

Practice Management—Best Practices of Wealth Managers

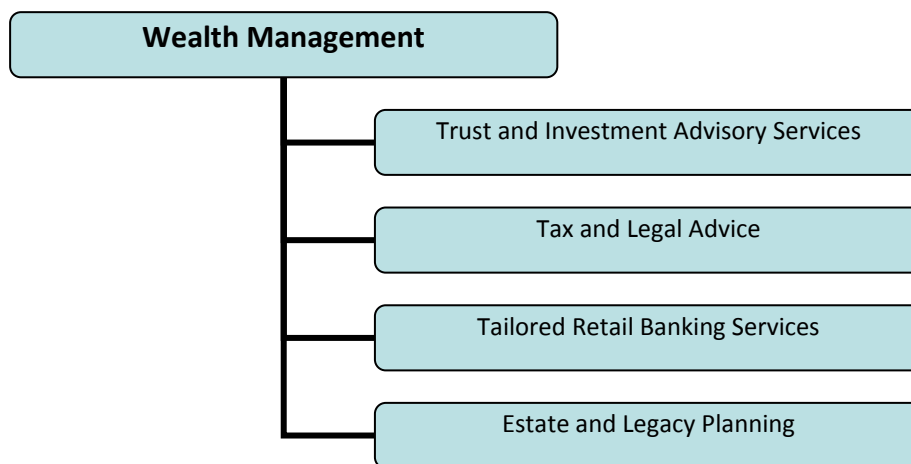
Advisors are often encouraged to transition from their role as investment advisor to the broader role of wealth manager. While there are various definitions of wealth management, one widely accepted definition is as follows:

“Wealth Management is an advanced investment advisory discipline that incorporates financial planning and specialist financial services. The key objectives are to provide high net worth individuals and families with tailored retail banking services, estate planning, legal resources, taxation advice and investment management, with the goal of sustaining and growing long-term wealth. Whereas financial planning can be helpful for individuals who have accumulated wealth or are just starting to accumulate wealth, one must already have accumulated a significant amount of wealth for the wealth management process to be effective.”

Source: “The Wealth Management Opportunity,” Journal of Accountancy, May 2004.

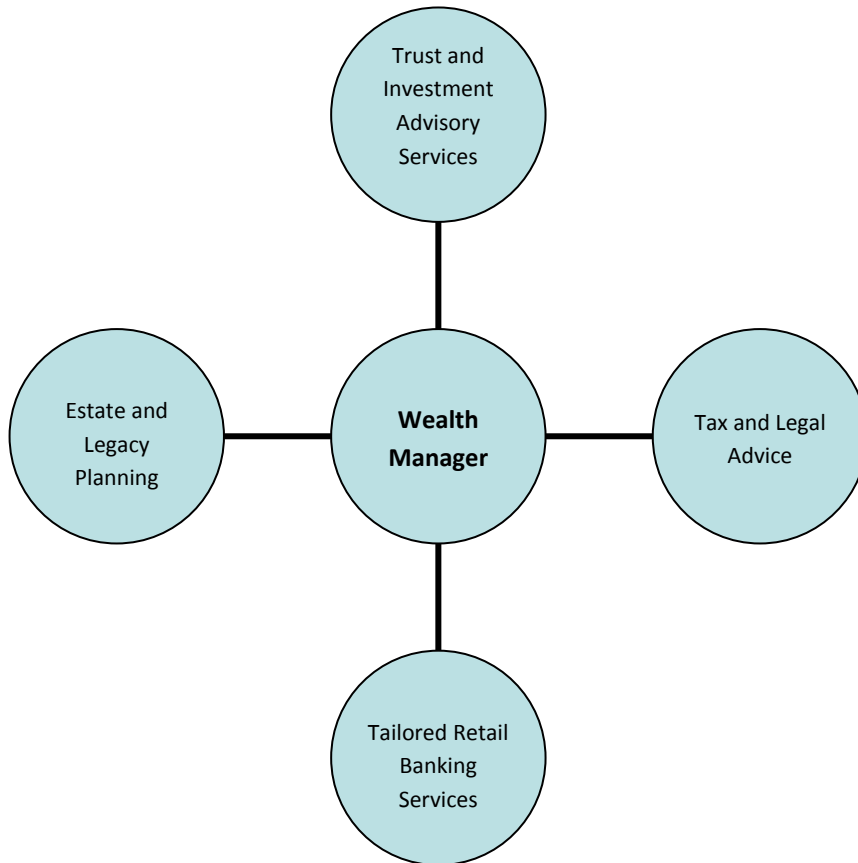
A key aspect of this definition is the holistic nature of wealth management planning as illustrated in the following chart.

Chart 1



Other definitions reflect the proactive, fiduciary, and/or trusted advisor role played by the wealth manager. Chart 2 places the wealth manager at the center of the client relationship, the quarterback who calls the plays and coordinates action.

Chart 2



In general, investment advisors are perceived as transactional, while wealth managers are considered more consultative in their approach. In general, investment advisors are perceived as focused on short term results, while wealth managers are devoted to developing long-term relationships.

Benefits of a wealth management practice accrue to both clients and advisors. From the client's perspective, convenience and single-point accountability are often mentioned as benefits. From the advisor's perspective, greater client loyalty, increased assets under management (AUM), increased fees from non-investment advisory services, and greater intellectual and emotional satisfaction are touted.

The hard data substantiates the success of wealth managers. A 2007 study, “Best Practices of Elite Advisors: The Wealth Management Edge,” conducted by CEG Research and sponsored by Dow Jones, revealed that wealth managers controlled an average of \$645 million of assets, while investment generalists managed only \$308 million. Furthermore, wealth managers enjoyed an average net income of \$881,000, compared with \$279,000 for generalists.

On the other hand, the same study indicated that: “[a] scant 6.6% of the advisors surveyed actually employ wealth management’s fundamental tenets—a surprisingly low figure, especially considering that the group represented the country’s top financial advisors.”

As noted above, wealth management’s key tenets include a proactive, holistic, and consultative approach.

Best Practices

So, what exactly sets the best wealth managers apart from the rest? Although the various studies and anecdotal evidence do not always agree, here are the key best practices that emerge.

Segmentation—Top wealth managers segment their client base and then focus on their top clients. This means that the top wealth managers spend more time and cultivate deeper relationships with fewer clients than do investment advisors or less successful wealth managers. It’s a classic example of how less is more. Instead of trying to satisfy a few needs of 300 plus clients, the top wealth managers demonstrate the courage to offer holistic services to only a handful of clients.

Client Sourcing—Not surprisingly, the top wealth managers source most of their new clients from existing clients and other professional advisors who also service those clients. Top wealth managers proactively seek contact with their clients and their professional advisors and use those contacts as opportunities to not only provide value, but also to ask for introductions to prospective clients in their focus market. By contrast, the less successful wealth managers tend to rely more on less effective strategies such as seminars, advertising, direct mail and cold calling to source new clients.

Branding—While most wealth managers do a good job creating and articulating branding messages, only the top wealth managers actually “walk the talk.” Not only is their branding

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message reflected in how they describe what they do for clients in casual and professional settings, it is reflected in the systems and processes they use in their practices. The top wealth managers use a consultative sales approach, have developed relationships with internal and external tax and legal experts, and tend to outsource money management services to professionals. They structure formal and frequent reviews with clients in order to re-evaluate changing objectives and family dynamics.

Strategic Business Management—The most successful wealth managers tend to view their practice as a business, not merely a source of income. Accordingly, they tend to take a more long-term approach. They engage in regular planning meetings to scrutinize the effectiveness and efficiency of existing processes and plan for the future. The top wealth managers manage not just to revenues but to profits.

Put the Client First—For the top wealth managers, putting the client first means more than mere compliance with existing laws and regulations. It means individually tailoring each client's investment portfolio, estate plan, or tax strategy to achieve mutually agreed-upon objectives. It means not merely disclosing, but avoiding conflicts of interests. It means being on the look-out for new opportunities and taking the initiative to present them to clients. It typically means shifting to a fee-based compensation structure that makes it easier for clients to see what they are paying for and what they get. It eliminates the tension inherent in a transaction-based compensation structure.

Bottom Line

Advisors who operate as wealth managers are more likely to earn more income and enjoy greater satisfaction from their work than advisors who operate as investment specialists. But even among the advisors who call themselves wealth managers there are significant differences. The top wealth managers execute, evaluate, plan, and re-execute better than their less successful counterparts. They do a better job of segmenting their book, sourcing clients, communicating their branding message, planning for the future, and achieving client satisfaction than their peers.

Practice Management and similar topics are covered in great detail in many of Cannon's professional development solutions. To find out more visit: www.cannonfinancial.com.

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