



Planning Perspectives 2nd Quarter 2014 Commentary

Integrity in Investing: Selecting the Right Advisor

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“Successful wealth strategies compensate for human tendency of overconfidence by planning policies that maximize discipline and minimize error.”

This is third in a series exploring integrity for successful wealth management by informed investors.

Many individuals and investors recently have found themselves re-evaluating their investments and financial advisors. Investors sometimes find that many financial firms they once had trusted are either in turmoil, or in some cases, no longer in business. The inordinate number of bank failures, coupled with financial scandals within major banks and brokerage firms, has compounded the uncertainty. In addition, many of the banks and brokerages that did survive difficulties of the past decade were forced to merge with much larger national or global financial institutions, resulting in significant employee turnover, disrupting many long-standing personal relationships.

Many are satisfied with the guidance of their financial advisor. But some wonder if it's time for a change, or just want to make sure they are in the right place. Living through the most turbulent time since the Great Depression has left many investors second-guessing their investment approach—wondering if they may be better served elsewhere. A recent study indicated that nearly 80% of investors are considering changing advisors.ⁱ Even many previous do-it-yourself investors are considering hiring a financial advisor. People today realize the stakes for growing and protecting their wealth are higher than ever. The emergence and increasing popularity of independent financial advisors like Professional Financial are at the vanguard of alternatives to traditional advisory approaches for the complex financial planning and wealth management needs, values and goals of successful families today.

Highly successful families often ask themselves two simple questions: Do we have the right financial advisor? How do we decide which one is right for us? Many individuals and families turn to a financial advisor (or perhaps several financial advisors) in the hope of finding real assistance in achieving their values, goals and dreams. There are more than 460,000 financial advisors working today. Yet all too many discover all too late their advisors were either not qualified or did not have the resources needed to help with their all major concerns. You see, their concerns are about much more than managing investments—they are closely woven into families' important values and goals.

WHY IS CHOOSING THE RIGHT ADVISOR SO IMPORTANT?

Selecting the right financial advisor—and for a select few, the right wealth advisor—is among the most important decisions many highly successful families can make. While certainly not as important as picking the right spouse, selecting the right profession, or doing the right things to help your children grow up to be good citizens, the right choice can result in substantially greater financial success and peace-of-mind, allowing you to focus more time and energy on the things more important to you. In contrast, a poor decision can result in bad financial outcomes, unnecessary or excessive costs, added complexity and confusion, needless stress, and wasted resources.

Many firms and their advisers compete to manage your money. However, only a few firms are fully capable of truly assessing the needs of highly successful families and aligning their assets and decisions with their real values, goals and dreams. Doing it properly requires significant expertise as well as spending personal time to develop a far deeper client relationship than is necessary to merely pick stocks, time markets or select a few fund managers.

Selecting the right financial advisor or wealth advisor increases the likelihood of experiencing these three things:

1. Financial success (great results)
2. Simplicity and ease (great service)
3. Confidence and peace of mind (great experience)

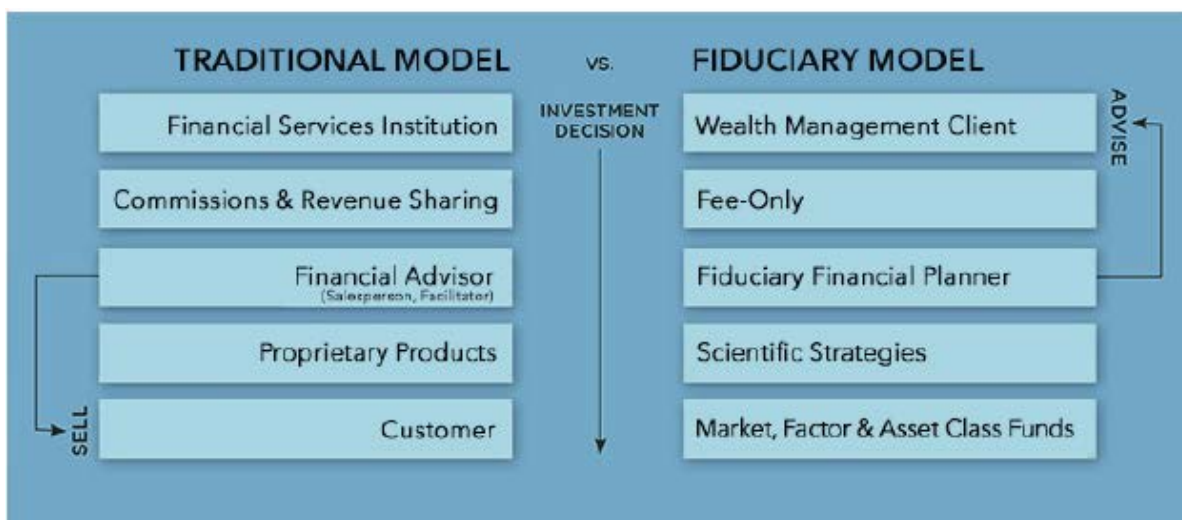
COMPENSATION MODELS CHANGE YOUR FINANCIAL ADVICE

Sorting through the panoply of financial services providers for financial advice is no easy task.ⁱⁱ There are several different provider types, each with different legal regulations and nuances. Broadly, they fall into three primary categories: banks, brokerages, and registered investment advisors.ⁱⁱⁱ In practice, things are much more complicated

since many providers use hybrid arrangements. For example, banks with trust companies frequently employ brokers to service accounts below a certain threshold, and brokerage firms are often owned by banks. Adding to public confusion, a dually-registered investment adviser could earn both commissions (as a broker) and fees (as a registered investment adviser). While bank trust companies technically avoid sales commissions, fees are often supplemented by obtuse revenue-sharing schemes. Understanding how your financial advisor or wealth manager is compensated is critically important to know for anyone investing. The compensation method an advisor uses can provide you with invaluable clues and insights of inherent conflicts of interest that impact what advice you get.

Investors need to be completely confident that their financial advisor is focused on helping them achieve their critical goals without doubts due to conflicts of interest. A national survey of affluent investors recounted a cynical, but all-too familiar dissatisfaction when asked, “What do you like least about your financial advisor?”: “They are only interested in making money for themselves. They are not concerned with their client’s well-being, i.e., capital preservation with reasonable earning appreciation.” (Q2 2010 ByAllAccounts Survey of High Net Worth Investors.)

For successful investors that must make well-informed financial decisions for planning their major concerns, the figure below illustrates how fundamentally investment decisions can differ depending on whether “wealth management” advice comes those working within the old traditional selling model or from those within the new fiduciary advise model which are redefining independent registered investment advisors like Professional Financial.



Putting client needs at the top, rather than at the bottom, of the decision ladder fundamentally changes the financial services a client receives. Rather than let the client hope that a broker or trust officer working for and paid by a big company will sell them the right product, the financial planner in the fiduciary model works for, and is paid by, the client. In the old model, commissions were incentives for one-time transactions. Revenue-sharing schemes replacing direct commissions are like a new chassis on an old frame. There is no place for these in the new model. Like Apple iPhones or Tesla electric motor cars, investors are discovering a real difference that truly benefits them.

The promise of fiduciary planners is that they are truly able to focus on helping investors meet their long-term goals without conflicts of interest due to obligations with a big financial services firm—or even a small one. That’s the promise that fiduciary planners can deliver—they have a legal duty to place their client’s interests before their own.

What if the best advice for a particular client means trading very little, and to buy and hold a diversified portfolio? **In this case, the commissioned salesperson cannot earn a living if that is the best advice.** Their entire livelihood depends on finding reasons for perpetual merry-go-round of stock trading or mutual fund exchanges. Furthermore, with varying commission levels for financial products undisclosed or hidden, most salespeople face compromising conflicts of interest. It is nearly impossible for an advisor to serve as a trustworthy fiduciary if they are rewarded to recommend some financial products over others. This creates misalignment of your goals with your broker’s. The obvious and most frequent conflict is that salespeople are paid up front, and rarely penalized for poor advice.

The new model calls for advisors simply to receive a fee for advice—disclosed to the client. Advisor interests are more closely aligned with client interests. Trading or exchanges generate no fees for the advisor. The advisor gets no revenue from the investments recommended. Fees may be determined based on the project or as percentage of assets. To have a well-rewarded relationship, it must be long-term, so fiduciary planners have very strong

incentives to give their very best advice. Fiduciary planners focus their time on the client. To maximize value, they assist clients in an integrated, systematic approach to their entire financial circumstance, not only investments. True wealth management is an holistic process that views clients as people—their values, goals and dreams—and addresses human capital and non-investment concerns, such as tax planning and estate transfer.

While research into capital markets has identified factors that explain most differences in expected returns, a big wild card for investor outcomes is discipline. Investors do not effectively capture market returns if they abandon previous wise advice in reaction to negative news events or future forecasts. Fiduciary planners help clients experience positive outcomes by educating them about investing principles and empirical evidence. The science of capital markets is what clients must learn to maintain confidence and discipline necessary during uncertain times.

KEY STEPS IN FINANCIAL ADVISOR SELECTION

Due diligence is essential to successfully selecting the right advisor to serve as your family’s personal CFO. Before interviewing any prospective financial advisors, preliminary screening is needed to avoid an overwhelming group of choices. Knowing what really matters for choosing the right financial advisor will save money and avoid mistakes.

The first step in shifting the wheat from the chaff is to identify which “financial advisors” provide financial advice within a Fiduciary Model. Knowing whether an advisor is a fiduciary identifies those who are likely to be client-focused from those who are company-focused. Fiduciary standard of care is one of the least understood and yet perhaps the single most defining difference among a highly crowded field of those who choose to call themselves “financial advisors.” A fiduciary is a person or company that stands in a special relationship of trust, confidence or responsibility to others. By regulation and statute, registered investment advisors are subject to a “fiduciary standard.” This means they must operate in an objective, unbiased manner and always put clients’ interests first.



First, identify Registered Investment Advisors (RIA). This quickly eliminates any potential wealth advisors not willing to abide by a fiduciary standard of care. The SEC’s Office of Compliance Inspections and Examinations identifies five responsibilities of fiduciaries, summarized in the figure opposite. While fiduciary identification is a necessary first step for screening, it may not be sufficient. Bank trust departments follow a fiduciary standard. However, the bank fiduciary standard is somewhat less stringent—bank trust companies are allowed to accept revenue sharing arrangement from investment products and to utilize their own proprietary investment funds. This creates a clear conflict of interest between the trust company and its clients. A friend who once worked for a major bank’s trust company complained about the periodically changing array of investment products and funds his former employer offered that he needed to justify every year to the bank’s trust clients. Also, many registered investment advisors specialize as money managers, and focus exclusively on investment portfolios. While fiduciaries, these RIAs are *not* “client-focused.”

Step 2 identifies which RIAs are *independent*. Due to hybrid compensation models, brokers may be dually-registered as RIAs, whether employed by a bank, a local brokerage firm, or a national brokerage firm. While these brokers adopt the title “financial advisor” or even “wealth manager,” their compliance with fiduciary standards of care is highly selective. While limited fiduciary services may be offered, such advisors usually default to the much less stringent “suitability standard.” “Suitability” ensures only that an investment product is “suitable” for a particular client, *even if better options exist*. You can never be really sure when the RIA relationship has transmuted into a brokerage sales relationship. Brokerage customers should always adopt a “buyer beware” mindset to avoid being sold inappropriate financial products due to the undisclosed incentives of big selling commissions.^{iv} Dually registered persons are easily identified: their business cards or advertising *always* clearly are marked “FINRA”.^v

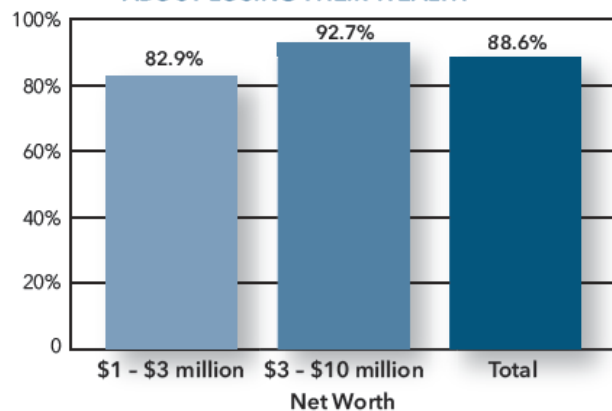
Most independent RIAs have group of strong affiliations that assist them in investment planning or advanced planning. These allow RIAs specializing in wealth management to help clients with highly complex financial

needs. Most independent RIAs manage assets using a third-party custodian—a bank trust company or a broker-dealer—separate from their own firm. Many leading RIAs prefer large well-regarded custodians with unblemished reputations like Charles Schwab, Fidelity or TD Ameritrade to confidently ensure that client assets are securely maintained.^{vi} The RIA may assist clients in account opening. Accounts established will be in your name, and the custodian directly will send you account statements that detail all transactions your advisor has made for you. You normally will pay the custodian for its services separately from what you pay your RIA manager. Beware of any advisor using unfamiliar trust companies or familiar big Wall Street firms. This avoids Madoff-like schemes.

Step 3 identifies a *competent* independent RIA. Your personal wealth advisor, or at least their supervising principals, should have evidence of professional integrity. The most reliable evidence to ask for prior to an initial interview is to select only Certified Financial Planners (CFP®) listed through the Financial Planning Association® (FPA®).^{vii} The CFP is a mark of commitment to a fiduciary financial planning process. To earn the prestigious CFP certification, individuals must complete a comprehensive program by a college or university program (ranging from certificate to doctoral degree levels) which covers a CFP Board-approved, personal financial planning curriculum, as well as having an accredited BA. They must successfully complete a comprehensive practice examination and have a least three years practice. Most important for clients, they ascribe to the CFP code of ethics that includes planning as a fiduciary and always acting in the client’s best interest, as in the “Five Fiduciary Commandments.”

In addition to a CFP® designation, the Certified Financial Planner or their supervising principals should have master’s degrees or advanced education and training directly related to financial planning, investment management, or wealth management. While greater education is no guarantee of better outcomes, the lack of extensive education and experience of the professional advisor or principals of the firm dramatically increases chances of a selection mistake. This CFP wealth advisor still must have more than just strong education and experience to work as a personal CFO. To earn your trust and complete confidence, you must believe the CFP should be *professionally committed to working for you* to help you achieve all that is truly important for you, and not only for a paycheck.

Exhibit 1: AFFLUENT VERY CONCERNED ABOUT LOSING THEIR WEALTH



N = 1,417 individuals.
Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, Wealth Management Press.

firm’s researchers looked at more than 1,400 individuals, each with at least \$500,000 in liquid assets and \$1 million in net worth. This study remains one of the most extensive studies ever done in this area. To this day, it offers an extremely useful framework for recognizing and planning major concerns of successful individuals and families.

The research found that, above all else, contrary to conventional wisdom, affluent individuals worry about losing their wealth. As *Exhibit 1* shows, **nine out of ten** (88.6%) surveyed individuals reported being concerned about this. What’s more, among those with a higher net worth (\$3 to \$10 million), 92.7 percent, expressed this worry—**10 percent higher**—compared to 82.9 percent of those with a lesser net worth. This makes sense given that higher-net-worth individuals have more wealth at risk and likely are older, and so less able to replace wealth with earnings. Despite their previous success in building

WHAT MATTERS MOST TO THE AFFLUENT

So what are affluent families most concerned about? To achieve your goals and before any financial advisor can help you plan, you must first understand what stands in your way. To make intelligent financial decisions, including a decision on the right elite wealth advisor, you must identify your family’s key financial challenges. For many, finances are somewhat jumbled, with competing priorities and overlapping concerns. By untangling your issues and viewing them comprehensively, you will be much better-positioned to address them in an integrated and systematic way.

To help you understand your key issues and set reasonable goals, we will review a landmark study that was conducted by Russ Alan Prince & Associates. Prince is a nationally recognized expert on the financial concerns of affluent and high net worth families. His

firm’s researchers looked at more than 1,400 individuals, each with at least \$500,000 in liquid assets and \$1 million in net worth. This study remains one of the most extensive studies ever done in this area. To this day, it offers an extremely useful framework for recognizing and planning major concerns of successful individuals and families.

Exhibit 2: CONCERNS ABOUT TAX MITIGATION

Tax Concern	Net Worth		
	\$1 - \$3 million	\$3 - \$10 million	Total
Mitigating income taxes	90.1%	77.3%	84.7%
Mitigating estate taxes	21.7%	81.3%	49.2%
Mitigating capital gains taxes	27.1%	58.5%	41.7%

N = 1,417 individuals.
Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, Wealth Management Press.

wealth, these individuals understand that they are not immune to potential financial setbacks, including significant ones. Therefore, we may conclude that preserving wealth should be a primary financial concern for most planning.

Exhibit 3: CONCERNS ABOUT OTHER FINANCIAL ISSUES

Issue	Net Worth		Total
	\$1- \$3 million	\$3 - \$10 million	
Ensuring that heirs are taken care of	66.9%	93.6%	79.2%
Having adequate medical insurance	78.1%	76.4%	77.3%
Having enough money in retirement	87.3%	53.0%	71.5%
Paying for children's or grandchildren's education	65.2%	28.6%	48.3%
Being sued	37.4%	58.8%	47.3%
Losing job or business	48.4%	30.5%	40.0%
Having high-quality personal security	17.8%	40.4%	28.2%
Taking care of parents	38.4%	16.1%	28.1%
Making meaningful gifts to charity	21.9%	34.8%	27.8%

N = 1,417 individuals.
Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, Wealth Management Press.

Prince's research further looked at attitudes toward taxes. Of the three major types of taxes (income, estate and capital gains) in *Exhibit 2*, perhaps unsurprisingly we see that affluent respondents were most interested in mitigating income taxes (84.7 percent). Minimizing estate taxes was second (49.2 percent), followed closely by mitigating capital gains taxes (41.7 percent). Note the substantial difference in concern regarding taxes between those with more net worth and those with less. While mitigating estate taxes was a concern for only 21.7 percent of those with a net worth of between \$1 million and \$3 million (likely because estate tax liabilities are modest), it was serious concern for 81.3 percent of those with a net worth of between \$3 million and \$10 million—that is **four times more!** Estate and income taxes may exceed 50 percent or more for those with large estates.

Prince's research explored a range of other financial issues that could concern the affluent. *Exhibit 3* shows that most individuals reported that taking care of heirs, having adequate health insurance and providing for financial security in older age were very important concerns. Noteworthy is that *almost 90 percent* of those with less than

\$3 million of net worth were concerned about having enough money in retirement. About half (48.3 percent) were concerned about paying for the education of their children or grandchildren, while almost the same ratio (47.3 percent) were worried about being sued. Four in ten saw losing their jobs or businesses as an important concern.

FIVE MAJOR WEALTH CONCERNS OF THE AFFLUENT

From Prince's research, we distill the planning concerns of highly successful families into five major categories. As you look over these five categories, chances are many of your major wealth concerns fit within this framework.

- 1. Wealth Preservation.** Planning for wealth preservation is twofold. The first part is simply not losing your accumulated wealth. Wealth preservation should be at the core of planning intelligent wealth management decisions. The second part is producing the optimum expected return counter-balanced with personal risk preferences for a confident retirement outcome that you cannot be expected to outlive.
- 2. Wealth Enhancement.** Tax planning strategy must mitigate negative tax impacts from investment activities, and to reduce tax on money earned or received from other sources—while preserving cash flow.
- 3. Wealth Transfer.** This means planning the most tax-efficient way to position and locate assets to take care of your spouse and give to succeeding generations in the ways most corresponding to your wishes.
- 4. Wealth Protection.** Planning here safeguards wealth against catastrophic loss, potential creditors, litigants and identity thieves. "Wealth" would include not just your financial assets, your home or prized possessions, but everything else that is important to you, including untimely loss of your loved ones.
- 5. Charitable Giving.** This encompasses all issues related to completion of charitable goals, such as planning to donate a portion of your accumulated wealth in the most impactful way to make the most difference.

As you probably notice, none of these five major wealth concern stands in isolation from the others. Wealth protection, for example, is often intermingled with wealth transfer needs. And charitable giving can often support retirement income goals. All this suggests that for making the smartest decisions about complex wealth concerns, an integrated and systematic approach that retains an elite wealth advisor as your personal CFO may be essential.

ARE YOU GETTING HELP WITH WHAT MATTERS MOST?

Now consider a typical financial advisor's approach to your finances. Is he or she systematically addressing everything that may be most important to you and your family? If not, it is likely that the financial advisor simply does not fully understand key issues and priorities of the affluent. Further research by Prince's group indicated that financial advisors frequently fail to understand their clients' major concerns accurately. For example, you'll recall

that nearly 90 percent of surveyed affluent individuals reported being very concerned about losing their wealth. However, when researchers asked financial advisors about what *they thought* were their client’s greatest concerns, most were widely off the mark. Exhibit 4 shows the great majority of financial advisors (84.6 percent) believed that fewer than 20 percent of their affluent clients were seriously concerned about losing their wealth. Only 15 percent—one in eight financial advisors—accurately understood their clients’ true level of concern about preserving their wealth.

According to Princes’ research, most financial advisors were similarly disconnected from their client concerns in tax issues. Exhibit 2 above showed affluent clients’ great concern about mitigating three major types of taxes. You will recall, interest in mitigating income taxes ranked highest, followed by estate taxes and then capital gains taxes. Yet when financial advisors were asked about what *they thought* were their clients’ attitudes about taxes, the study found that advisors are, by and large, ill-informed about what really mattered to their clients. Exhibit 5 summarizes Prince’s findings. While financial advisors generally grasp their clients’ concerns about income taxes, their perceptions about concerns both estate and capital gains taxes for affluent investors are not even close.

Exhibit 4: CONCERNS ABOUT LOSING WEALTH: FINANCIAL ADVISORS’ PERCEPTIONS



N = 512 financial advisors.
Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, Wealth Management Press.

Exhibit 5: CONCERNS ABOUT TAX MITIGATION: FINANCIAL ADVISORS’ PERCEPTIONS

Tax Concern	Percentage
Mitigating income taxes	77.9%
Mitigating estate taxes	8.2%
Mitigating capital gains taxes	77.9%

N = 512 financial advisors.
Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, Wealth Management Press.

a top concern for the individuals surveyed. However, as believed that this is a concern for their clients. How can any financial advisor effectively plan any client’s wealth without knowing what they really want? No wonder we find even basic beneficiary arrangements in accounts and insurance policies of new clients either incomplete or simply out-of-date. But when many financial advisors are essentially salespeople appearing to be advisors, selling products their companies skillfully market to be sold, should you be surprised?

Exhibit 6 identifies other significant perceptual gaps from Prince’s study in areas importantly related to wealth management: education planning, asset and personal protection, long-term-care planning, and charitable gifting. Each of these areas represents missed opportunities for the financial advisors to help their clients plan major financial concerns. Clearly, financial advisors cannot begin to attend to their clients’ most important financial challenges if they do not even understand what their major concerns are likely to be. Sadly, not a few financial advisors provide help in these critical tasks until it’s too late. Most of these so-called “financial advisors” are

This problem is particularly acute with estate taxes. While 81.3 percent of the individuals with a net worth of between \$3 million and \$10 million reported a concern about mitigating these taxes, only 8.2 percent of financial advisors surveyed perceived this as a real concern for clients at all. Astute estate planning is a crucial concern for many families to achieve their goals in the areas of wealth transfer and charitable giving, making this finding particularly egregious. Serious disconnects extend even farther into the entire range of common financial concerns. As you saw in Exhibit 3, taking care of heirs was as Exhibit 6 shows, just 40.8 percent of financial advisors

Exhibit 6: OTHER CONCERNS: FINANCIAL ADVISORS’ PERCEPTIONS

Issue	Percentage
Ensuring that heirs are taken care of	40.8%
Having adequate medical insurance	79.3%
Having enough money in retirement	52.1%
Paying for children’s or grandchildren’s education	28.5%
Being sued	9.4%
Losing job or business	8.4%
Having high-quality personal security	2.5%
Taking care of parents	2.5%
Making meaningful gifts to charity	1.8%

N = 512 financial advisors.
Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, Wealth Management Press.

simply function as investment facilitators, selling whatever products their company promotes. They are trained to fixate on technical aspects of investing that help them sell, speculating on “profit opportunities” or picking stocks or timing markets or a selecting among fund managers based on their company’s “research.” Perversely, much academic research suggests that all that investment activity actually adds no value for clients.^{viii}

If your financial advisor does not, or cannot, address the major concerns of affluent families, then you should consider working with a wealth advisor who does. Systematically addressing each area of major concern requires a complete picture of your financial circumstances. That necessitates a comprehensive approach. The fiduciary financial planning model used by CFP professionals is at the core of the wealth management consultative process.

THE WEALTH MANAGEMENT FORMULA

Many financial advisors and their firms claim to offer “wealth management.” However, all too often the real focus for most is facilitating the sale of investment products, often those of their own company, maybe supplemented by some insurance products. Lacking a fiduciary financial planning process, most financial advisors never even recognize many of the major concerns not related directly to investing that highly successful families have.

The wealth management consultative process is a systematic and integrated process that brings clarity, focus and simplicity to frequently complicated financial circumstances of highly affluent families. For them, “wealth” extends far beyond financial matters and includes human, intellectual and social factors incorporating their deepest values. To understand whether you are getting help with what matters most, consider this formula used by some elite wealth advisors to explain how the integrated wealth management model may work:

WEALTH MANAGEMENT = INVESTMENT PLANNING + ADVANCED PLANNING + RELATIONSHIP MANAGEMENT

The foundation for wealth management is **investment planning**—the wise management of investments over time to help a family achieve its goals and objectives. It is through investment planning that wealth managers address the fundamental financial concern that affluent families have for wealth preservation. Closely related to that goal is ensuring that wealth is well-managed to sufficiently maintain their lifestyle throughout their lifecycle.

Wise investment planning demands financial advisors deeply understand each client’s special concerns and to then structure scientific strategies that counterbalance clients’ time horizons and risk preferences with their long-term income needs. Wealth advisors must reassess not only their clients’ assets regularly, but periodically other aspects surrounding their financial lives to trade-off preserving their capital while pursuing strategies for steady income.

However, the elite wealth advisor as a personal CFO must help their client successfully plan for all their concerns. The second element of wealth management, **advanced planning**, examines and manages multiple issues beyond investments that must be coordinated. Many of these issues interact closely with income tax planning and estate tax planning. As we explained earlier, these major concerns may be better viewed as four planning categories:

- **Wealth enhancement**—mitigating income taxes to improve returns
- **Wealth transfer**—making care of heirs in the right way
- **Wealth protection**—making sure assets are not unjustly taken or untimely lost
- **Charitable giving**—making a significant difference in the world

Research a few years back showed that as few as 6.6 percent financial advisors address advanced planning areas in an integrated approach.^{ix} CFPs currently represent about 15 percent of all financial advisors active in the United States. The proportion of CFPs working as “fee-only” fiduciaries under new rules is much smaller, perhaps half of that percent. However CFPs likely comprise the majority of financial advisors providing true wealth management.

Relationship management is the third element. To address the broad range of clients’ interconnected concerns, wealth managers build professional relationships within three groups. First and foremost are solid, trusted relationships with clients, to comprehend their issues fully and to serve as their personal CFO. Second, because no single financial advisor or their firm has a monopoly on professional expertise, wealth advisors must have a network of advanced planning professionals they can call in on a case-by-case basis to address specific client needs. Finally, wealth advisors must work effectively with their clients’ existing professional advisors, such as attorneys, accountants and high-end insurance specialists. This collaborative approach leverages professional advisors’ special knowledge of their clients’ unique financial circumstances to provide planning for integrated wealth management.

Our wealth management formula integrates key aspects of clients’ complete financial picture. But how does the formula become a process that efficiency serve clients over time? Wealth advisors share two commonalities:

1. They use a consultative process to build trusted relationships with their clients in order to identify and plan for addressing their important financial values and goals throughout the client's life-cycle.
2. They address clients' advanced planning needs by consulting with a network of professional advisors. Coordinated together, these two factors can positively impact the likelihood of a clients' success.

WEALTH MANAGERS USE A CONSULTATIVE PROCESS

A consultative process enables elite wealth advisors to uncover their clients' true financial needs, values and goals, to craft long-range wealth management plans to meet those needs, values and goals effectively, *and* to build ongoing client relationships that ensure that their planning services continue to work as client needs change over time.



The consultative process typically unfolds over a series of meetings:

- At the **Discovery Meeting**, the wealth advisor explores the individual's (or more typically, the couple's or family's) current financial circumstances, financial goals and any special situations or obstacles. In addition, the wealth manager will ask detailed questions about values, interests and important relationships to develop an in-depth profile of the most important financial planning aspects of the family.
- At the **Investment Planning Meeting**, the wealth advisor, using the information he or she gathered at the Discovery Meeting and after (such as risk tolerance profiles), presents a complete diagnostic analysis of the family's current financial situation and a plan for achieving wealth preservation and retirement goals.
- At the **Mutual Commitment Meeting**, assuming that the wealth advisor can truly add value to the family's financial planning, both wealth advisor and the client formally agree to work together. Questions and issues regarding plan implementation are addressed, and any necessary plan modifications are made.
- At the **Organizational Meeting**, the wealth advisor helps the client to organize new accounts and transfer paperwork, works through unresolved account transfer issues and miscellaneous corrections, and answers various client administrative questions. Client and custodian platform set-up issues are resolved.
- At **Regular Process Meetings**, which are typically held three or four times per year, the wealth advisor reports to the client on the progress toward achieving the family's goals and reviews any significant changes in family life that might call for an adjustment to investment planning or to advanced planning.

Importantly at the first Regular Process Meeting, the wealth advisor usually presents an advanced plan—a comprehensive blueprint for the family's complete advanced planning needs and issues. The plan is developed in coordination with the wealth advisor's professional network. At subsequent Regular Process Meetings, the client and the wealth advisor decide how to proceed on specific advanced planning elements and a time frame. In this way, over one or more annual cycles, all major aspects of the family's financial situation are completely managed.

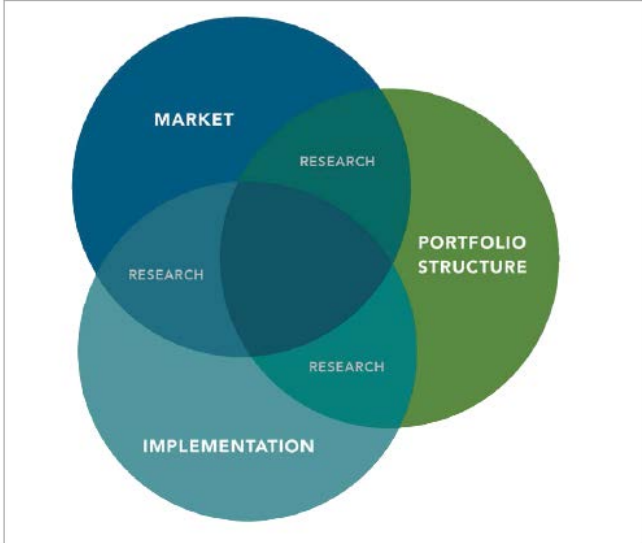
Just as no one person is a master of everything, no single wealth advisor has the knowledge and skills to address the entire range of advanced planning needs beyond their area of specialization. To provide their clients with the thorough knowledge and experience they need, elite wealth advisors work with professional networks selected for their particular expertise. Any professional network is composed around a minimum of three core individuals:

- A **private attorney** who is skilled in estate planning, wealth protection planning, succession planning and perhaps developing charitable giving programs
- An **accountant**, usually a CPA, who deals with matters of income tax preparation and planning.
- An **insurance specialist** who works closely with the other professionals to identify and structure solutions
- **Additional professionals** to address highly specific challenges as needed. These professionals might include credit specialists, corporate tax lawyers, actuaries, securities lawyers, and valuation specialists.

When appropriate and when the client chooses, the wealth advisor will work closely with the client's current professional advisors, such as their own attorneys and accountants. This help ensures that the perspectives of professionals who have unique insight or special knowledge of the client are included in any advanced planning.

A DIFFERENT PROCESS FOR INVESTMENT PLANNING

Our philosophy for wealth management, as well as for life, is simple: Without integrity, nothing works. We expect integrity from ourselves as CFPs, from our professional network, from our financial services providers, and even from our clients. For us, integrity is not simply a moral or ethical code: in a greater sense, it is a state or condition of being sound, whole and complete. Anything developed, constructed or maintained without integrity cannot work to its true capacity. A bicycle without all the spokes for its wheels cannot be ridden without a breakdown. The wealth management consultative process must have integrity at its very core to work efficiently and effectively.



While most financial advisors focus most of their time and attention on investment performance, a returns fixation creates hidden risks for wealth preservation concerns. Too often, fear and greed—rather than evidence—can drive investor decisions. Due to over-confidence, investors fail to learn how markets work, to understand return and risk are related, and how diversification can be their friend. The costly mistakes from bad decisions due to lack of knowledge and integrity are a fresh memory for many.

To build a trusted relationship, the wealth advisor must help clients make smart decisions. Speculating about the future is not a smart decision. The future is uncertain. While many financial advisors keep trying, no one can predict returns for stocks, markets, managers or the economy reliably. Therefore the wealth advisor with integrity must help client make different decisions regarding their investment planning. The redefined

fiduciary model employed by Professional Financial has the integrity investors need most: it is a model based not on speculation but on the science of capital markets. Decades of financial research in markets and an enormous body of empirical evidence guide our way in helping clients use a fiduciary model make informed financial decisions to realize better outcomes compared to traditional models of financial advice. We implement multifactor structured investing solutions within a wealth management model that integrates three financial planning requirements:

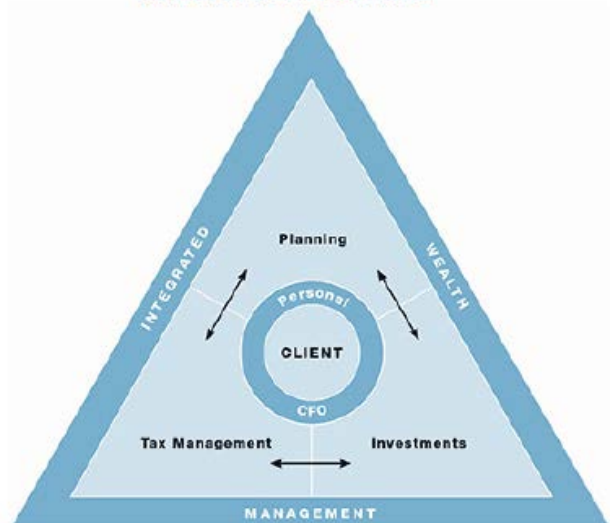
Evidence-based: Our investment philosophy and principles are grounded in academic research. Market efficiency means that markets are drawn to a long-run state of equilibrium where risk and expected return are related. Research implies that the structure of persistent and pervasive dimensions of the capital markets determine performance. Asset allocation is used to structure asset class factor portfolios in arrangements that target higher or lower expected returns based on client risk preferences, targeting outcomes likely to achieve client-defined goals.

Low-cost: Since excessive costs reduce investment returns, wealth advisors should implement using institutional-type vehicles with very low operating costs, minimizing market frictions. Our low-cost approach to trading and investing without sales charges takes special advantage of vehicles that have restricted investor access.

Tax-efficient: The gross return an investor makes before tax is not the same as the net return he keeps after tax. Active tax-management is imbedded both into the core of investment portfolios and into our investment planning. This ensures no more tax is paid than necessary, or paid sooner than is necessary. Savings are enhanced and cash flows improved, allowing reduced risk for planning.

Our dynamic investment management process further relies on broad diversification to equities of different types and styles, various bond maturities and types, and global allocations using domestic, international developed and emerging market asset classes.

Exhibit 7: INTEGRATED WEALTH MANAGEMENT MODEL





CONCLUSION: THE RIGHT SELECTION DEPENDS ON INTEGRITY

An elite wealth advisor is a fiduciary professional who has the integrity clients can trust to help them make the most informed decisions about planning for their major concerns. But clients also need integrity; they must be participants, not bystanders. Clients must be committed to the wealth management process. The client must not only choose a fiduciary financial planner that uses a wealth management consultative process, they must also learn the principles of investing and how to properly evaluate outcomes. The wealth manager can only advise and guide. It is the client’s decision whether to stay disciplined, and stick with their plan and their regular process meetings

Wealth management clients, like most people, are concerned about getting from Point A to their goal at Point B. Investing is long-term; speculation is short-term. Wisdom tells us that in moving from Point A to Point B, long-term outcomes are the only ones that really matter. The problem is that short-term news promoted by the financial media distracting noise that challenges discipline. Money from individual investors floods in after good market or fund news—and then drains out faster on bad news. Bad luck along the way adds to the general confusion.

Few individuals or investors are well informed enough, or disciplined enough, to understand their values and goals sufficiently, and know enough to devise a plan they review consistently without making a costly mistake. The right financial advisor—preferably a CFP wealth advisor with the right education and experience—has the integrity to get you from A to B because he or she has helped many successful families do it many times before over the years.

Peace of mind comes naturally from making informed decisions and focusing on what you can control — building a diverse portfolio matching one’s risk preference, current life circumstances and long-term wealth goals; being mindful of costs and taxes and rebalancing portfolios to capture risks. The Professional Financial wealth management process teaches what matters, and develops confidence in planning from management you can trust.

ⁱ Russ Alan Prince and Lewis Schiff, *The Middle-Class Millionaire* (Bound Galley) 2008.
ⁱⁱ No distinctions will be made here between money managers, investment managers, hedge fund managers or financial consultants or just plain old “account executives” that all fall under the old traditional advisory model and make no pretensions to be wealth managers.
ⁱⁱⁱ Insurance companies, which are state regulated, could be added to the breakdown, but invariably they have brokerage affiliations.
^{iv} If you own, or were ever recommended to purchase a variable annuity or similar insurance policy, without any discussion of costs or alternative products, almost invariably the advice was made due to the very high commissions creating an enormous conflict of interest.
^v Resources include: www.wadviserinfo.gov for RIAs and www.finra.org for securities brokers and www.investor.gov by the SEC.
^{vi} See RiA Stands for You website, www.riastandsforyou.com sponsored by Charles Schwab, to understand the benefits of RIAs.
^{vii} The Financial Planning Association is at: www.FPANET.org and see www.plannersearch.org. See also, www.CFPBoard.org.
^{viii} Daniel B. Bergstresser, John M. R. Chalmers and Peter Tufano, “Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry” (January 2006). Available at SSRN: <http://ssrn.com/abstract=616981>. See *Planning Perspective* for 1Q2014 for more discussion.
^{ix} John J. Bowen, Jr., *Best Practices of Elite Advisors* (CEG Worldwide), 2007.