

Practice Management—Dynamic Discovery

Although the sales process varies slightly from firm to firm and advisor to advisor, a typical process is illustrated by the figure below.

Figure 1



Most advisors agree that the sale occurs during the interview phase, sometimes referred to as discovery. But discovery goes beyond merely “getting the facts.” The best advisors conduct their interviews using *Dynamic Discovery* techniques including the use of “consequence questions” geared to engage the client and hone in on appropriate solutions.

Consequence Questions

Positive consequence questions help clients see the benefit of a particular solution. Negative consequence questions suggest the adverse results that could flow from failure to act.

For example, a positive consequence question might go like this:

“If we could point you to a cost-effective insurance policy that would cover most long-term care expenses, what difference would that make to your heirs?”

An example of a negative consequence question on the same topic might be:

“What would be the likely impact to your heirs and the charities you support if your assets were depleted due to long-term care expenses? How would you feel about that?”

Consequence questions not only engage clients and prospects by getting at their inner concerns, they also serve as trial closes. A prospect that sees no benefit in a cost-effective long-term care policy or is unconcerned about the impact of depleted assets on heirs and charitable beneficiaries is probably not a good prospect for a long-term care insurance sale. If the client or prospect isn't buying during the discovery phase, chances are he or she won't be buying during the presentation phase of the sale.

The advisor knows that another solution, perhaps a trust to shelter assets from “spend down” might be more appropriate.

The Right Solution

The example above is relatively straightforward, but typically high net worth clients present complex situations for which there is an array of potential solutions. Effective dynamic discovery allows advisors to determine which of several potential solutions is likely to best fit the client.

For example, consider the case of a closely-held business owner.

Example 1

Nick, a widower, age 60, is the owner of a business currently valued at \$10 million. In addition, Nick is involved in a wide range of commercial real estate and other business ventures. Nick's daughter, Shelby, has worked in his primary business since she was a teenager. Shelby is a single mother of two beautiful children to whom Nick has become attached. His son, Trent, has shown little interest in the business or anything else. After dropping out of college and failing to hold a job, Trent recently returned home to live with his father. Nick has given his son three months to get his act together and leave the house.

Nick would like to simplify his life, sell the business to Shelby, and retire to South Carolina, where he recently met a woman in whom he's interested. As he sees it, the sale provides a stream of income and the move provides a non-confrontational excuse to give Trent the boot, should the young man still be languishing at home after three months.

While Nick wants to assure that Shelby calls the shots in the business, he doesn't want shut out Nick entirely from his wealth. While he's frustrated with his son, he believes that Trent is just “going through a stage” and will eventually find his way to a productive life.

Several potential solutions, alone and/or in combination come to mind, each with its advantages and disadvantages. These potential solutions include:

- An outright sale of the business to Shelby;
- Formation of a Family Limited Partnership (FLP) to facilitate wealth transfer and consolidate asset management;
- An update of Nick’s wills and trusts;
- Creation of a Grantor Retained Annuity Trust (GRAT), Charitable Lead Annuity Trust (CLAT), or Intentionally Defective Grantor Trust (IDGT) to facilitate business succession and shift appreciation; and
- Creation of an Irrevocable Life Insurance Trust (ILIT) to assure estate liquidity and fair treatment of Trent and Shelby at Nick’s death.

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That doesn’t mean these advisors “prematurely present” by rushing to a conclusion. Instead it means they engage in dynamic discovery to formulate trial closes that engage clients in the problem-solving process and hone in on the solutions the client is most likely to implement.

For example, CLATs are not as well suited for generation-skipping transfers as are IDGTs. This is because the amount of the GST exemption that must be allocated to an IDGT is limited to the gift of the seed money associated with the transaction, whereas with a CLAT the exemption is allocated not against the initial value of the remainder interest at the time of the gift, but rather against the appreciated value of the trust property upon termination of the trust.

Knowing this, and knowing that Nick has become attached to his grandchildren, Nick’s advisor can formulate consequence questions that cause Nick to own the eventual recommendation. For example, his advisor might say something like the following.

“Nick, if you could set up a trust to transfer your business to Shelby today while providing for your grandchildren down the road, is that something you’d be interested in hearing more about?”

“Nick, what plans are in place to care for your grandchildren in the event something were to happen to Shelby while they are still minors?”

You Don’t Have to be an Expert

Does this mean you have to be an expert to conduct an effective discovery interview? Not at all. It does mean you have to have a handle on potential solutions and their key advantages and disadvantages. Based on the identified advantages and disadvantages, you can formulate consequence questions that make your discovery dynamic. Consider using a table like that set forth below to help you prepare for upcoming 13 Wealth Management Issue interviews.

Chances are, your interviews will be more interactive and by the time the discovery interview is complete, you’ll already know which of several potential solutions is best for your client.

Table 1

Potential Solution	Advantages	Disadvantages	Positive Consequence Question	Negative Consequence Questions

Bottom Line

Top financial advisors successfully position sophisticated solutions with their clients. They “test the waters” during discovery by formulating questions that help clients envision the benefits of taking action and the adverse results of failing to act. They ask questions to determine which solution(s) among several is likely to be most palatable to the client, given his or her priorities and inclinations.

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