Protecting Your Most Valuable Assets

July 19, 2016

by Teresa Riccobuono

Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.

For many advisors, their practice is their largest asset. As with most assets, it is essential to protect your practice.

In addition to E&O insurance, here are the actions you should take to protect this valuable asset.

Protecting yourself from HR issues

There are many things that can take you off track when it comes to staff. If you employ team members, be sure you have taken all precautions. As one advisor discovered after it was too late, it is imperative to conduct regular staff reviews. Ongoing documentation can protect you down the road if the quality of work of a team member deteriorates.

If you don’t work with an HR or payroll company, be sure you are up to date on requirements for hiring, compensating (hourly versus salary, breaks, over-time and bonuses), evaluating, reprimanding and terminating employees. Since each state has its own rules, I won’t go into specifics here. Make sure you have the correct employment posters on display in your office. The Department of Labor provides up-to-date information at www.DOL.gov.

Protecting yourself from aging clients and clients with diminished capacity

Every week we hear about the challenges associated with the aging of our clients. Before one of your clients experience a decline in their mental faculties, discuss with them who should be participating in their meetings. If you already have their children as clients, that’s terrific. However, not every client wants their child to be their advocate when it comes to financial matters. They may want a trusted friend or a different family member to participate. Find out their wishes while they can make considered decisions. Since family dynamics change and friends move away or experience diminished capacity themselves, periodically review their selection of an advocate. Whomever they select, get them involved, even if in a small way, sooner rather than later. It is easier to get someone up-to-speed over time rather than trying to do so in a short amount of time. It’s even more challenging if the client is
already experiencing diminished capacity and can’t clearly express their wishes.

**Protecting yourself from clients, particularly unsophisticated clients**

Even clients who have been with you for a long time and appear to have a clear understanding of their investments are often unable to clearly articulate their investments.

An advisor once told me, “Teresa, you are speaking to advisors. We have to hear it at least 10 times before it sinks in.”

Keep this in mind when educating your clients about their investments. Just because it is clear to us, doesn’t mean it is at all clear to them. Simple yet concise documentation is imperative, even if you think a particular client understands the investment’s risk, surrender schedule and fees.

Whether or not your account set-up paperwork asks for it, have clients initial certain areas after you have fully explained the investment or terms. One advisor I know explained the surrender charge of an annuity and then asked the client to initial next to that section on the application, even though client initials were not required in that section. Years later, when the client took issue with the surrender schedule, the compliance department backed up the advisor because of the client’s initials.

I also know of several advisors who have clients sign a letter of decline when the client does not apply for recommended disability, life or long-term care insurance. They draft a new letter each year if the client continues to refuse to apply for the insurance. This can protect the advisor from both the client and heirs.

**Protecting yourself from disasters**

In September of 2015, I wrote an article on disaster preparedness for you, your team, your office and your practice, so I won’t repeat that advice here.

**Protecting yourself from centers of influence**

A large part of the value we provide our clients is referrals to other professionals. If you have developed strong, long-lasting strategic alliances, you are among the few. If you have a more casual referral relationship with other professionals, be sure you audit their quality of work periodically. As mentioned in my upcoming article on centers of influence and strategic alliances, it is challenging to find professionals to whom you are comfortable referring your clients.

Occasionally asking your clients for feedback and conducting a Google and/or Yelp search may be enough. If you want to go a step further, conduct a search on the state bar association’s site or the county realtor’s site for lawyers and realtors you work with or are considering.

**Protecting yourself from your succession plan**

If you are planning to transition your practice to a younger person, be aware that as many as 25% of
young people in the profession today will leave it for a different line of work.

I’ve heard more than one tale of woe from an advisor who thought his succession plan was buttoned up only to experience the loss of the person he expected to take over his practice.

Even if you have a family member set up as your succession plan, have a back-up plan. After all, you tell your clients to insure against the unexpected. Take your own advice.

Protecting myself

Here’s my disclaimer. This is not an exhaustive list of every possible scenario you might experience. The point of this article is to get you thinking about where you may have gaps in your protection plan and what work you need to do to bridge those gaps. Now that you are aware, make it a goal to put your protection plan in place by year’s end.

The information provided here is compiled from the experiences of many advisors.

As is always the case, if you have something to share on the subject, please reach out to me. The more information I gather, the more I can share with readers.

For the past 19 years, Teresa Riccobuono has been a professional organizer, business consultant and practice-management specialist to the financial services industry, helping advisors bridge the gap between their existing and their ideal financial planning practice. She lives in the San Francisco Bay Area but works with advisors across the country. She is a member of the board of directors of the East Bay Chapter of the Financial Planning Association and is currently the co-chair of the Public Relations committee. She can be reached at teresa@simplyorganized.com.