Wealth Management Arrives on Main Street…
Which Begs the Question, "What is Wealth Management Anyway?"

By Steve Saenz – August, 2001

Quote of the Month: *"Wealth planning is not an event. It is a never-ending process of adjustments and re-evaluations. Unfortunately, both we and our clients can lose sight of this as we begin to focus on individual components of our strategy, like investment performance, rather than on our comprehensive goal of tying total wealth management to stated client objectives." Ross Levin (author of The Wealth Management Index)*

Déjà vu all over again…

Every time I turn around these days, I get surprised. For example, just a few minutes ago, when I went online to get their logo, I noticed that **CNBC no longer has a stand-alone web site.** They are now part of Microsoft's MSN Money Central. Several years ago (in a presentation I was giving at the time) I told my audiences that their toughest competitor might someday be an unlikely character, like Bill Gates. They laughed. I also suggested that the investment business would eventually become "content" in the big scheme of things, where everything becomes a box, a pipe or the noise that runs through the pipe (content). Then, they really laughed. You'll be happy to hear that I have stopped making predictions, but I swear this feels like déjà vu all over again…

Wisdom in advertising…

The inspiration for this paper came to me a few weeks ago while watching CNBC during my lunch break. It was an ad on wealth management by a major financial services company that did it. Many moons ago (back when I was cold calling at night trying to sell 11% triple-A rated "MEAG" bonds to people while they were eating dinner) I heard something that forever changed the way I viewed advertising. I think it was our chief market analyst who said it first. Basically (and I'm paraphrasing here) it was **"when you see something on the front cover of Time Magazine, run for the door."** In other words, once an idea arrives on Main Street, its time has probably gone instead of come! Coincidentally, I saw a similar ad (also on CNBC) a few days later. This one reminded me that a particular trust company has been providing wealth management services since 1853. Wealth management is *not* a new concept!

What is new is that *a lot* of investment advisors are using the term wealth management these days to describe what they do for a living. **Unfortunately, many of these early (or is it late?) adopters have different interpretations of what it is.** I would venture to say that many advisors (not to mention investors) have no idea what it is at all. The purpose of this paper is to establish a working definition of wealth management. Hopefully, it will spark a healthy dialogue within the industry about what it is and isn't. In any event, I hope it will help you as you continue to build your own wealth management practice.

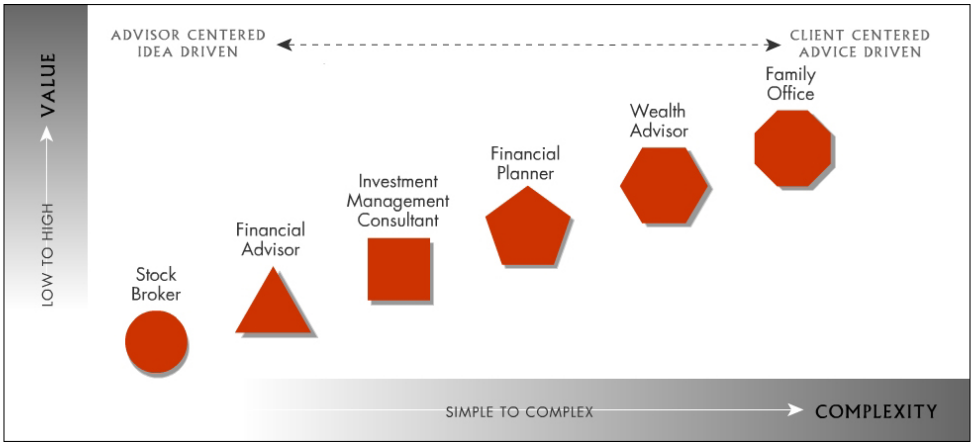
When in doubt (or just curious) check the search engines…

One way to gauge the popularity (or lack thereof) of a term is to use a search engine to find out how many web sites are using it. Just to satisfy my curiosity, I did just that. Here are the results of my search[1]:

- Found 0 categories and 55 sites for **wealth management**
- Found 433,000 web pages for **wealth management**
- Found 15 categories and 1112 sites for **financial planning**
- Found 993,000 web pages for **financial planning**
- Found 162 categories and 1224 sites for **investment management**
- Found 1,050,000 web pages for **investment management**
- Found 0 categories and 168 sites for **investment management consulting**
- Found 705,000 web pages for **investment management consulting**

[1] Search was conducted on July 30, 2001 using Yahoo! / Google. You might want to go to www.yahoo.com to do your own search and look at some of the sites listed. You might be surprised at what you find (or don't find). You will also learn the difference between a web *category*, *site* and *page*.

Only the strong survive…



Most advisors today are in the process of evolving toward *some form* of wealth management consulting. Helping advisors evolve has been the primary focus of my coaching and consulting practice for several years now. This "evolution" and especially the implications it has on practice structure[2] is relevant to this discussion. This diagram provides some context we can use to evaluate where wealth management fits in with the other terms advisors use to describe what they do.

Points to consider…

- People use these terms very loosely and interchangeably. The term "financial consultant," for example, is used by many organizations today. **Ask ten people (inside *or* outside the financial services industry) what a financial consultant does and you will get *at least* ten different answers!**
- This, in turn, poses a significant marketing challenge for investment professionals everywhere. **The typical investor has no idea what distinguishes a financial consultant from a financial planner.** They don't have a clue that a financial advisor at one firm may be vastly different from a financial advisor at another firm. What kind of dispersion do you think you would find (in the quality of advice and service) if you interviewed 100 different advisors, even if they all worked for the same firm?
- **The proper *structure* for your business depends on the model you are trying to build**[2]. It also depends (to a large extent) on the number of client relationships you are trying to manage.
- **The resources required (people, time, knowledge, skills, technology, etc.) to run a process-driven, advice business *effectively* are far greater than a transaction-driven, idea business.**
- Most advisors have been evolving (adapting) along this "food chain" for years. **The problem is they have been trying to do it with old (outdated) *structures*.** As your business evolves, your structure must change in order to support the demands of the new, more complex business models.
- **Most organizations today are asking their advisors to evolve up the food chain, but are not providing them with the necessary tools or infrastructure to build the more complex business models.** This is not an indictment of the industry. It is simply a by-product of trying to manage a major firm (with a lot of moving parts) in a fast-changing, increasingly commoditized world!
- Commoditization is moving up the food chain. **In order to thrive, you will have to stay one step ahead of your competition!**

[2] *Structure* refers to things like the number of clients you have, what you do for your clients, size and make-up of your team, and strategic partnerships you establish with internal and external advisors.

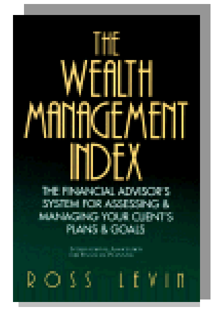
Let's have some definitions…

At the risk of raising some eyebrows, I will try to define the various terms used in my *Evolution of the Investment Advisor Business Model*. **Please keep in mind that the criteria and comments below are based on one man's opinion.** As stated above, I hope this paper will spark a healthy dialogue within our industry. The ideal outcome would be that, as an industry, we figure out a way to standardize the various definitions we use every day to describe what advisors do for a living (if for no other reason than to help our clients and prospective clients make some sense of it all).

Business Model or Target Client Size[3]	Brief description[4] of what they do for a living	Additional Comments
Stockbroker or Bond broker $10M to $1MM+	▪ Position build; find something you believe in; sell it to as many people as possible. ▪ Drop tickets; you're only as good as your last idea; how am I going to make my month *this* month??? ▪ Often have customers instead of clients and are usually one of several brokers.	▪ Good ones know more about picking stocks than most analysts; they have a real feel for the markets; this is a rapidly dying breed, but they are worth their weight in gold! ▪ Unfortunately, most are lousy at picking stocks *and* have a reputation for being obnoxious salespeople. ▪ Rarely work with the client's serious money. "Throw me a bone mentality" is a self-fulfilling prophecy!
Financial Advisor or Consultant $10M to $1MM+	▪ Job description varies from unadulterated product pusher to someone who acts as a true consultant. ▪ The good ones help their clients develop long-term plans and strategies to achieve their unique goals and objectives.	▪ The original catch-all job title. It's so generic it's confusing. Maybe that's why it's so widely used in the F/S industry. It's safe! ▪ My former firm went with the term "Financial Consultant" in 1985 (replacing "Account Executive") shortly after I got in the business. ▪ Two years later, I had my insurance *and* real estate licenses and was sitting in focus groups in NYC on financial planning.
RIA or Money Mgr $100M to $100MM+	▪ Manage portfolios for a fee; may use individual securities, funds or combo. ▪ Larger firms do their own research; smaller ones usually buy it or wing it.	▪ In recent years, many financial planners have become RIAs in an effort to cash in on the lucrative "asset management" business. ▪ This has created two distinct "species" of money managers – the pros and the amateurs (institutional vs. retail).
Investment Mgmt Consultant $100M to $100MM+	▪ Use the investment management consulting process: investment policy, asset allocation, manager search, and performance measurement. ▪ Emphasize modern portfolio theory to construct "efficient" portfolios.	▪ In recent years, many financial advisors/consultants have adopted this model due to the advent of "wrap programs." ▪ This has created two distinct "species" of consultants – the ones who know what they're doing (i.e., act as true consultants to their clients) and the ones who basically act as marketing reps for a few of their favorite money managers (many more of the latter).
Financial Planner $25M to $5MM+	▪ Use a planning process to develop a roadmap for client's financial needs including: budget, college, debt, estate, insurance, investments, retirement. ▪ Primary goal is to *create* wealth.	▪ The original planner was fee-based and "product neutral." Technology has lowered the price (per pound) of financial plans, resulting in a shift (stampede) toward "asset management." ▪ Ironically, financial consultants are moving toward the financial planning model. The plot thickens and the waters get muddier!
Wealth Management Consultant $5MM to $100MM+	▪ Address *all* areas that affect an individual's (or family's) wealth, including asset accumulation, protection, preservation, distribution and debt mgmt. ▪ Primary goal shifts to "*create and protect*," with an emphasis on protect. ▪ Tends to works more closely with internal or external advisors than other models.	▪ Replace dollar-cost averaging with cashless stock option financing and you basically have the difference between financial planning and wealth management consulting (sort of). ▪ Problems are generally more complex than those addressed by investment management consultants and financial planners ▪ Some call it a "holistic" approach to working with clients; terms like "life planning" and "values-based planning" often creep into the conversation.
Family Office $100MM to $1B+	▪ Provide all wealth management services plus *may* offer "concierge" type services such as record keeping, travel planning, domestic care, etc. ▪ Primary goals shift to protecting assets and creating a legacy; issues like family stewardship and governance are often addressed.	▪ If you replace stock collars with dog collars (i.e., you take care of the pets while the client is on vacation) you basically have the difference between a wealth management consultancy and a family office (just kidding). ▪ Family members' assets are usually transferred into a separate and private entity (the family office), which is managed by one or more individuals. These include accountants, attorneys, chief financial officers, investment management consultants, etc.

[3] *Target Client Size* figures are intended to be general guidelines only (actual results may vary)
[4] *Brief Descriptions* are just that. Please see *Resources* at the end of this paper for more information.

A practical solution to an age-old problem…

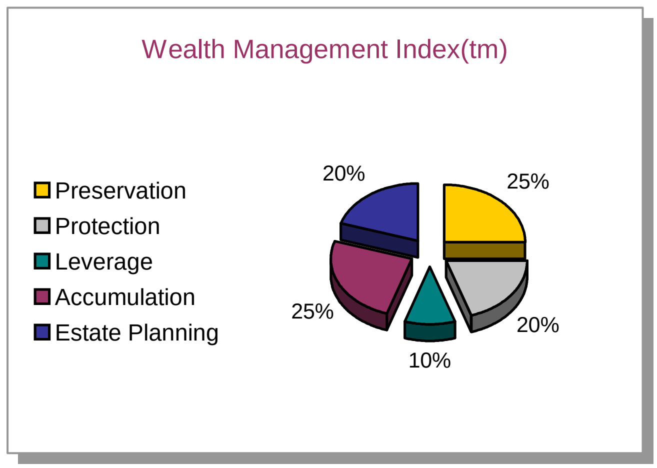


Now that we have a working definition of wealth management, let's put some flesh on the bones. The system described below comes from a terrific book called *The Wealth Management Index* by Ross Levin[5]. I had the pleasure of hearing Ross speak at an IAFP (now FPA) conference in 1997, shortly after he published his book. As Ross described his "index" and how he used it with his clients, I **realized that he and his team had come up with a practical solution to an age-old problem. You know, that nasty habit investors (and their advisors) have of getting preoccupied with short-term portfolio performance.** Since then, I have shared the "index" with many advisors throughout North America. Given that wealth management has finally arrived on Main Street, I thought it was only fitting to describe it once again, this time in more detail.

A familiar concept and then some…

In many ways, the *Wealth Management Index™* (WMI) works like other indexes you may be familiar with. It is a **benchmark** you will use to measure the progress you and your clients are making toward their stated goals. It is also like a **report card** in the sense that it allows you to measure how effective you *and your clients* have been when it comes to managing their wealth each year. That's not a typo, part of the responsibility for managing wealth falls squarely on the shoulders of your clients. Much of it, of course, remains on your shoulders. Finally, **the WMI is a veritable blueprint for building a wealth management practice.** This is the main reason I am describing it here in such detail. Hopefully, you will be able to take Ross' model and adapt it to your business or organization.

One nice thing about the WMI is that it makes sense and it's easy to explain. Your client will "get it." **The best thing about the WMI is that it empowers you to do a better job for your clients.** In other words, it enables you to give better advice. If you're in the advice business, that's a good thing! **This happens because it keeps you and your clients focused on *all* of the factors that affect their wealth.** More importantly, it shifts the focus *away* from that elusive and ever-frustrating performance game!



The building blocks…

The WMI has five major *categories*. Each has its own weighing in the index as shown on the chart to the right. Each component contains several *sub-categories*, which are listed on the next page. The sub-categories are actually a series of questions you and your clients will answer each year to evaluate the clients' wealth management plans. **This is where the real value of the WMI lies. These questions, and the way they are laid out, impose a healthy "discipline" on the relationship you have with your clients.** They help everyone involved stay focused on the *big picture* (i.e., *all* the factors that affect the clients' wealth).

In effect, **the WMI allows you to *pre-sell* your client on a process that will shift the focus from things you can't control (like portfolio performance) to things you *can* control** – like ensuring that the client's assets and income are adequately protected, making sure the client's debt is being managed efficiently and doing everything you can/should be doing to minimize the effects of income and estate taxes. **These are the things that *really matter* when it comes to creating and protecting wealth. In short, the WMI *empowers* you to help your clients understand that they cannot do this without you!**

[5] In his book, Ross goes into more detail on how the WMI works. He also shares his tools in their entirety including spreadsheets, client work plans, etc.

The Wealth Management Index™			
INDEX[A] WEIGHTING	Categories / Subcategories (5 categories and 21 subcategories in all)	SUBCAT SCORE[B]	WEIGHT SCORE[C]
25%	**1. Asset Protection (Preservation)**		
8.50%	A) Are your business interests adequately covered?		
8.25%	B) Do you have an appropriate amount of life insurance consistent with an articulated philosophy around this insurance?		
8.25%	C) Have you protected yourself against catastrophic loss due to long-term care, property losses or liability issues?		
20%	**2. Disability & Income Protection (Protection)**		
8.00%	A) Do you have too much or too little disability protection given your assets and income, and will it pay you should you be unable to work?		
4.00%	B) Did you receive in income from all sources (earnings, gifts, social security, pensions) what you expected to this year?		
4.00%	C) Did you spend according to plan?		
4.00%	D) Did you use all reasonable means to reduce your taxes?		
10%	**3. Debt Management (Liability)**		
4.00%	A) Is your current ratio greater than 2:1, and is your total debt reasonable as a percentage of your total assets?		
1.00%	B) Is your debt tax-efficient?		
3.00%	C) Do you have access to as much debt as necessary and reasonable at the best rates available?		
2.00%	D) Have you managed your debt as expected?		
25%	**4. Investment Planning (Accumulation)**		
2.50%	A) How did you do against your established rate-of-return target (CPI plus stated percentage)?		
10.0%	B) Were your annual contributions or withdrawals at target?		
10.0%	C) Is your asset allocation appropriate?		
1.25%	D) Was the portfolio income tax-efficient?		
1.25%	E) Have you set aside enough cash for anticipated purchases in the next three years?		
20%	**5. Estate Planning (Distribution)**		
8.00%	A) Does your will match your wealth transfer wishes?		
3.00%	B) Do you need and have a power of attorney, health care declaration and/or living will??		
5.00%	C) Are your assets titled correctly and are all beneficiary designations appropriate?		
3.00%	D) Have you established and funded all necessary trusts?		
1.00%	E) Have you made your desired gifts for this year?		
100%	Subtotal [D]		
	Multiply subtotal by 10 to get client's WMI score [E]		

- [A] INDEX WEIGHTING = Weighting of this category or subcategory in overall WMI
- [B] SUBCAT SCORE = Rating (1 to 10 scale) on how client did this year in this subcategory
- [C] WEIGHT SCORE = Weighted score of this subcategory in overall index. You get this by multiplying the SUBCAT SCORE times that subcategory's INDEX WEIGHTING.
- Subcategory scores are then subtotaled [D] and multiplied by 10 to arrive at your client his/her total WMI score [E].
- Scoring: **85 – 100 points**: Wealth Mgmt Plan is on target to meet client's goals; **65 – 84 points**: Wealth Mgmt Plan should be more focused on client's needs/objectives; **under 65 points**: Reassess goals.

Final points about the WMI…

- The WMI was designed by Ross Levin for *his* client and *his* practice. **You should use the WMI as a guide to create *your own* system for *your* practice.**
- **The real strength of the WMI lies in the fact that it *empowers* you to do a better job for your clients, to give better advice.** It helps you and your clients stay focused on the big picture, the things that really matter when it comes to creating and preserving wealth.
- Your system may have different categories. You may have less or more subcategories than Ross has in his WMI. **Design a system that is relevant to your *business* and your *clients*.**
- **Please keep in mind that the *Wealth Management Index™* is trademarked.** It would also be a good idea to give *Ross Levin* credit if you decide to share the WMI with other advisors.
- **If you are even remotely interested in building a wealth management practice, you should get a copy of The Wealth Management Index**. In this book, Ross goes into much more detail about how he uses the WMI in his own practice. He even shares his spreadsheets and client work plans in their entirety.

Let me close by reiterating what I said at the outset. **My purpose in writing this paper was to bring some clarity to the use of the term wealth management.** Hopefully, you will be able to take this information and adapt it to your business. Listed below are some additional resources that will help you build your own wealth management practice.

Resources…

- **Family Office Exchange** serves as an independent advisor to families of exceptional wealth, offering education on complex financial issues and guidance on the selection of appropriate advisors – **http://www.foxexchange.com**
- **Financial Planning Association (FPA)** consists of individuals and companies who have contributed to building the financial planning profession and those who champion the financial planning process – **www.fpanet.org**
- **Institute for Private Investors** is a resource for individuals with substantial assets. Educational programs are crafted to maintain a "safe harbor" for private investors and allow for a confidential exchange of information – **http://www.memberlink.net/memberlinkpublic/**
- **Investment Management Consultants Association (IMCA)** keeps investment management consultants in touch with developments in investment strategies, legal and regulatory issues, economic news and marketing techniques – **www.imca.org**
- **Journal of Wealth Management** provides exclusive, practical research for high-net-worth taxable portfolios. Readers are high-net-worth investment managers, private bankers, hedge funds, family offices and family-owned advisory firms, estate planners and financial planners – **http://www.iijournals.com/JPPM**
- **Unconventional Wisdom** is a FREE e-newsletter published by Paragon Resources that is written for investment professionals who are interested in optimizing their business – topics include practice management, teambuilding and client advocacy– Go to **www.ParagonResources.com** to subscribe.