Becoming a Wealth Manager

Why Wealth Management?

Serving high-net-worth clients as a wealth manager is a multifaceted business model that is gaining traction among today's advisors and clients. Some of the many benefits include managing a greater share of clients' assets, deeper relationships, increased referrals, client retention and higher client satisfaction. With the assets of more than two-thirds of wealthy households currently controlled by people living in or near retirement, the need for more comprehensive financial planning is on the rise. Clients are looking for a one-stop-shop to address all of their needs relating to personal and business finances, as well as other areas such as real estate planning, legal advice and advanced tax planning for retirement and wealth transfer. According to the 2011 World Wealth Report, the United States is still home to the single largest high-net-worth segment in the world with 3.1 million individuals accounting for close to 29% of the global high-net-worth population. This group represents approximately $12.2 trillion in wealth. The need for comprehensive wealth management is apparent; whether or not the transition to this business model is worthwhile and sustainable for you is something for detailed consideration.

The Transition to Wealth Management

If you are considering whether to transform your existing practice, it is important to understand that converting to wealth management is not a simple task and it requires thorough research and extensive planning. Starting the transition process with realistic expectations is imperative and will increase your chances of developing a successful practice. A smooth conversion requires significant planning and hard decision making before, during and after you transform your practice. A few of the key steps to take when exploring the transition to wealth management are identifying the need that currently exists in your practice and your community, defining the scale of business that you are willing and able to successfully build, and deciding when you will initiate the transition.

Identify the wealth management need

Take a deep dive into your book of business to evaluate the number of high-net-worth clients you currently work with. These clients are vital to the success of your transition. They will serve as your greatest referral opportunity to other wealthy individuals in your community. Additionally, your careful evaluation and understanding of these clients will enable you to determine the needs of high-net-worth individuals as you develop your transition strategy and business plan.

If you don't already work with a significant number of high-net worth clients you will need to determine the scale of this population in your surrounding community. Is there enough wealth to support a conversion to a more expensive and time consuming business model? This is an important factor that can ultimately determine the success or failure of a practice. Focus on the growing demographic of retirees. Traditionally, high-net-worth households have been a rather small segment of our population, however as baby boomers move into retirement, the need for comprehensive planning is greater than ever before.

Affluence segments by investible assets (excluding 401k assets) [1]

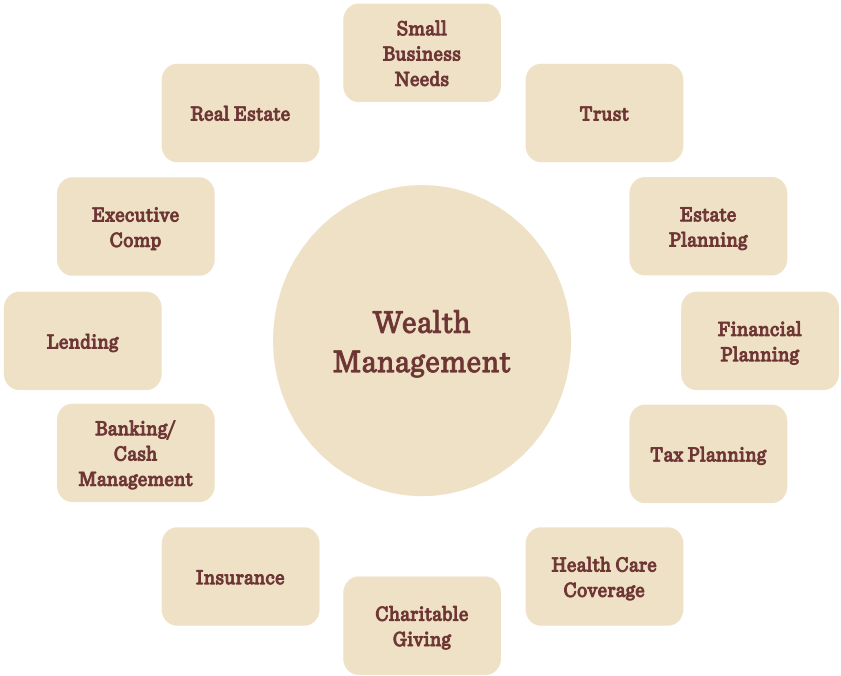
	Value	Total Households	Percent of Population	Percent of Total U.S. Wealth
Mass Affluent: Lower Mainstream	Less than $50,000	71 million	63.5%	3.3%
Upper Mainstream	$50,000 - $99,999	11 million	10.0%	3.8%
Emerging Affluent: Middle Market	$100,000 - $499,999	21 million	19.0%	22.4%
Emerging Market	$500,000 - $999,999	5 million	4.4%	16.4%
High-Net-Worth: Lower Affluent	$1 million - $2.5 million	2.5 million	2.2%	17.9%
Affluent Market	$2.5 million - $10 million	1 million	0.9%	20.6%
Ultra High-Net-Worth	$10 million and above	150,000	0.1%	15.6%

[1] Integrated Wealth Management: An Investment Professional's Guide, 2009

Decide how robust your model will be and prepare a plan

Unlike financial planning, which is based on a sole practitioner model, wealth management is a comprehensive approach that incorporates a team of experts to assist clients in many different specialized areas. Financial planning is the foundation of wealth management and will meet the needs of many investors throughout retirement, but high-net-worth clients need a comprehensive approach in order to view their entire financial picture. The depth and quality of client relationships in the wealth management model allow advisors to effectively see all aspects of a client's financial situation.

The comprehensive approach of a wealth management team may include the following specialties[2].



One of the main decisions you will face as you plan a transition to wealth management is whether to house specialties inside your practice, or establish partnerships with experts outside. This is where a well-defined business plan is critical. Making the move to wealth management can take several years and it's wise to create a road map with goals that become more ambitious as your practice develops. Starting out slow and expanding as you assess profitability and the needs of your client base may be prudent for the future viability of your practice. Establishing partnerships with outside specialists and limiting overhead is often a practical way to begin. However, this approach is not without its challenges. Outsourcing may provide greater efficiency, but service delivery must be monitored to ensure that client expectations are being met with the services provided. There are several ways to observe whether outsourced services are meeting your clients' needs. You can take part in interactions between clients and providers, solicit feedback from clients about their experience, choose to primarily work with specialists you know and trust and conduct formal reviews with the providers themselves.

[2] Integrated Wealth Management: An Investment Professional's Guide, 2009

If you are uncomfortable with outsourcing services, you will need to develop a comprehensive plan for your practice to evolve into an in-house model. It is unlikely that you will be able to assemble a large number of specialists in the beginning, when your profitability is being impacted by start-up costs and the transition of assets under management. When establishing your strategy, keep in mind that you can either bring on full partners, or create a business with a vertical hierarchy in which you act as CEO. A third option is to develop a practice with a mix of both outsourced and in-house specialists.

Once you determine whether you will outsource the services that are beyond your core strengths, assemble a team in-house, or develop a combined approach, you will need to decide how your team will be compensated. If specialists are external to your immediate team, clients will typically be billed directly for the services provided. You may want to establish a referral fee structure with a specialist, if regulatory and compliance codes allow. If your team is in-house, compensation may be in the form of a salary and/or a share in the profitability of the practice. It is important to review your compensation plan with appropriate counselors and compliance professionals prior to implementation.

There are also systems resources that must be in place for your office staff and for your clients. You and your staff will need a customer relationship management tool (CRM) to house important client information and in order to see their full financial picture. n addition, portfolio management software, reporting tools, analytical tools and risk tools are all essential to running an effective and compliant wealth management practice. Evaluate the technology your current firm supports if you plan to implement the transition of your practice there. Clients will expect to have full access to online statements and account information just as they do currently. This is a key component to include in your business plan and budget when developing your transition strategy.

Making the transition

Typically, only high-net-worth individuals are appropriate clients for a wealth management practice due to the significant time requirement involved in delivering complex tailored services. Each client will require more of your time and attention and therefore, your profitability will decrease if the ratio of assets-per-client does not increase. This opens two issues that will need to be addressed in your transition plan; what to do with your current clients who do not fit into the new model, and how to ensure that your target clients stick with you while you transition your practice. Studies show that on average, 62% of an advisor's book of business will follow them to a new practice, and almost half of all advisors will retain more than 75% of client assets[4]. This bodes well for advisors who have a solid book of high-net-worth households. For those who have a number of clients who do not require the capabilities of a wealth manager, transitioning those households to another financial advisor will likely be necessary in order to make your new model viable.

Richard Day Research discovered what they call critical success drivers that distinguish accomplished wealth managers from other advisory firms[3]. These include:

- The ability to leverage the resources of strategic partners and other providers of expert services;
- Carefully managing business growth to avoid disruption to existing client relationships and ensure that the infrastructure is in place to support new relationships and service expectations;
- Developing broad and deep relationships with all clients, managing as much of their financial life as possible; and
- Taking advantage of product and service developments to bring the very best to their clients.

When you decide the time is right to transition your business model to wealth management, it is critical that you have your long-term strategy clearly defined and you are ready to begin monitoring progress as your new endeavor grows.

[3] Independent Thinking on: The Wealth Management Imperative , 2004.
[4] Wealth Management Goes Independent: Few Clients Left Behind, Aite Group, 2009.

Measuring Success

Setting and monitoring key business metrics can help ensure that your practice is productive, profitable and competitive. It is important to understand why your business is growing or contracting in order to stay on track with your overall strategy. Following, are a few indicators that are important to monitor as they will impact your operating margin over time.

- *Asset growth factors* – know why your assets under management are growing. Are you bringing on new accounts, or are assets under management increasing due to market performance or increased client contributions?

- *Asset attrition factors* – clients may be leaving, but this can also be attributed to market performance or client distributions. Make sure that any closed accounts are not the result of client dissatisfaction with services provided by either an outsourced or an in-house partner.

- *Staff productivity* – carefully monitor the relationship between increased profitability and staff headcount growth.

- *Client productivity* – if your clients are primarily wealthy retirees, you may need to create a strategy to bring on new accounts as assets leave through distributions. It's a good idea to tackle legacy planning to minimize the loss of assets through wealth transfer. Also, ensure that your staff is focused on clients that are large revenue generators for your practice.

- *Average account size* – it's important to know whether bringing on new accounts is increasing or decreasing your average account size. Make sure that you compare new accounts to closed accounts as well, so you have a realistic view of what is happening with your book of business.

- *Performance* – routinely evaluate the performance of your clients' investments against the benchmarks you have chosen.

Another key indicator to closely monitor is client satisfaction. Make sure you take the time to diligently review how pleased your clients are with the services you provide them directly, as well as the additional services they are receiving through your team. Establish a baseline set of questions to ask your clients every one to two years, and analyze the combined feedback to know where you stand in order to make changes to your strategy as necessary. Having a satisfied client base will lead to deeper relationships, increased referrals and greater profitability.

Summary

Becoming a wealth manager is a complex endeavor involving significant time and meticulous planning, and the current environment may be suitable for making a transition of this nature. As wealthy baby boomers make their way toward retirement, there will be a greater need for comprehensive financial planning. Particularly following periods of market volatility, many investors are dissatisfied with their investment results, and recognize the need to have their financial affairs holistically evaluated and monitored by a fully integrated team.

Before you make the decision to move into wealth management, take the time to fully understand the needs of high-net-worth clients, and decide whether you are willing to work with a team while sharing clients and revenue with other specialists. With an understanding of the long-term challenge ahead, and a willingness to succeed, you will be able to achieve your goal of developing a flourishing wealth management practice.