What differences do you wish to make for your church, community, country?
- If you could wave a magic wand and create the perfect lifestyle or existence for your family, what would your perfect lifestyle be like?
- What would you like to provide for your heirs now?

Additionally, making recommendations without being willing (or able) to put your financial action plan in writing should be a warning signal. Successful businesses have written business and marketing plans. Think of your finances as one of your family businesses and require a written strategy to attain your goals.



Where is/are your advisor(s) on the scale?

Advice

1 2 3 4 5 6 7 8 9 10

Where should he/she/they be?

Advice

1 2 3 4 5 6 7 8 9 10

3. Compensation Continuum: How is your financial advisor paid? At one extreme are the majority of advisors who are paid purely on commissions. There may be a bias to sell you something. However, it is important to realize that commissions are not inherently self-serving or bad. Experienced, well-established financial professionals generally have enough commissions from multiple clients that they are somewhat insulated from the pressures to sell products and services. Additionally, many commission-based financial advisors are highly ethical and only recommend products and services they believe to be in your best interests. Finally, many high-level advisors receive commissions as one of their sources of compensation. (Note: Even advisors on salary often have pressure to generate revenue. Always ask: How is the advisor or firm making money?)

At the other extreme are fee only advisors who receive a fee based on the advice rendered and do not receive any additional compensation from you or any other party when you implement their advice and buy or sell an investment product. Fee-only advisors may also have incentive to generate fees.

Another popular term that has a lot of different meanings is fee-based. For example, there is a fee for the creation of a financial plan. This may be a one-time fee and is usually determined by the complexity of the plan. If the advisor is managing your assets, you will be charged an annual percentage fee based on those assets. This includes quarterly or annual performance reviews, monitoring your accounts, and monitoring

the —asset managers to make sure that they are performing to expectations. Their compensation must be weighted against the results produced and the services provided.

Some financial firms offer flat fees that may or may not be less than what you would have paid in commissions if the transactions were charged separately. Wrap accounts where fees are bundled are basically the same thing.

The important point is that there is full dis-

**YOU KNOW YOU HAVE A GREAT TEAM
WHEN THE SUM OF ITS PARTS ARE
GREATER THAN THE WHOLE, WHICH
MEANS IT IS ADDING VALUE AND
EXCEEDING CLIENT EXPECTATIONS.**

closure and that all forms of compensation are transparent to you. Essentially, does the financial representative or advisor make sure you understand what you are paying for and ensure that you are fully informed? (It is amazing how much people can pay in hidden fees.)

Where is/are your advisor(s) on the scale?

Compensation

1 2 3 4 5 6 7 8 9 10

Where should he/she/they be?

Compensation

1 2 3 4 5 6 7 8 9 10

4. Capabilities Continuum: A good wealth management team provides a host of comprehensive services that cannot possibly be obtained from a single advisor working in the traditional way. Their capabilities often include having access to experts in different disciplines such as law and taxes. The typical financial representative shares an admin-

istrative assistant (also known as a sales assistant or clerk) with three to five other advisors and has to wait in line to access experts within the firm — experts that the advisor probably has never met (or will ever meet) and who have only an academic knowledge of your needs and little if any concern about the outcome. After all, the outside experts are not part of an integrated team, they don't have a personal relationship with the primary advisor, and they usually are paid for the number of cases they advise — not for the value of the advice given.

You should be able to find out which experts your advisor is relying upon. The advisor should have an in-depth and personal knowledge of their strategic partner and be able to obviously know both personal and professional background information. You should also be able to call that outside expert and have him or her praise the abilities of your advisor. Basically, each should

know the other well.

Where is/are your advisor(s) on the scale?

Capabilities

1 2 3 4 5 6 7 8 9 10

Where should he/she/they be?

Capabilities

1 2 3 4 5 6 7 8 9 10

5. Caring Continuum: Good wealth management teams truly care about their clients as though they are friends or family. Of course everyone says they care, regardless of whether they do or not. So, what is the proof that someone really cares? If you ask for references, as part of your personal due diligence, you can ask questions like:

- What does your team/advisor do that makes you a raving fan?
- What did you choose him/her/them?
- How are they different?
- How do you know they care?

Ask the advisor to tell you of a few situations in which he or she did something out of the ordinary for a client? (Additional questions will be suggested in a future article.) Your relationship with the advisor or team is an extremely important factor. Do you trust them? like them? feel comfortable with them?

Caring may also demonstrated by the number of community programs that many advisors initiate or participate in, how they help charitable foundations, sponsor client appreciation events, works with kids and schools. Caring could also include examples of how they go out of their way for their clients. Basically, look for some sort of proof that your advisor does more than just talk.

A caring mentality should also exist within the teams — not just the principals, but with staff members ranging from the receptionist to the executive assistant. When teams work together, socialize together, laugh together, and grow together, they have something special. The staff compensation structure provides a win-win situation, not a situation of have s and have-not s. Caring is about setting up an organization where each person s strengths are valued in a supportive, productive, and professional fashion.

Where is/are your advisor(s) on the scale?

Caring

1 2 3 4 5 6 7 8 9 10

Where should he/she/they be?

Caring

1 2 3 4 5 6 7 8 9 10

In conclusion

Going back to the credibility scale, what do you want in an advisor. We believe the answer is obvious and that you owe it to yourself and those you care about to make sure you re obtaining the best overall team and attaining the best results.

Hopefully you have the kind of relationship with your advisory team that will enable you to score them in the 7 to 10 range in every category. Remember, the cumulative is more important than the rating on any one of the five continuums. In other words, the whole is greater than the sum of its parts.

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