



Building The Ideal Investment Department

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dynamicDIRECTIONS®
Building a Better Life and Practice for Financial Advisors

Do more for your clients



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The financial industry is a vast landscape of financial advisors and financial services companies doing a little for a lot of people. This “mass services” approach has driven down industry pricing. This is basic supply and demand; if there is an abundance of average product supply, prices decline. Can you give your best to all of your clients at all times? This is virtually impossible. Building solutions to deliver what clients need and effectively focusing your efforts can help make you stand out in the industry.

Most financial advisors have too many investment positions in their book of business. A wholesaler will visit with a great idea. You implement it with clients for a few weeks as you see them. Another wholesaler gives you another good idea; you implement that over the following weeks. You learn of some new things at a conference, then call some clients to get them involved. Over time you can build a mess on your hands! It is not effective or efficient to keep up with an overwhelming amount of investment positions.

THE BIGGEST OPPORTUNITY EVERY FINANCIAL ADVISOR HAS IS DOING MORE FOR THEIR BEST CLIENTS

Consider the Marriott Corporation and how they have built different brands to suit different customers. The Fairfield Inn is a basic value chain that includes

a free breakfast. The namesake Marriott brand has more amenities which often include a restaurant on site. The highest level experience is the Ritz Carlton with the most amenities offered in the hotel industry. Most financial advisors give all of their clients the “Marriott”, or middle level experience. Smaller clients get too much and the largest clients do not get enough. Are you giving all of your clients the middle experience? Can you be doing more for your top clients?

To be an ordinary financial advisor and blend in with the rest of the industry, it is easy to offer ordinary products with ordinary pricing. Mutual Funds and centrally managed portfolios with an average advisory fee pricing near 1% will do just that. Ordinary services like this are adequate for smaller and sometimes medium clients (depending on the capacity of the advisor and their team).

To be EXTRAordinary and differentiate yourself from the pack, consider delivering different things for your best clients. People who own more assets are more aware of different products. Individual securities are better suited for clients with more assets. Exchange traded funds (ETFs) deliver lower internal expenses and the trading abilities of individual stocks, like stop loss orders and protective put options to protect against downturns or covered call options to generate extra revenue. These strategies can also be implemented on individual stock portfolios.



An average financial advisor would say “these strategies take too much time and are too hard to implement.” If they have too many investment positions and are giving everyone the same thing, they are correct! Top financial advisors focus on implementing advanced strategies for their top Ritz Carlton-level clients and limiting what they do for their smaller clients. This allow them to appropriately focus their time and their team’s time where it should be – on the best clients.

Outsourcing money management to centrally managed accounts for middle and smaller clients is a great solution that can save a significant amount of time for a financial advisor and their practice. It will force them to spend time on the advanced strategies for top clients. When outsourcing to centrally managed accounts, clients are aligned to a portfolio and its strategy. What if you built the same concepts for managing your top clients’ accounts? Many practices can efficiently have 2-3 portfolios that they align top clients with. This significantly reduces the amount of investment positions in a practice. Financial advisors will struggle managing hundreds of individual accounts and portfolios, but will thrive when running only 2-3. They can easily

track every position in the portfolio and the ideal allocation.

Delivering enhanced value can equal an enhanced price. You can easily charge for doing more for your best clients! This is how top advisors in the industry are able to charge 1.5% to 2% for their asset management services. Often the cost savings of using more ETFs in a portfolio, compared to all mutual funds, can deliver a 1-2% difference (especially when considering mutual fund trading costs, which is one of their biggest expenses that many advisors are not aware of – see www.personalfund.com for more information). The enhanced value of offering more downside protection and/or extra income will be the biggest difference in value for clients. Delivering more for clients at the same or lower overall expenses is a no brainer.

Building your product segmentation and pricing will be important for you to implement a consistent approach with all your clients and prospects. It will take away any guessing or trying to compete on price (which never works in the long run). Decide what you will deliver at each account level and what the pricing will be. Here is an example:

<u>Account Size</u>	<u>Product</u>	<u>Pricing</u>
Under \$50,000	Asset Allocation Mutual Funds in Brokerage	
\$50,000 - \$249,999	Centrally Managed Mutual Fund Portfolios	2%
\$250,000 - \$499,999	Centrally Managed ETF Portfolios	1.75%
\$500,000 - \$999,999	Wrap Account with ETFs	1.75%
\$1,000,000 - \$4,999,999	Wrap Account with ETFs + advanced strategies	1.5%
\$5,000,000 and above	Wrap Account with ETFs + advanced strategies	1%

To align clients to new strategies, it is important to let them know what they currently have is just fine. It got them here and it will continue to serve them well. Let them know you have something new they might prefer. "Pull back the curtain" on all of their expenses. Educate them on their true mutual fund expenses plus your management fees and any additional financial planning fees (interpret them as a percentage of their assets). Add up all of these expenses as their total Current Expenses. Highlight what their new expenses will look like and all the additional value you will be able to provide. Total all of the new "Proposed Expenses" and help them focus on the overall savings. Let them know your new approach will look different and feel different (they will see more of the fees and they will not be as hidden in mutual funds), but they will get more for the same or a reduced price.

If you use stop loss orders, set them up on the same securities at the same price for all of the clients that have them. It will be very easy to track and there will not be situations where some clients got "stopped out" and others did not. Many advisors will reset these every 3 months (quarterly) at 10% below equities and 3% below fixed income. If you implement protective puts,

you can purchase them 10% below the current price for a period of up to one year (or until the end of the year). For covered calls, advisors will typically sell them close to the current price to generate the maximum amount of income. You can do this quarterly, every 6 months or annually. The most important part of ongoing management is being prepared for the two things that will happen with these advanced strategies: they get executed or simply expire. If they expire, you can do the same thing over again! If clients have a stop loss order or option executed, build a plan for what you will do. Some examples are to buy back the security and write another covered call, move the cash to a safe alternative until a better time arises to purchase the security again or a similar one, etc. Some financial advisors will have an alternative to each of their individual securities to help avoid any wash sale tax rules.

Every six months reserve time to evaluate your portfolios and make any necessary changes. At Dynamic Directions, an elite coaching and consulting firm for top financial advisors, there is an investment webinar every six months to help financial advisors with their portfolios and investment selection for their practice and their clients. Call now to join our next webinar!



Jon Randall, CMC™ Transformation Guide

Jon is a Certified Master Coach™ and works with some of the top financial professionals in the industry. He is a national presenter at financial service industry conventions and workshops around the country. Financial advisors coached by Jon consistently grow at a significantly higher rate than the average advisor.

Reach out to Jon at Jon@dynamicdirections-d2.com to schedule a complimentary consultation.

