

In Turbulent Times, Focus on the Fundamentals

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The credit crisis' devastating impact on the global banking system has caused unprecedented challenges for the wealth management industry. As advisors attempt to manage the crisis and rebuild their client relationships, senior-level wealth management executives are taking steps to weather the storm and strengthen their firms in the process.

At the inaugural Wealth Management Congress in Boston in mid-September, NorthStar, a wealth management software provider, sponsored a roundtable discussion for wealth management executives. A consensus on how to counteract the crisis emerged. Specifically, the twelve senior executives who attended the roundtable concluded that firms need to put far more focus on the fundamentals of wealth management – improving client communication and service, supporting advisors, improving competitive differentiation, and using technology to increase efficiency. At many firms, unfortunately, these fundamentals have been overlooked, causing client dissatisfaction and contributing to greater churn.

Increase Client Communication and Service

The primary way firms are responding to the financial crisis is to increase the service they provide to their clients — more frequent communication, ongoing review of their asset allocations, and especially taking more time to walk through portfolio adjustments.

Many firms are bringing their affluent clients back to the fundamentals of investing. “We’re trying to relate the client story to long-term, life-based goals,” said Jeff Hazelwood, Director of Strategy and Innovations at SEI Corporation. Susan Hirshman, Consultant and former Managing Director at JP Morgan Asset Management, agreed. Client goals should be developed for “must-haves, nice-to-haves, and aspirations” so that during a down market, must-haves will not be in jeopardy, she said.

Communicating closely and often with clients about their portfolios is a subtle way to educate them about market realities such as the cyclical nature of returns and the need for diversification so that clients will be prepared for the down times. But many firms did not take the time to educate their clients, reported one attendee, and now their clients are surprised and anxious about losing their



wealth. Many will, no doubt, be shocked when they receive their annual portfolio report at year's end.

To guard against further erosion of client returns, many firms have already made adjustments to their investment models to “get customers back on board,” as Russell Campbell, Executive Vice President at Amcore Financial, put it. He recommends raising the allocation of high quality bonds in everyone's portfolios regardless of their risk tolerance levels [See our [article](#) on this topic in today's issue]. One attendee recommended decreasing international exposure while increasing small caps; another is focusing on alternatives. One way or another, all were suggesting ways to risk-adjust the asset allocations of their clients' portfolios and to communicate those changes with their clients proactively.

Support Advisors through Training and Leadership

Brian Lincoln, Associate Partner at IBM Wealth Management, echoed the sentiments of many attendees that competition between wealth management firms has never been fiercer. Since advisors' attitudes are crucial to a firm's success, the panel's consensus was that firms need to invest in their advisors, especially in a down market. How advisors feel directly affects how clients feel, so keeping up morale is vital. Motivated, engaged advisors give firms a competitive edge, as advisors represent their firm's brand in the field.

Advisors may need the boost. To say that advisors are now under stress is an understatement. “This market can make grown men cry,” Hirshman said. “I've seen it happen.” Both Hirshman and Campbell said now is the time for leaders to inspire. Firms need to start listening to their advisors, be less hierarchical, and take the bureaucracy out of the firm. “Don't push a story,” said Campbell, “but listen to your advisors to get bottom-up feedback.”

But Hirshman cautioned that advisors may need training, especially on how to listen to clients. It should be, “Tell me more,” not, “Let me tell you what we do,” he said. Aviva Fabricant, Vice President of Advisor Training at Prudential, believes the need for training may run deeper. “The transition from selling primarily proprietary, in-house products to having an open architecture where advisors can sell both internal and external products hasn't been translated to advisors, many of whom are still stock pickers.” Fabricant suggests that advisors ask themselves, “Where can I add value?” not “Where does my product fit?” Advisors need to focus on helping clients reach their goals and dreams, not on pushing products.



Improving Competitive Differentiation

Even though wealth management remains the fastest growing segment within the financial services industry, firm leaders now have to work harder to justify their numbers, and new initiatives are beginning to slow down. So most firms are finding that in times of stress like these, the winning strategy is to focus on the strength of their brand and invest in what have been their traditional keys to success.

Threshold Group is a case in point. A multi-family office created by the Russell family, its wealth management practice works closely with the research department of Russell Investments. “The Russell approach of style diversification and active managers can become attractive to investors in a down market,” said Bryan Bell, Chief Technology Officer at Threshold Group.

Family offices like Threshold Group serve as an example of one set of winners that has already emerged from the crisis: smaller wealth management firms. In order to acquire and retain high-net-worth clients, many smaller firms are directly promoting their strengths: independence, a more nimble business model, and their ability to provide advisors an ownership stake as well as the opportunity to re-locate to a less hectic environment than New York City.

Use Technology for Efficiencies

The value of technology in today’s market is its ability to bring firms increased efficiency and productivity. Training can’t boost productivity — that’s where technology has to come in. Campbell echoed the frustration of many attendees when he explained his situation at Amcore, a leading Midwestern bank. “We have 125 people who have to use four systems, he said. “I want one system. It drives me crazy.”

Having to access multiple systems and applications, the main technological impediment facing firms, hinders efficiency. Advisors lose productivity when they have to go back and forth from one application to another with legal pad in hand. Lincoln agreed that with multiple applications, “our staff has to scramble and can’t immediately answer questions when they’re on the phone with a client, because they don’t have a 360-degree view.”

“Advisors need more time and energy,” Hirshman said. “The only way you get more time,” she continued, “is through efficiency.”

Bell cautioned that even though the perfect technology won’t fix a firm’s culture if it has business problems, he pointed out that technology has another valuable role to play beyond improving productivity. Technology can serve as the primary



method for tracking, and thus justifying, the management fees firms charge for their services. “When you get comments like, ‘Your fees are so big. What did you do for me?,’ you can run a report,” Bell said, “to show how much time you actually spent on a client’s projects.”

This Too Will Pass

Leaving advisors to struggle with client stress and uncertainty on their own is not a winning strategy for wealth management firms. Firms need to support their advisors, providing the training and resources they need to serve clients in this difficult marketplace.

Empowering advisors with tools to improve communication, client service and efficiency will go a long way toward client retention and the acquisition of new business. Another way to support advisors and improve client trust is to strengthen the firm’s brand, promoting an emphasis on values advisors now seek: independence and a nimble business model.

Campbell’s observation summed up the sentiments of the roundtable best: “No matter how tough the times, there are winners. Now is the time to hit the refresh button. Listen to and inspire your advisors and get customers back on board.”

Summary of Winning Strategies

Strategy	Key Executive Insights & Recommendations
Improve Client Communications & Service	<p>Clients don’t leave because of poor performance, they leave because of poor service.</p> <p>Recommendations: Focus on client service, communicate more proactively, relate to client goals, spend more time on client profiling and segmentation, and ensure there is no risk to clients’ must-haves.</p>
Support Advisors & Wealth Managers	<p>The average advisor is 50 years old, and he/she wants money for their retirement — sign-on bonuses, ownership, etc. At the same time, firms want to steal advisors. So, this is creating a huge bidding war to retain managers and many are shifting from large to small shops to get their golden parachutes.</p> <p>Recommendations: To retain advisors given the war for talent requires that wealth management executives do everything possible to increase advisor loyalty and help them retain their client base during this difficult time including arming advisors with a story, listening to advisors’ concerns and helping build up</p>



	their confidence, and helping advisors provide independent advice versus pushing products.
Improving Competitive Differentiation	<p>Due to increased competition, it is critical to differentiate your firm and your services to both clients and advisors.</p> <p>Recommendations: Promote independent advice and what you are good at to clients.</p>
Use Technology to Increase Efficiency	<p>Technology is the only way to increase efficiency and give advisors more time with clients.</p> <p>Recommendations: Invest in a single, integrated front-office advisor system, provide 360-degree client views, and the ability to run reports of all client activities to help justify fees.</p>

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