

Executive Roundtable



Five financial services executives presented their views in a roundtable discussion following the Tiburon CEO Summit XXIV in New York, April 10, 2013, after hearing some frank and candid comments from a well-heeled consumer panel.

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Context / Setting

Following the semiannual Tiburon CEO Summit in New York on April 10, 2013, Marie Swift of Impact Communications sat down with five of the attendees for a round table discussion. These executives included Maree Moscati, the CEO of Copytalk; Daniel Kern, a CFA and the president and chief investment officer for Advisor Partners; John Brackett, a partner with BAR Financial; John Blamphin, the chief operating officer at Retirement Management Systems; and Deena Katz, who, in addition to being an associate professor in the Department of Personal Financial Planning at Texas Tech University, is also chairwoman of the Florida-based wealth management firm Evensky & Katz.

The transcript below focuses on observations related to the much-anticipated consumer panel, which is normally “off the record.” Swift began the discussion by asking: “What were you thinking as the three anonymous consumers talked about their experiences working with advisors?”

Publication Notes

A summary article based this paper was published in the June 2013 issue of *Financial Advisor* magazine (see the online version of that article at www.FA-Mag.com.) Five individual video interviews (one with each of the roundtable participants) are available at www.fa-mag.com/financial-advisor-videos.

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Marie Swift: We rarely get the opportunity to talk about what we hear during the consumer panels that Tiburon Strategic Advisors pulls together twice a year. Typically, these panels of well-heeled consumers ask that no reporting be allowed. Since we have been given permission to speak publicly about what we heard and, more importantly, what we thought as we heard each of the three individuals talk, I'd like to start with everyone giving an opening statement about what you thought as the consumers talked about their experience working with advisors. I thought that some of their comments were very poignant.

ADVISOR/CLIENT DISCONNECT

Dan Kern: In many ways, the panel communicated a disappointing message to us. All of them, in one way or another, have had a difficult experience with one or more financial advisors. I've seen several studies that indicate that the average investor underperforms relative to the market. Listening to the panelists really brought home to me how poor a job we're doing to understand what clients need and how we can help them. We're collectively too busy selling them products when we should be helping design and implement a plan to achieve their goals.

Deena Katz: During that session I asked the consumers, "Are your advisors asking you what your expectations are?" Sadly, none of them seemed to understand that question. The problem, I think, is that we as an industry don't spend enough time understanding what our clients' expectations are, so we can either disabuse them of their wild expectations or meet their expectations. And that leads to the trust issue they all communicated today. If you listen to what happened to

all of them, it was this disconnect: what they expected versus what they got. Then add the economy to all of that. How do they trust anybody?

Maree Moscatti: I wanted to ask the panel—but we ran out of time: “Do you feel that your advisors are listening to what your needs and goals are? Do your advisors periodically check in to see if those needs and goals have changed due to life uncertainties and circumstances; where are you in the process?” I found it extremely disheartening to hear their comments. I was sad to hear their experience because there are so many fabulous advisors who really do care. This small sampling of investors tells us we still have a long way to go in the industry. We must inspect what we expect from the advisors in the field.

John Blamphin: There were a lot of issues that came out of the panel, and expectations were a huge part of it. One of the things we should keep in mind is that advisors are people. It would be great if we could train them to operate the same way each and every time, but that's not going to be the case. The industry is still very focused on product sales; therefore, you're going to have some of these tainted, if you will, conversations with clients because the advisor has an end goal that may, in fact, be different than the expectations of the client.

John Brackett: I was embarrassed for the industry by what the panel told us. However, their comments left me confident that the way BAR Financial operates ensures that clients get a superior experience by requiring a certain number of client touches and other communication protocols. The panel perfectly depicted the stigma and fear that exists today regarding the termination of a relationship with a financial advisor.



What people don't realize is that they have the power and the right to navigate these situations, which will result in the best outcome for them. The resources are there; people need to use them. At BAR Financial alone, I have 350 advisors who are more than willing to discuss this sort of situation. For the unhappy consumer, it's a matter of taking a small leap for a big return.

Katz: John, this brings up professionalism. One of the executives in the room said, "Well, you know, we're really not a profession." And, in many ways, he's right. We really don't have to run through any hoops, although we would like people to have credentials. This brings me to the academic world, and the fact that we are educating people to be financial planners. When I started in financial planning, nobody even knew what it was, including me, and today you can get a degree in it. In fact, you can even get a master's and a Ph.D. in it. We need to raise that bar, which does give some standardization on the approach to people. In the financial planning programs today, students learn how to be consultative. Instead of saying, "Here's my product," they learn to say, "Here's my advice."

Blamphin: The CFP Board has done a great job composing the six-step process and making sure that if you have earned the CFP mark that, in fact, you are following along with those require-

ments. So you're right; education, the academic world, does put that standardization of practice in place, which is important.

SOFTER SKILLS IMPORTANT

Kern: It was interesting to hear one of the consumer panelists praise her current advisor, mentioning how the advisor respects her intelligence, works in a partnership with her and cares about her. But in reality, we spend so much of our time educating ourselves and educating the people in our firms about the technical aspects of the job versus the people aspects of the job. Many people understand the technical aspects of the investment profession, but I think that empathy is perhaps the most important attribute of a successful relationship between client and advisor. The feedback from this panel makes me think that one of the things we need to do is spend more time on the softer skills with people that we're bringing into our practices.

Katz: Right. We tend to forget that people don't need to know how to build a watch; they just need to know how to tell time. We use so much more technical language than we need to. The consumer you are referring to wasn't relating to all that technical explanation. The advisor gave her a whole bunch of material, but all she wanted was a one-page overview saying how she did compared to last year.

Moscato: What made a difference for this investor was that her advisor took time to be with her. He did not insult her intelligence, even though she was obviously not financially savvy and understanding of the investment world; she made that quite clear. She said that several times throughout the course of the year, her advisor does reach out to her. He just checks in—which I think a lot of us forget in this industry. Success does not just hinge on the annual review. It's not just saying "Put your statement away, don't look at it when the market's down." We need to get back to the integrity of relationships that we build with the people we serve.



Brackett: Yes, and we need to go back to how advisors got into this particular business, and what it takes to be in the business.

Right now there are conflicting forces: the independent RIA and the broker/dealer RIA and a big debate about which one is preferable. Of course, we would all like to be our own boss and answer only to ourselves, but then in reality we would have the fox in the henhouse. At BAR Financial, we don't allow independent RIAs for that very reason. We have advisors that have flourished in the broker/dealer RIA environment but, to be honest, it's not the traditional restrictive broker/dealer environment.

That being said, back to your point, Dan, even though the one consumer panelist had that one flourishing relationship, she hung on to a second bad relationship at the same time. I wanted to stand up and say, "Fire him. Throw him out." Sadly, it takes way too long for most clients to fire a bad or even just a lazy advisor; it's tough to give the old heave-ho to someone who's been a part of your life, kissing babies and even attending funerals. But while the bad/lazy advisor may have thought all was well, the new and more attentive advisor got this woman's serious money.

QUITTING THE GYM

Kern: Many of life's great lessons can be learned from or reinforced by T.V. shows. This segment of the consumer panel reminded me of a Seinfeld episode – the one that was almost entirely about not being able to quit the gym.

Brackett: Yes, exactly.

Kern: The Seinfeld show worked because so much of it was true to life. It's hard to deliver bad news about even the most basic of services, such as quitting a gym. Firing a financial advisor is so difficult, as most people are uncomfortable talking about their finances, and often are intimidated by their advisor. So I can see how firing an advisor would have been difficult for the panelists, even though that was the most logical action for the panelists.

PAY FOR PERFORMANCE

Brackett: One of the things that scared me about the panel session, though, was the question from one of the audience members who asked, "Do you think your advisor should be paid on performance?" I was sitting there thinking about this: I had my foot operated on, and the doctor didn't do a very good job. My foot actually hurts more than it did before. Should I get some of my money back? On the other hand, I'm pretty happy with the relationship with my CPA and my attorneys. I'm paying them a fee, but I will fire them if I'm paying too much in tax and if I don't get out of this situation that my attorney should've got me out of, and so forth.

Blamphin: There's another big discussion in the industry now about the automation of advisory services. For instance, will the younger generations prefer to just turn to an app on their iPhone if they wanted some advisory services? But I wholeheartedly agree that it's the relationship with an advisor that's going to be key to getting those people to behave in the way that we as financial advisors want them to behave, and to do the saving and investing properly. But ultimately, I think moving away from the product discussion and into the comprehensive financial planning discussion is really the way it needs to go.

Moscato: Right.

BALANCING HIGH TECH AND HIGH TOUCH

Katz: At Texas Tech, we just did a survey at of our students; we asked them, "How do you see your relationship with clients going forward? What kinds of tools will you use?" Remember,

these are the Millennials; they're tweeting and texting all the time. Every single one of them -- it must have been 90 plus percent -- said, "We see technology as a tool that will make it easier to connect with our clients. But what we value and what we know our clients will value at any age is face-to-face work."

And so that's what we believe planning is about, and I think it's being carried on to the next generation. They're going to want information differently and in a different way from us. Maybe they don't want to be educated; maybe they want to be presented with the information that they can learn, and then build on that. But they're going to come back to, "I need to sit with someone face-to-face. I need address the issues that I have with someone personally."

Blamphin: But it raises another issue: time. If it's all about the relationship and sitting down together and understanding the comprehensive nature of the client's situation ... well, developing that relationship takes time.

Katz: Yes.

USE TIME WISELY



Blamphin: The advisor from Seattle calling the consumer a couple of times a year and going over everything? That takes time. And so the operational efficiencies of what an advisor can do within their office becomes critically important. Should they be sitting there, trying to manage the money and do the financial planning, client counseling, tax planning and so forth? I think it was that advisor in Seattle who outsourced and chose portfolio managers for that client. Advisors need to be very cognizant of where they're spending their time. In fact, the wealth management industry, as a whole, needs to think about how wisely they're using their time with their clients.

Katz: Right.

Moscatti: I agree wholeheartedly with what you're saying, John. Building efficiency into practice management is something we all need to embrace. It's something that we need to streamline, as an industry as a whole, and pick best-of-class practices. Efficiency in practices is not even part of the C.E. curriculum at this juncture. It is, however, something that should be a priority for advisory firms and the broker-dealers that support them. The RIA market is really leading in this regard because they have to. They have to be both proficient and efficient in their practice. Sitting at the helm of Copytalk as I do gives me a unique vantage point.

Proficiency and efficiency is the critical component of what we try to bring to advisors. That's why it's very important to learn what the CFPs of tomorrow are doing today. Many of them are

younger and have grown up in a wired world. But we all have to do more with less in today's environment. How are we, as industry leaders, putting that information out there in a clean, concise format? And what are the best-in-class practices?

EFFECT ON SUCCESSION PLANNING

Brackett: I was thinking about how this all affects the succession planning and an advisor's book of business. And when I'm sitting there listening to these particular clients, and if I was an acquirer of that book of business and I knew the lack of relationships, etc., that existed, I can tell you, exponentially, the value of that book would go down to me as an acquirer because I'm going to have to deal with that lack of relationship.

I'm so happy to hear about the universities offering financial planning degrees; but we need to educate the general public starting in grade school and all the way through so they even know what questions to ask of an advisor. Generally speaking, people come to an advisor because of some event that took place. Imagine, all of a sudden, you hit the lotto and you have all these friends that have showed up; everybody needs a car or a dog or help getting out of debt -- they need something. Eventually you have to say, "Excuse me. Go and sit down across from somebody in a \$700 suit because they're going to explain to you what to do with this X amount of money, which you have no experience in whatsoever. All of those things should be scary.

I'm confident that everybody in this room has set up their estate so that when their children come of age they are ready to be good financial stewards. But when you put the money down on the table, hopefully, it's not about the new car or this or that or the other; it's how are the grandchildren going to fare from the estate planning? So, it's this huge educational process not only for the consumer, but for our advisors if they, in fact, understand they're running a business, and that business has a value and, if you treat it properly, just like your investment portfolio, it will increase in value. We need to do a better job of that.

Moscatti: That's a very challenging point. One of the gentlemen on the Ask the Advisors panel talked about the succession plan that his firm had put into play; they needed to transfer a certain number of clients to a more junior financial advisor -- there was a monetary discompensation if they didn't. I found that interesting. From what I heard, they were doing all the right things; in fact they were quite progressive compared to what other firms are doing out there. However, this thought popped up as I listened: if I went to my regular hairdresser, someone I'd grown to trust over the years, and she announced that she'd trained somebody to take over for her, would I really want them to cut my hair? Of course, a haircut is something that's so simplistic; but, when we are talking about someone's financial future and their family's financial future -- that's tough. How easily can the financial advisory relationship be handed off? It makes sense to create a succession plan and work together as a team, gradually adjusting your clients' expectations so they feel comfortable with the new person or team.



Katz: I know that firm, and we actually do the same kind of thing at our firm, Evensky and Katz. It's a team effort, and it takes a period of time to do it. So, while that advisor says every year he has to do it, he's been preparing those people for a couple of years, and the clients have been working with other people. We haven't seen any problem with that because people like to have a lot of brains working on their situation, and they are respectful and appreciative of that. In fact, we are really training our clients into understanding that our successor(s) probably has a better handle on their lives than we do as the senior advisors.

Moscatti: Right.

Katz: And so that whole process can really work to an advantage, and it needs to in order to respect the people that are coming up the business ranks.

SILO OR ENSEMBLE

Brackett: I guess the difficulty in what you were saying is this: Over the last 10 years, I have acquired a lot of books of business, and in each case -- there's been about 15 -- it was one silo person's book that I acquired. And the reason I acquired him or her is he or she didn't have anywhere to go with their business. They were not a part of a group of advisors. And so there really wasn't anyone to do a business hand-off to. So, I don't know what the answer is from that perspective. I'm actually very happy they didn't have someone to hand-off to because, quite frankly, my partners and I made some pretty good investments there. But it is a significant problem in that we are all different. We all looked at those consumers on the stage today, and there are five of us here at this roundtable now. I'll bet you we would have five different answers to what should have happened for each of those consumers to improve what they shared as their personal situations. But there's going to be a common thread, and I think the common thread is relationships backed up by education so that the consumer at least feels like they understand what they are about to do.

I made a comment to Dan earlier; we have an awful lot of rules and regulations in our business, we just don't seem to enforce them very well. It's kind of like locking your car; the only reason you lock your car is to keep the honest thief out, because if a thief wants in, they'll get in. If we would enforce our rules, we could get out of many predicaments. And so, maybe, in the advisory space there needs to be some kind of requirement on what the data gathering looks like, what all of the assumptions look like; something. Otherwise, those consumers wouldn't be so fearful of terminating a bad relationship, thinking, "Well, if I go somewhere else, they don't know anything about me."

FEES OR COMMISSIONS

Moscato: It's interesting too because we talked about which is best: charging fees or accepting commissions? There was not a consensus from the consumer panel; they really weren't sure. But if we look on the regulatory side of things, I think we'd all agree that as an industry we are doing a pretty good side on information gathering process. There is a basic foundation on which to do that. However, we have all these fees and this huge disclosure, which the general public just doesn't read, and if they attempt to, they don't understand it, and rightfully so. I'm not sure a lot of attorneys would understand some of that legalese that's in there.

But there is no standard or regulation over what one should, at minimum, expect of an advisor. That's a gap for regulators. Advisors do have to document their meetings and why they made certain recommendations. There's a plethora of information that they need to collect and keep, but what about the client experience? I was astounded that this particular consumer panel really was fearful. I understand the fear of starting over if things are not going well with the advisor. But is enduring a bad experience better than starting all over? It comes full circle.

ONE DESIGNATION FOR FINANCIAL PLANNERS

Katz: That's where we come to this one designation, this CFP that has standards. The CFP standards way that CFPs must explain to clients what happens during the relationship, to outline what the client should expect. Now, obviously, there are differences because people do work differently. The CFP Board of Standards is not, however, an advocate of fee or commission or any of those business model things; you work the way you want. The CFP Board is, however, about disclosure.

Moscato: Right.

CLIENTS AS “ASSETS”

Katz: And operating in a fiduciary manner; putting the client first. If we could, in the industry, get around -- I don't care what we call it. It doesn't have to be called CFP; it can be called whatever it is that we want to call it. But we should get our arms around those standards and requirements that make the relationship work. What is that process? I think we'd find it a lot easier. Frankly, I felt sorry for the guy on the consumer panel, Vic, who said, “You know, I'm kind of helpless. I don't know anything, and because I don't know anything, I have to trust a guy I don't know.” Sad.

Brackett: Yes.

Katz: You know, how crappy is that?

Kern: Yes.

Blamphin: But the standards of the CFP absolutely will go a long way towards that. One of the issues I was thinking about, as I was reviewing some of Chip Roame's slides, is I love the way Rick Edelman presents the success of his company. He doesn't tell you how many assets under management he has, he tells you how many clients he has, which is unusual. I would just love to see all of the advisors in this industry report that number and start thinking about the client as what's important instead of the assets they are gathering.

Katz: The client is the asset.

Moscatti: Yes, right.

Brackett: What I'm understanding you to say is when the prospective client does meet a potential advisor and that advisors tells them they have 2,000 clients, well really what the advisor should be saying is that he or she has 2,000 relationships.

Blamphin: Relationships, correct.

Brackett: You might have 50 clients in there somewhere that you're really doing the job for. So, what I was thinking about is, in the educational process at Texas Tech and other personal finance programs for the profession, are you taking them through that process of establishing a relationship? What does that mean? What is their responsibility as a financial advisor? And, if so, then that should hopefully cure most of our problems. The roadblock to that success will be, in our industry, you can't do this until you're 100 years old. The mores we create should stay in place until, of course, the next generation comes in. And so I go back to how can we get advisors to bring in the juniors and mentor them along. I don't know what the big answer to that is. But in some of the practices at BAR Financial we do have five and ten advisors in ensemble groups or teams, and those teams are flourishing. But there are a lot more single silo advisors in this business.



Kern: Absolutely.

ASKING THE RIGHT QUESTIONS

Moscatti: There is a great big take-away, in my mind, from this conference and some of the panels we heard. It's a practice that I used when I managed a wealth management and trust division; it was very broken when I took it over, both internally and externally, especially for the clients and the marketplaces we served. It really behooves us in this industry to do client focus groups, which is what I did. I went right to the client and said, "Tell me how we're doing; good, bad and ugly." I had to have the guts to ask the right questions and to learn from the answers. When you

get that type of client feedback, boy, you better make note of where those issues are, share the issues with your team and then formulate a plan to fix things.

I'm not a glass tower CEO. I've learned to get out there with my management teams, my technology teams and the advisors we serve, allowing them to filter altogether to better serve the client, which is a huge theme for this particular Tiburon CEO Summit. In fact, in his opening remarks, Chip Roame, said, "You've got to keep your eye on what's important to your client." That can be accomplished through the panels like the ones we heard here, or through client focus groups like the ones I put together in the past. I think we should extend the questioning to prospective advisors by asking them, "Why would you look at this field as a profession and why wouldn't you?" We'll find answers if we ask the right questions.

DEFINING SUCCESS

Kern: I'm curious about how we as an industry define success with our clients, because so much of our time in the industry is spent talking about performance. We can evaluate performance any number of ways, but, to me, if you're an investment manager, it's very easy to assess whether you've done well or you've done poorly. But client relationships can be much less tangible, as each client has a different set of needs and goals. What's the best way for us to think about whether we've done a good job for our clients?

Moscatti: Ask them. Ask them. And if you get referrals, then you know that they have an ultimate respect for you.

Kern: But over a period of time, clients are, well, humans. They're going to like you, hate you, feel disappointed, feel happy. You're going to experience something of a rollercoaster experience even with the best of client relationships, because how they feel about their money is a reflection of how they feel about a lot of things that have nothing to do with you at a given point in time. But when you start a relationship I think it's important to establish what you're trying to accomplish for the client so that when we check in periodically, we're able to measure how we're doing relative to our goals.

Blamphin: Besides the portfolio review.

Kern: Yes, right.

Katz: That's what I was trying to ask the consumer panel members earlier today. "Did your advisor ask you what would make this relationship a success?" And then, to follow on, every year I think the advisor should say, "Do you remember where we were last year? Well, how do things look to you now?" Frankly, we spend too much time focusing on the performance, and we even charge on the performance. It makes me crazy, but I don't know any other way to charge that works. I tried a retainer fee and, you know, that doesn't work as well. But, something in that is broken because we're sending a signal that your performance is the most important thing, and

then we're doing all this planning with them, and we don't know for maybe 20 years whether that's really worked.

Ultimately, we want to look back and say to the client, "Look, you were able to send two kids to school and buy that second home, take some great vacations, give to your church, save for retirement, and have something left over to pass on to your heirs. You didn't go broke. You enjoyed life along the way. Look at all these amazing things."

And, "Let's think back where we were when we started; now how does it look to you?" And so, that way, you can help them gauge. But that's not what most advisors are doing; they're putting up performance reports and charts that say, "Here's what we did for you and here's what made money," and people are still staying with them.

Blamphin: I agree. My firm, Retirement Management Systems, works with a lot of advisors as a third-party asset manager. I'm constantly telling our network of advisors that they should not be selling the RMS service based on performance. We want to be a platform of money management. So, it's not just our portfolios that make or break success for clients. The success or failure as an advisor shouldn't be based, again, on performance of the investment portfolio. The advisor ought to be able to fire and hire money managers who's not doing well and still, as the advisor for the client, still be there helping them reach their goals.

Katz: Right.

Blamphin: So, really it should not be the client who's judging investment performance; it ought to be the advisor judging investment performance. But, at the same time, staying away from much of that performance talk when meeting with the client.

TIME TO TRANSITION

Brackett: I was just thinking of something that AIG's Larry Roth, which is so true. He said something like: "Our industry allows advisors to hang around and hang around." And so the advisor could be down to two days a week or whatever, and I can imagine telling them, "Okay. You gotta now do this." The advisor at that point in his or her life would probably say, "That sounds like work. I'm not gonna do that." But, you know, in my position as a regional director for Cetera Advisor Network, I have a lot of those guys that I'm responsible for. I can think of one – he was a chancellor of the University of California at Berkeley. He's no dummy, but he was 86 and he couldn't pass FINRA's continuing ed requirements because he couldn't work the mouse. Every time he went to click, he pushed, so he hit the answer above. We tried everything to help him get through. Finally, I had to call him in, sit down with him and say, "You're done."

Katz: Time to go, yeah. That's tough.

Brackett: “It's time.”

Katz: That is tough.

Brackett: What we have found over the years is that when an advisor needs to “go” – but doesn't – it is a disservice to his or her family, as well as to the advisor's clients. In the case of the 86-year-old advisor I mentioned, his long-time clients did leave some money with him; but, because we interceded so late, the clients had already moved their serious money to another firm. So, there really was no value in this practice that he built his whole life; the clients knew they weren't getting the service they deserved and quietly left; we, as the managers, ignored it. Why? Because the advisor was an independent contractor, this was his business, etc., etc. But until we take a hard look at the industry and come up with a better plan, we're going to have this problem. You can educate advisors, but if we don't have a way to enforce what needs to happen, we're going to come up on this problem continually.



Kern: This is another reminder of the importance of clients firing their advisor when things just aren't right. If people are willing to make the difficult decisions and know how to fire their advisor, the marketplace is wonderful at showing people when it's time to step down. If I'm an 86-year-old advisor and can't meet client expectations, if people know how to fire me and if they know what their alternatives are, I won't be their advisor anymore. I will get the message from the marketplace that it's time to hang it up. In the sports world, it's usually very clear. You may not want to listen to the message, but it's pretty clear when it's time to leave. And in our business it ought to be clear -- that it's time to leave, as well. But as you said, John, it's better to leave on a high note before market forces tell you that now is the time.

Brackett: It should be clear ...

Katz: ... but it isn't.

Brackett: Right.

Katz: Because too many advisors suffer from Founder's Syndrome.

Brackett: Right.

Katz: And they don't want to release any of the power. Think about how different that picture would have been if they 86-year-old advisor had brought in some new young advisor with fresh ideas. He would've kept that business; it would've been worth something. Instead it kind of ran itself out – and that shouldn't happen. But these types of problems happen because everybody out there is practicing; they're not running a business.

Brackett: Absolutely.

Kern: Many people who entered this industry, for better or worse, did so because they don't want to have a boss.

Katz: Right.

Kern: They don't want to punch a clock. Many of them are fine being accountable to clients, but they don't want to be accountable to a corporate structure. There are some wonderful practitioners that have that mindset, but the problem that creates is there isn't a viable check-and-balance on them in their career.

THE BREAKAWAY BROKER

Brackett: One of the things we talked a lot about at the Tiburon CEO Summit was the breakaway broker and whether or not that's a big deal. "It's not a big deal," said some. "It is a big deal," said other. I don't know if it's a big deal or not but I can certainly tell you that it is a deal. Something's going on there, right?

Katz: Right. Someone, somewhere.

Brackett: Someone, somewhere. They're going somewhere, okay.

Moscatti: Whether it's good or bad? It depends.

Brackett: For me, as a recruiter of some of those breakaway brokers, what is it that I lead with to have that conversation? I say, "Why are you still with Chase? You own nothing. Come with me and you get to own this." Now, what I didn't tell them was all of the things that they're going to have to do as business owners. They're going to have to pay rent, keep the lights on, hire and manage competent people, marketing their business, pay the bills, etc. And all of the retirement and exit planning? Let's say I don't tell them any of that yet. I get them over to the independent side, then I say, "Oh well, you have to do this. You have to do that." So now their payout went back down right where it was when they were in the brokerage world. So, it's all a matter of – and you said it – are they running a business, and how do you do that? Back in the day, and even now when someone says to me, "How'd you get into this business?" I say, and I'm serious here, "Well, I couldn't get a job."

All: Laughter

Brackett: So, I went to my father-in-law, who sold life insurance. Guess what? I went and bought a white belt and a pair of white shoes, and in we went together, right.

Someone told me I could sell a mutual fund. That's how I got started in the business.

CLEANING HOUSE

Brackett: You know, when the consumer panel was on the stage earlier today, that was the picture that popped up in my mind: the three guys trying to sell the variable annuities? Well they were just going to take the spatula and flip one VA over to the other VA. That's what was going to happen there; and you know, it seems like history has come around. It's all back, right? So, again, you have all these independent contractors who want to march to the beat of their own drum. One of my mentors told me that our business – my business – is like trying to herd cats; you're just trying to get them all to go down the sidewalk together. But then suddenly you've got one up on the rooftop and you've got to get him down, and another sneaking off into the storm sewer and you grab him by the tail. Bottom line: we have to be better at firing.

Katz: That's right.

Brackett: Just like clients should be firing advisors, managers like me should be setting down people – people who shouldn't be in this business in the first place. Secondly, when an advisor is really not working full-time, boy, that can be a problem. They are being compensated for doing a full-time effort. So, how do we manage that? It starts in the beginning, and going go back to education. I'm leaning toward you, Deena, and Texas Tech to educate the next generation as to how to do things right.

Katz: Come on down and visit us.

Blamphin: But it's a difficult distinction, I think, because basically you'd be telling a person that they can't build a book of business and annuitize an income stream. Even though they've got these fee-based accounts. You'd be saying, "What we really want is for you to justify your existence." So, in this case, a transaction-based methodology would be better because the retainer stuff just hasn't taken hold in the industry – no one wants to pay a retainer.

Brackett: Right.

Blamphin: So, where do you end up? Obviously, the clear answer is hard to come to.

BUILDING ON STRENGTHS

Brackett: One of the industries that has it right in this area -- how businesses are valued, etc. -- is the P&C business. As far as our industry goes, we're getting there. There are three or four respected firms that will come out and value practices. How I help is I go around and give speeches. They're positioned as some sort of business building speech, but what I'm really talking about is how you pretty-up your practice. Basically, I'm saying to the advisors: "Be in business and don't just try to find a widget to fill in a hole. We need to have specific metrics, so that I can say to you that, on average, a practice is worth 2.4 times renewable revenue. It is taking a long time just to get to that place. There are pluses and minuses, ages and stages, etc. That's why I say "on average." But we have should be having these conversations from the very first day that someone comes into this business -- educating them that they are in a business -- but I don't think we've done a good job of that.

Kern: I'll add a little from my perspective managing a firm that specializes in partnering with advisors. My firm, Advisor Partners, is an asset manager. We manage money for advisors and investment platforms. Here's what I know for sure: investing is a full-time business. Even if you're not a "tactical asset allocator," there are so many investment alternatives to choose from. Although it may seem like index investing would be easy, even within the index universe there are numerous considerations; there are new asset classes and sub-asset classes that emerge. It is a full-time, all-consuming job. I've worked in many different parts of the industry, having managed institutional equity portfolios, mutual funds and asset allocation strategies. No matter which aspect of managing money that you focus on, it is a consuming, demanding career; to do it well requires focus, intensity and dedication. If you are a sole practitioner or in a small practice and you're spending 40% of your time with your clients, 40% of your time investing, and 20% of your time managing a small business, I don't see how you can do any of those things any justice because you're spread so thin.

Brackett: Exactly. You can't.

Moscato: You cannot. It's an impossibility.

Blamphin: It's all about operational efficiencies, which is what I alluded to before. But I would love to see more about why retainers and flat fees, etc., don't seem to "fly" with the client-- maybe through a survey in the industry. Because our business is built on a flat



fee model and it works just fine; we are a flat-fee portfolio management business. We do not charge on assets except for a few occasions. Advisors hire us and clients pay us.

Katz: We could do that research at Tech. We just need some grants.

Blamphin: And year after year, clients will pay us, as long as the fee is a reasonable one -- and we think it is for what we do and for what the advisor does.

Katz: I want to get back to what Dan said about all the things that people have to do in a financial planning practice. Early on in my career, I invited Jean-Marie Eveillard from SoGen Funds to come down and talk to clients. At that same time my brother, who was a Salvation Army minister, had this little trailer he took on vacation. A tree fell on it during a storm. He got \$5,000, which is more money than he ever had in his whole life. So he called up his hotshot sister and said, "What do I do with all this money?" So, since Eveillard had this balanced fund, the SoGen Fund, and it was a nice, low-cost balanced kind-of thing, I put my brother's money in there. Time went by and eventually I took Eveillard to dinner. I told him this story. I thought he'd be really happy. "You know, I put my brother's money in there." But surprisingly, he stood up, smacked his utensils down on the table, looked at me and said, "Now you've done it. Now you've put a face to the money."

And that's when I realized what I really did for a living. I'm the advisor. I cared that my brother had two kids he needed to send to college. If Eveillard cared about it, he'd be in trouble. He's supposed to maximize return. So, Dan and John, your job is to follow the markets and track the trends and make those trades. My job ... is to select you. You are going maximize return so you can get good performance, and you are going to do the things that have to be done. My job is to make sure that I select all the right people and put everything in place so that my brother and others like him can send their kids to school.

THE COMPENSATION QUANDARY

Kern: I used to manage large public and private pension plans, and more recently managed target funds used in IRAs and 401(k) plans. If I spent too much time thinking about each individual in my funds, I'd probably start to make the wrong decisions, because at the end of the day we're humans doing the best job we can do. The more that we identify with an individual "face" associated with that money, is the harder it is to maintain the objectivity necessary to manage money.

I've had discussions with Morningstar's Don Phillips over many years and spanning multiple firms. Don and Morningstar think that a portfolio manager should own shares of the funds they manage. Personal ownership is one of the most important criteria that Morningstar uses when they evaluate a mutual fund. Although I think it's somewhat important to have some "skin in the game" when you're managing money for other people, I think it can be a negative if you have too

much skin in the game -- too much of your own net worth in any of the investments you manage. Realistically, portfolio managers are human, frequently with spouses, children and parents who are expecting financial support. So if you're sitting and worrying too much about the investment implications for your holdings rather than for your shareholders, your personal investment considerations can create unintended consequences for your investors.

Blamphin: On the same token, wouldn't performance-based compensation also potentially do that on the other side?

Kern: Could be. I'm a believer, in principle, in performance-based compensation; however, when I see it in the hedge fund world -- and I'm sure this is partially jealousy coming out -- it's a "heads I win, tails you fail" kind of game. There are asymmetric rewards from the hedge fund structure. When you try to apply a performance-based structure to mutual funds, I'll tell you, it is challenging to meet the regulatory rules and can be very difficult to explain performance-based fees to shareholders. I know Jeff Dunham, who was at the Tiburon CEO Summit, and John Montgomery, in Houston, are proponents of using performance-based fees in their mutual funds. But even Montgomery, who I think is a very ethical individual and capable investor guy, ran afoul of the SEC several years ago for inadvertently making mistakes in calculating fees.

So, conceptually, it sounds great, but it's like so many things in this industry. The devil is in the details, and it's a lot harder than it looks to get it right.

Brackett: Compensation in our business will always be an issue. I remember having a call. I do a lot of business with community banks, and there's always the squeeze. Squeeze the spread; squeeze the spread. I finally said to the bank president, "At some point, you become not interested. I'm not interested in you. You're not important to me." But, you know, we have to find a way to balance that. I think back when I started out in the business; I drove from the San Francisco Bay area to Lake Tahoe just to establish a \$2,000 IRA with a client. I had a Volkswagen then. Today you couldn't get enough gas in your car to go up there and come back and make it worthwhile. The sad part of my Lake Tahoe story is we didn't have cell phones back then, remember? My assistant set that appointment up, and I drove all the way up there; but the people weren't home when I rang the bell. So, went to a pay phone and called ... no answer. I had to come back another day. [Groans all around] I learned the hard way to be smart about business. The question is: how do we get compensated if we can't afford to do the business properly?

Katz: Right.

Brackett: All of us have to get started some way. I'm thinking about some of our advisors at BAR Financial that do a good job. But still they're making \$80,000, \$100,000, \$150,000 in gross compensation. At one point I gave away 30 clients -- or about \$50,000 of recurring revenue -- because I'd gotten successful enough to do that. But the advisors I'm thinking of now ... they're

not likely to give 30 clients or \$50,000 away; it's just not going to happen. They put up a good fight, every day all the way to the end. But the truth is, some of us are more gregarious and can attract people to our business model. Some of us are smarter than average and can build better portfolios. Others are good communicators who can help the clients understand what they need to know, without boring them or putting them to sleep.

Katz: It takes a village.

PROVIDING VALUE

Brackett: Right. Think back about the consumer panel again from earlier today. They were essentially saying, “Holy Smoley. Can't we have just one page of simple language so we can understand what's going on? What did I do this year versus last year? Am I up or down? Can I afford to send little Suzie to soccer camp? Will I ever be able to retire and not worry that I'll run out of money?” Of course, we need to fix all of that. But I was thinking as you were speaking, Dan, the reason our clients don't fire their advisors is this: If we have the ability to attract them to us, then we know their parents; we probably did a good job of generational planning. We've kissed babies, gone to birthday parties and weddings, maybe even attended a funeral. If we've done all of that, how can the client fire the advisor? It's not going to happen. The client is going to forgive the advisor of his or her sins or they'll leave some money with the advisor, but the real money goes down the street.



Blamphin: Which was the case for one of the consumer panelists today ... he's just waiting for the trigger.

Moscatti: He's just waiting for the trigger.

Katz: And look how many years it took for Joan to get rid of the advisor she knew she didn't want -- four years.

Brackett: Unbelievable. My wife would've had me in the garage “like that” [snaps fingers]. My wife wouldn't have any of those issues [laughter all around].

Katz: You know, people stay with advisors longer than they stay with spouses.

Moscatti: Going back to a point that a couple of you made –and, sadly, I do remember the white shoes on the insurance salesman [laughter]... After I left a wirehouse and moved to Equitable -- well, now AXA-- I thought I made the worst career choice ever, even though it was still early,

within the first couple years of my being an advisor. But then I had a couple at the conference room table; I was selling life insurance; they bought a policy. I was fortunate through a very unfortunate situation where, within the first six months, I delivered my first death claim. It was to this young woman; she had two little children, was mid-30's and did not work outside of the home. Until then, I didn't really understand what I did for a living.

When I was selling life insurance policies, I always included the wife because I'm a woman. This particular young woman apparently took her husband to the garage and said she didn't want to spend the money. But thank goodness I convinced them to do business with me. When I delivered that death claim check she thanked me. She said, "I only wish I had listened to you more." Delivering that death claim check was one of the hardest things I've ever done; but it was one of the greatest things for my career. The wife was still a client when my practice went into a succession plan.

But that's a true lesson of what advisors really do for a living. We need to do a better job educating new advisors coming into the field -- and even the advisors that have been around a while. They need to hear the stories of the people who can send their children and grandchildren to the best schools, to retire with confidence, to stay in the family home when disaster hits. We talked a lot here at the Tiburon conference about Middle America and the need for planning and how, as an industry, we impact them. It should not just be about chasing wealth, but how we affect the people we serve, as well as their families and the generations to come. I don't know that we always think about that ripple effect; but delivering that death claim check is something I'll never forget. That was 20-some-odd years ago, and I will never forget that family.

Katz: Well, part of that, Maree, is that that happened to you early on.

Moscato: Right.

Katz: That was a short period of time. But for a lot of advisors, the work we do isn't realized for 20 years, and nobody really knows what an effect we've had.

Moscato: Right.

Katz: And so you're right; we need to keep reminding ourselves of the difference we make.

Blamphin: Going back to the consumer panel again: The gentleman in the middle said that he didn't like when an advisor just gave him several choices or options to consider himself. He hired and wanted to work with the advisor so the advisor could tell him what to do, and better yet, to just do it for him. And so, for an advisor, I think it's invaluable to have that sort of experience you just talked about – to feel the confidence knowing, "I'm selling you this insurance policy, but because I know the benefits of it. Hopefully nothing bad will happen to you and you

won't need the insurance policy. But it's going to be there if you do; and if you do need it, you are really going to need it." The same thing applies to other pieces of advice, like investment options, right? So, advisors have to have that confidence; they probably have to have a few gray hairs to be able to understand their real value. But they need to have that definitive recommendation or actionable item to give to the client.

Moscato: Right.

OFFERING CHOICES, FACILITATING DECISIONS

Katz: I use an analogy to the medical field with the students at Texas Tech. I say: Okay, let's say you've got cancer. You go into the doctor and you say, "What do I do about this?" There's a protocol, and the doctor says, "Well, you know, we'll give you a little chemo, and then you should get some radiation, and then we'll do some surgery," and that's the protocol. Now, you can do just the radiation or you can do just the surgery or whatever, but this is the protocol.

Brackett: Right.

Katz: So, I tell the students, "This is your job." Your job isn't to really decide for the client; your job is to say, "This is what the protocol is. This is what's called for. This is how to think about things." Which is what the one consumer panelist was looking for. While he might have wanted the advisor to tell him what to do, there is almost always an array of possibilities. Our role as advisors is to explain the options and discuss with the client what we think is best.

Moscato: Right.

Katz: Really good advisors don't shy away from these types of in-depth conversations. But they don't demand it, either. They might say to the client, "You can do this other stuff. But if you want to live to 102, probably you want to do this."

Brackett: You know, one of my favorite sayings is, "Old sayings are true because they're old sayings." Right? [laughter all around] And one my wife always reminds me of is, "A happy wife, a wonderful life." So every time I get going down the road I think, "Okay. A happy wife, a wonderful life."



Katz: In Texas its: "If Momma ain't happy, ain't nobody happy. If Daddy ain't happy, nobody cares."

Brackett: That's it. Nobody cares. I've experienced that. Remember, I'm the guy out in the garage.

Moscatti: I knew it. You're in the garage. [laughter all around]

FINANCIAL LITERACY

Brackett: Following up on the doctor analogy, Deena ... when we go to a doctor and they tell us we have cancer ... my wife was in that situation. The doctors began to tell my wife, "This is what we're going to do, this is what we're going to do and this is what we're going to do." And I was just nodding my head, "That's what we're doing." But she was shaking her head and said, "You're going to do this, this, this and this," because she was educated.

Katz: Right.

Brackett: She took it upon herself to become educated because the choices she made—and I mean *she* was going to select them -- were going to go with us the rest of our lives. And it turns out she was right, but the physicians appreciated that they were speaking to somebody that had knowledge. Not an expert, but knowledgeable and able to converse and understand. And that's where we need to go back to: the education of the consumer on the services that we're providing, whether it's life insurance or mutual funds or managed accounts or whatever. What are we doing? What are we doing to help educate the consumer to do that? It's not glamorous. It's not like, "Wow, your account is up 30% or down 40%," or whatever.

Katz: But that's financial literacy, and we have to go back to grade school.

Brackett: Exactly.

Katz: You know, everybody's talking about financial literacy these days and how important it is, and nobody's really doing anything about it.

Blamphin: You're right. There's a lot of lip service, but no one is really doing anything about it.

Katz: One of the things I want to see is, in every curriculum: reading, writing and financial savvy. Put it in the curriculum. These kids need to know. The problem is no teachers have these skills. We have to train the trainers.

Brackett: Right.

Katz: It's a sad situation when you see kids come to college and these credit card companies line up and have them sign on the dotted line. It only takes two months to destroy your credit for seven years.

Blamphin: Yes, it's a shame. They do it right before spring break, you know.

Katz: Oh, yeah. It is just sad.

TIBURON TAKEAWAYS

Blamphin: The one overriding theme I'm taking away from the Tiburon CEO Summit and this roundtable discussion is that advisors should not try and be all things to all people. They can't be portfolio managers and financial literacy educators to the grandkids and everything in between and small business managers and really try and accomplish everything. So, they need to be very selective in what they're focusing on. Even if that means, when you're hanging out your shingle as a small business, to be specific about the service you're providing to your community. If you're going to be an investment manager type of financial advisor, that's fine. If you're going to be a college planning type of advisor, that's fine. If you're going to sell insurance and annuities, that's fine. If you're going to just be the guiding light for a client and help them understand all the various products that are out there and make the best decision for them, then do that. The best advisors I've ever seen and worked with have that sort of focus. They know what they're doing with a client, and they do it very well.

Brackett: I have the pleasure of working with some fantastic advisors. I'm going focus on two things for the next couple of years. One, I'm going to instill in the advisors I work with the responsibility that they have regarding the legacy of their practice, whether it is preparation for sale or it's bringing on an internal successor to ensure the continuity of that business. They have that responsibility to the clients they've attracted over the years. The other thing I am going to focus on is the education of the clients and instilling that in our advisors. There have been all kinds of surveys that have been done regarding how many times you should touch your clients in a single year, but woven throughout must be education. The advisor should be educating clients through seminars, through reading materials, videos, podcasts and so forth. You want clients to reach out to you as the advisor, to ask questions about the education pieces you provide.

Kern: My biggest take-away is that we need, as an industry, to have a better understanding of what our clients' goals are -- not just in quantitative technical terms, but what their hopes and dreams are. We need to develop a relationship with our clients, tie it to their goals, and develop investment programs that are designed to achieve goals that stretch out, in many cases, over mul-

tiple decades. There needs to be a true link between what the client is trying to accomplish and the investment program we use to accomplish those goals for our clients.

Katz: I think it's important that we recognize that we're not in the investment business. We're not in the financial planning business. We are in the business of managing the expectations of people. And once we understand behaviorally, financially and spiritually what they need in their lives, we can guide them there. But if we don't know what they're expecting, we can't guide them anywhere.

Moscato: My biggest take-away from this conference is to stay client-focused. In the coming years, I plan to get more involved with helping advisors build their practices, especially those with more complex needs such as those adding more advisors to their teams. Staying very focused and true to the part of the community that they want to be involved in, that's going to be more and more important. And if it is a middle market they seek to serve, they'll need to have one voice, one vision, individually and collectively as a team. It's always wise to remember the fundamentals. We must honor the profession, and strive not just to help people meet their basic goals but to create lasting legacies.



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