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It's Noisy Out There

How Families May Uncover the True Essence of a Wealth Advisor

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Unbiased, Open Architecture, Client First, Objective Advice, Conflict Free, Team Based - these are terms you often hear when speaking with a wealth advisor for the first time. These terms beg the question: If every wealth advisor is saying the same thing, how does one differentiate firms and make an informed decision?

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A frustration we often hear from families is that wealth management firms all sound the same. They all claim to be objective and have no conflicts, a client-centered approach and exceptional client service. This may not be surprising, given that the wealth management industry has developed the capability to identify the current needs of families and position itself accordingly. However, it can make the search for an advisor confusing, frustrating and challenging for families of significant wealth.

It also becomes challenging for firms who are trying to reach a specific audience. In a recent survey conducted by the Family Wealth Alliance[1], when wealth advisory firms were asked to name the three biggest challenges facing their firms, market differentiation was the top response.

No firm can be all things to all families. The sooner in the process firms and families realize this, the better off everyone will be. Some families may be primarily or solely interested in tactical wealth management services (i.e., investment products, estate and trust services, lending) and less interested in the strategic aspects of wealth management (i.e., family mission, vision and values). Other families may seek advisors with expertise in identifying and preserving all parts of the family balance sheet (social, intellectual, human and financial capital).

FINDING THE RIGHT FIRM

The question for families should not be who is the "best" firm, but rather who is the "right" firm that can best serve their unique needs. The challenge is that identifying the "right" firm requires families to know prospective firms intimately without the benefit of having

[1] *Report on the 9th Annual Multifamily Office Study 2012. The Family Wealth Alliance, LLC., Thomas R. Livergood, CEO (Publisher)*

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any experience as a client. This is the paradox that a due diligence process is intended to partially overcome. However, due diligence primarily relies on information provided by the firm looking to be hired, who might position its capabilities to match anticipated client needs, which may or may not accurately reflect the firm's core values and expertise.

For families who want to get to the essence of a firm, some non-traditional due diligence approaches might be of help. These are intended to complement a traditional due diligence approach and uncover important aspects of a firm that might not otherwise come to light. (Examples of traditional due diligence are available from various firms and associations in the wealth management industry.)

"NON-TRADITIONAL" APPROACHES TO COMPLEMENT THE TYPICAL DUE DILIGENCE PROCESS

Review Team Development Initiatives

The primary asset of firms that serve wealthy families are the people who have chosen to dedicate their careers to enhancing their clients' lives. The level of stewardship provided by the firm to its most important asset – its people – may be a good indication of the potential of the firm to serve the family for generations. A glimpse into exactly how the firm approaches the development of its employees may give families an unfiltered sense of how a firm cares for and cultivates its most important asset. Questions to ask:

- Does your team meet regularly, with a focus on your collective and individual continuous improvement?
- If so, can you provide sample dates, agenda, materials and outcomes of these meetings?
- Can you share any testing and results you have done with team members?

Meet People from All Ranks

Many firms will place only their most senior and "polished" people in front of prospective client families. While this is a common practice, it is not the complete picture of the firm. Ask to see a full organizational chart and select a few junior employees to speak with. See if what you hear from the junior members is consistent with what you are hearing from the senior members of the team. Any significant differences in values, philosophy and structure should be a reason for further research. Questions to ask:

- Why did you come to work for this firm?
- How would you describe the firm's values and philosophy?
- What do you see as the biggest challenges for the firm?

Review Job Descriptions

One of the most revealing documents about the essence of a firm is how it positions itself to prospective employees. Generally, firms that create job descriptions (many of which can be found through a simple internet search) do not expect that these will be read by prospective clients, but these can reveal useful information into what a firm values in its employees. For example, if a family is hiring a firm based on the quality of advice it expects to receive, and a "Client Advisor" job description lists business development capabilities as its primary skill, the family may want to look into how well the role will support their needs. Look carefully at the language used in the job description as choice of words can be quite revealing. Questions to consider:

- Do the required skills match the stated philosophy of the firm as well as our family's needs?
- Are there clues to compensation structure or other details that might be good to know?

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Evaluate Quality of the Firm's Due Diligence on You

A thoughtful firm who truly puts the interests of its clients first will be selective about the clients it takes on. Each new client relationship will have a significant and enduring effect on the both the firm and its existing clients, so it is important that the firm takes client acceptance very seriously. Responsible firms get to know prospective clients well before agreeing to serve them. If the firm is not asking you – a prospective client - a number of thoughtful and probing questions, it might be an indication the firm is not discriminating in the clients it chooses to work with. Questions to consider:

- Has the firm turned down clients, and is it willing to discuss with you the reasons why?
- Does the firm ask thoughtful and probing questions about your family as a way to get to know you and evaluate if you will be a good fit for their firm?
- Is the firm willing to provide you with a list of other firms it knows and respects, and to offer to introduce you to them?

Review Compensation Structure

As compensation is intended to incent behavior, the compensation structure should reflect both the values and priorities of the firm and the needs of client families. Compensation can also be an effective tool to reduce employee turnover, one of the biggest frustrations of families working with wealth advisors. Questions to consider:

- Are team members compensated individually or as part of a team?

The numbers of accounts serviced by the firm or team can often be more telling than the number of clients.

- Is compensation geared toward capturing new business, or delivering exceptional service to current clients?
- Do any team members receive additional incentives or compensation for placing clients in certain products?
- Is compensation structured in a way to discourage turnover?

Evaluate Number of Clients

How many clients a firm serves is critical to getting a customized client experience. A firm that serves 400 clients versus 50 may provide a drastically different client experience, even with economies of scale. Number of team members can also be misleading, because a large team may have only one or two senior members. That means clients typically have less time with key team members. The numbers of accounts serviced by the firm or team can often be more telling than the number of clients. Questions to ask:

- How many families do you serve?
- How many separate accounts do you service?
- What is your ratio of senior team members (15+ years of experience) to clients and to accounts?

Research Type of Clients

Every firm will want you to believe that your characteristics and situation fit the sweet spot of families they serve. It is not enough to ask, "How many other families like me do you serve?" Other questions to ask:

- What is the lowest net worth of a client you serve?
- How many of your clients have net worth less than 50% of your stated net worth or liquid asset minimum?
- What would you do with a client that is below your minimum (i.e., refer to another provider, accept on an exception basis, turn them away)?

Look at Team Structure

Firms will generally emphasize a team-based approach. Some have "virtual" teams (which means they have access to regional or national experts), while others have dedicated teams to serve a finite number of clients. The dedicated teams often include only one area of professional expertise (i.e., investments) and have only one or two experienced senior team members with several junior or support professionals. If the team has non-investment professionals, they are often compensated on sales of their own product area (i.e., lending or planning), compensated at a much lower rate, or are salaried "support" staff. Questions to ask:

- What are the backgrounds and disciplines of senior and junior team members?
- Are investment professionals and non-investment professionals compensated the same, or are they compensated on their own product or service area?
- Are non-investment professionals part of the dedicated team, or are they "virtual" as part of a national or regional support group?

Schedule an Activity Out of the Office

As the firm's employees will be serving your family, it is important to see who they are as people outside of a professional environment. Families might consider inviting them to participate in a family hobby or activity. A hike in the wilderness or a day of sailing may reveal aspects about the team members that would not otherwise come through during the due diligence process. Questions to consider:

- Can team members spend quality time with families and not talk about business?
- Do they have diverse interests and passions outside of the office?
- How do they react in situations that may take them out of their comfort zones?

STRIVE TO MAKE THE RIGHT CHOICE FROM THE START

Once a family has developed a relationship with a wealth advisory firm, it can feel very uncomfortable to change (this is something that advisors count on). No one wants to call their advisor to terminate the relationship, particularly if there is a personal connection involved. It is easier to do nothing than to make a change to a new advisor, particularly when it is hard to quantify the difference between advisors.

It makes sense to perform non-traditional due diligence when searching for an advisor for a long-term relationship. A wealth advisory firm may actually have an "unbiased, open-architecture, team-based" approach, but unless you use non-traditional due diligence methods, you may not know until you have been a client for several years.

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TABLE 1 - SUMMARY OF "NON-TRADITIONAL" APPROACHES TO DUE DILIGENCE

APPROACH	CONTEXT	ACTION	POSITIVE INDICATIONS	REASONS FOR CAUTION
Review Team Development Initiatives	A firm's commitment to developing its team can be an important indicator of the quality of the client experience.	Ask for specifics on the firm's approach to team development, and discuss with firm.	A robust employee development program that is consistent with family values and needs.	Non-existent, dated or incomplete development initiatives.
Meet People from All Ranks	It is important for prospective client families to get to know the whole firm, not just the most senior members of the team.	Interview a full cross-section of employees.	Consistent messages that resonate with the stated philosophy and values of the family.	Lack of access to employees or differences in perspectives and philosophy between ranks.
Review Job Descriptions	Job descriptions are a good lens into the essence of a firm.	Request job descriptions and search independently (e.g. on the internet) for postings.	Thoughtfully crafted job descriptions that are consistent with roles as outlined and overall philosophy of firm.	Job descriptions or titles that are inconsistent with duties as presented to the family.
Evaluate Quality of The Firm's Due Diligence on You	The level and quality of due diligence a firm does on prospective clients is an important indicator of how disciplined it is in choosing clients that are not disruptive to the experience of current clients.	Track and evaluate how the firm is approaching due diligence on you.	Thoughtful and provoking questions that are intended to evaluate "fit" from the firm's perspective. A history of turning down clients that were determined not to be a good fit for the firm.	A firm that appears willing to take you on as a client without making an effort to learn about your family.
Review Compensation Structure	Compensation can provide transparency on the values of a firm and the behavior it is trying to incent.	Request a detailed outline of how team members are compensated. Consider verifying this in select cases.	A structure that is consistent with the stated values of the firm and family.	A structure that is significantly tied to product placement, sales or other activities that do not enhance the experience of current clients.
Evaluate Number of Clients	The number of clients a firm serves may have a significant effect on the client experience.	Request detail on the number of clients, accounts and ratios of senior team members to clients of the firm.	A thoughtful design to the number of clients and how it supports the business model.	A large number of clients with little clarification for how it supports the objectives of the firm.
Research Type of Client	Detail on the types of clients a firm serves will be a good indication if the firm is a good "fit" for you.	Request a breakdown of the types of client's served.	Client profiles that are consistent with stated criteria and your family's profile.	A large number of clients that fall outside stated criteria.
Look at Team Structure	How a team is structured will have an impact on your family's client experience.	Request specifics on how the team is structured (e.g. dedicated vs. non-dedicated resources).	A cohesive team where all disciplines have senior members that are dedicated to that team.	Evidence of resource constraints where expertise is centralized and not part of the core client team.
Schedule an Activity Out of the Office	Getting to know your advisors out of the office may provide insight into how effective they will be with your family.	Schedule a meeting outside of the office in a non-professional environment.	Good chemistry that is pervasive in a variety of settings.	A change in chemistry with the advisors out of a professional environment.

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