

## CHAPTER 1

# Turning a Concept into a Practice

When I wrote *The Wealth Management Index* in 1996, it was at a time when we were experiencing a bull market of epic proportions. As clients were making money hand over fist, we were trying to temper their enthusiasm with an approach to wealth management that would measure their personal success based on all the things that they had expressed as important to us—and many things which they had not considered. We were implementing a tool that consolidated all the various aspects of financial planning into a process by which the client could begin to understand the many components of their financial life on which decisions needed to be made.

Much has changed since 1996 and nothing has changed. We still need to help clients understand the importance of all areas of wealth management and they still often place too much importance or attention on asset management. The most important change for our firm is that we have a much bigger practice—more than 35 employees, around a billion dollars of managed assets, and an approach to building a business and delivering comprehensive wealth management in a way that has been true to our values.

My intention with this book is to open up our practice to you as a way for you to incorporate those things which you find beneficial and let go of those ideas that may not resonate with you. This is not a book on how to run a practice; my belief is that each wealth management practice has to discover its own unique role in the vast space of helping clients achieve their objectives. But regardless of what your business currently looks like, I know that you will benefit from me sharing the stops and starts that we have experienced in trying to do what is right for our clients and our business. We certainly

don't have all the answers, but I think we have some. The difference between building a wealth-management practice and a long car ride with young kids is that with a practice, you are never there yet. Circumstances change, staff changes, the clients change, the environment changes. The only guarantee is impermanence. Yet it is important to draw a line in the sand as to what your firm stands for and who you wish to serve.

A few years ago, I invited 20 practitioners from around the country to make a donation to the Foundation for Financial Planning and in return spend a day with us to meet our staff and go through all the aspects of how we do business. We labeled this program Be Our Guest, and since then other firms, in concert with the Foundation, have also done this. When we first chose to offer the glimpse into our firm, we discussed whether we should exclude firms from our community from participating. Was there a risk that our openness could be used against us in competition for clients? Only if we believed that there were a finite subset of clients and it was in the best interest of them to work only with us. That is not our belief. There are a number of great firms doing great work for a wide variety of clients. In fact, just subscribe to Bob Veres's newsletter, *Inside Information*, or regularly read *Financial Planning*, *Investment Advisor*, *FA*, or *Investment News* and you'll see how many different ways there are to succeed in this business. I know that our firm will continue to grow because our offering resonates with a certain subset of the client population. Certain prospects are better suited to our comprehensive practice than others. It is always in the prospect's best interest to work with a firm who can not only deliver sound advice, but do so in a way that reaches that prospect.

As I write this book is there a risk that firms may try to capture our intellectual property and become more like us? I could not think of a greater compliment. But what I really hope is that firms take some of our ideas and make them their own. And I hope that they improve upon some of the things that we are doing and continue to share them with others so that clients can be served in ways that improve the quality of their lives.<sup>1</sup>

## **The Format**

This book is both a practice management guide as well as a tool introducing, explaining, and implementing the Wealth Management Index (WMI). In the area dedicated to practice management, I will go through how we run our practice. I will be covering our technology, processes, communication, and client interaction. I will go through what we do when the prospect first walks

in the door to how we manage the client relationship over the course of our years together. I will also discuss how we try to engage our staff. Chapter 9 through the end of the book covers the index's distinct components. This will break down all the areas of the WMI and how we discuss each area in the client meetings. It will also include some of the tools that we developed or purchased to help in our analysis.

While I am writing this book, it is based on all the efforts put forth by my partners, our staff, meetings that I have attended, and my two key study groups—the Alpha Group and Group 2020. My coworkers will be the first to tell you that I am not a detail guy, so it may seem somewhat ironic that I developed a concept around detail. But it was really a way to protect me from my weaknesses and emphasize my strengths. Talking with the clients and understanding their motivations was more fulfilling for me than going step by step through tax returns and documents. The index made sure that I didn't miss anything when forced to do the necessary work that was less engaging for me. Each of us has areas that resonate with us and we would be far happier spending most of our time doing these things. But as we grow a business, we may find ourselves working doing the things that don't represent our callings, but are necessary to help our client's reach theirs. Even if you only use the index for its checklist component, you will be certain that you haven't missed some key area of your client's plan. And you won't be facing the unmitigated dread we have all felt at some time in the past when a client asks "why haven't we discussed this." Our practice has become large enough where I am spending the majority of time doing the things to which I can add the most value. I describe myself as someone who knows better what is happening 10 years from now than 10 minutes from now, and now I spend most of my time reading, writing, thinking, and working with clients. A dream job.

Fortunately, my partners are the opposite of me. This started with me creating the initial concept of the WMI, but Wil Heupel, my co-founding partner of Accredited Investors, Inc., making it possible to use this in our practice. From there, people within the company have taken the role to great lengths with an ardent fervor of how to communicate what we are doing in a way that clients can receive the information.

## **The Wealth Management Index Overview**

The index itself has changed from when I first wrote the book. We have modified categories and included new ones. The wealth management landscape is dynamic and it has been important for the index to keep up with

the changing environment. It has become more detailed than the first version, but not so detailed that it becomes an impediment to planning—where looking up and out is often more valuable than looking down.

Another discovery that we made was that many clients are not interested in a score; they are interested in the progress that they are making toward their objectives. This means that the scoring portion of the index has been changed within our practice to a progress component. We communicate to the client where we stand with the various areas as we are going through them. There is no set point when a client is done with planning, so progress is forever monitored. But I have heard from many of you that scoring was something that you valued about the index. For those of you who are interested in this, the scoring component still exists. There are more categories and more decision points than in the first version, yet not too many to make scoring impractical.

We use the index by creating main categories with subcategories underneath them. The subcategories are how we outline the goals for the client and report progress back to them through our agendas, meetings, and follow-up letters. Each subcategory has a number attached that flows through our WMI database.<sup>2</sup> The key advantage to this system versus the original WMI is that as new areas begin to develop, we can add them more easily. For example, long-term care insurance was a relatively nascent industry when I first wrote *The Wealth Management Index*. Today it is an area that we review with every client, regardless of whether or not we recommend the purchase of a policy.

For this chapter, I simply will lay out the index, without providing a detailed explanation as to its use. The fundamental premise of the index is a blend of the right and left brains. We need to combine the thinking and feeling aspects of the client in order to best serve them. Therefore, the index does not simply give technical solutions. In addition, it creates a framework for opening up discussions in the areas to be analyzed. But if you are the type who wants to know who wins the reality TV show without watching the episode, then by all means, jump to Chapter Nine and get right into the guts of the index.

## **The Wealth Management Index**

There are five key components to the index:

1. Asset Protection (Preservation)
2. Disability and Income Protection (Protection)
3. Debt Management (Leverage)
4. Investment Planning (Accumulation)
5. Estate Planning (Distribution)

Under each of these components there are a series of broad questions that are then addressed through their subcomponents.

**Asset Protection (Preservation)—25 Percent**

**Have you articulated a life insurance philosophy?—34 percent<sup>3</sup>**

- 111 Assess the living and liquidity needs of survivors and dependants—60 percent (5.1 percent)
- 112 Assess the possibilities of living benefits from existing insurance—10 percent (0.85 percent)
- 113 Analyze the strategy of maximizing pension income through life insurance—10 percent (0.85 percent)
- 114 Assess estate tax wealth-replacement needs and wishes—20 percent (1.7 percent)

**What are your concerns regarding risks of large losses from medical, long-term care, property/casualty, and personal or professional liability issues?—33 percent**

- 121 Review medical insurance including liability limits, co-pays, Medicare, and COBRA—20 percent (1.65 percent)
- 122 Understand feelings regarding long-term care and evaluate needs—20 percent (1.65 percent)
- 123 Determine amount of self-funding on property/casualty deductibles and limits—10 percent (0.825 percent)
- 124 Understand personal liability needs—10 percent (0.825 percent)
- 125 Review professional liability limits and appropriate tail insurance—20 percent (1.65 percent)
- 126 Review benefits and drawbacks of asset transference and retitling for long-term care or liability considerations—20 percent (1.65 percent)

**Have you defined and protected your business interests?—33 percent**

- 131 Evaluate business structure—10 percent (0.825 percent)
- 132 Determine business valuation and develop succession plan—30 percent (2.475 percent)
- 133 Establish/review buy/sell and business continuation agreements—20 percent (1.65 percent)
- 134 Determine needs due to disability—20 percent (1.65 percent)
- 135 Establish appropriate funding mechanisms for buy-out upon death—20 percent (1.65 percent)

## **Disability and Income Protection (Protection)—20 Percent**

### **What are the income and lifestyle needs and wants of your family currently and prospectively?—35 percent**

- 211 Review current cash flow and budget needs—30 percent (2.1 percent)
- 212 Determine the amount of income that you wish to replace if you were to become disabled—20 percent (1.4 percent)
- 213 Determine purpose and costs of one-time large expenditures including education, vacation homes, or assistance for family members—10 percent (0.7 percent)
- 214 Establish your financial independence goals and the price to be paid to achieve them—30 percent (2.1 percent)
- 215 Review your annual charitable giving objectives and how they should be funded—10 percent (0.7 percent)

### **Have you evaluated all current sources of income and potential changes to these sources?—25 percent**

- 221 Understand current and projected earned income for your family—20 percent (1 percent)
- 222 Review all pass-through income from S-corporations, Limited Liability Corporations, or Partnerships—20 percent (1 percent)
- 223 Review the cost/benefits of various pension pay-out options—15 percent (0.75 percent)
- 224 Analyze social security income options including those for children under 18—15 percent (0.75 percent)
- 225 Understand required minimum distributions from retirement—10 percent (0.5 percent)
- 226 Determine the amount of portfolio withdrawals to fund expected three-year cash-flow shortages—10 percent (0.5 percent)
- 227 Objectively consider any expected gifts or inheritances—10 percent (0.5 percent)

### **Are you fully utilizing all benefits available to you?—15 percent**

- 231 Review participation in pre-tax reimbursement and cafeteria plans—25 percent (0.75 percent)
- 232 Determine levels of participation and type of company retirement plans (qualified and non-qualified)—25 percent (0.75 percent)

- 233 Review all available stock purchase and stock option plans including any necessary filings—25 percent (0.75 percent)
- 234 Evaluate whether any forms of IRA contributions, rollovers, or supplemental retirement plans on self-employment income are appropriate—25 percent (0.75 percent)

**Are you proactively engaged in tax planning for you and your dependants?—25 percent**

- 241 Determine appropriate levels of withholding and estimated tax payments—15 percent (0.75 percent)
- 242 Determine whether tax-loss harvesting is possible and appropriate—15 percent (0.75 percent)
- 243 Review gifting opportunities and strategies—20 percent (1 percent)
- 244 Determine whether to accelerate or defer income and/or deductions for tax bracket or AMT reasons—30 percent (1.5 percent)
- 245 Evaluate the recharacterization or conversions of IRAs to/from Roth IRAs—20 percent (1 percent)

**Debt Management (Leverage)—10 Percent**

**Have you established your philosophy regarding using savings or credit?—30 percent**

- 311 Determine desired level of emergency fund and credit lines—35 percent (1.05 percent)
- 312 Evaluate appropriate credit cards for limits and benefits—25 percent (0.75 percent)
- 313 Develop a strategy for when you wish to be debt-free—40 percent (1.2 percent)

**Is your type of debt appropriate given your wealth-management objectives?—70 percent**

- 331 Review the best financing terms on all properties considering time horizons, interest rates, and deductibility—34 percent (2.38 percent)
- 332 Review the best financing terms and deductibility terms on lines of credit and alternative debt—33 percent (2.31 percent)
- 334 Determine your current ratio as well as credit ratings—33 percent (2.31 percent)

## Investment Planning—25 Percent

### Have you developed an investment philosophy?—60 percent

- 411 Define your attitude toward investment risk—10 percent (1.5 percent)
- 412 Determine whether the portfolio return objectives are consistent with these attitudes—10 percent (1.5 percent)
- 413 Define the various time horizons for which you are saving—10 percent (1.5 percent)
- 414 Determine legal, investment, regulatory restrictions or unique circumstances impacting your portfolio—10 percent (1.5 percent)
- 415 Determine a suitable asset allocation—60 percent (9 percent)

### Have you determined the mechanics for managing your portfolio and the evaluation of what success looks like?—40 percent

- 421 Decide accounts to consolidate, transfer or maintain separately and how they will be handled for policy and advice—55 percent (5.5 percent)
- 422 Determine asset location—15 percent (1.5 percent)
- 423 Review portfolio performance relative to appropriate benchmarks—30 percent (3 percent)

## Estate Planning—20 Percent

### Have you a philosophy on wealth transfer?—70 percent

- 511 Determine the amount of after-tax inheritance and how it is to be received—40 percent (5.6 percent)
- 512 Determine survivor liquidity needs outside of trustee control and to pay estate taxes—10 percent (1.4 percent)
- 513 Direct proper ownership (including revocable trusts), beneficiary designations, and determine guardians and trustees—10 percent (1.4 percent)
- 514 Determine where estate discounting techniques and wealth-transfer entities—Family Limited Partnerships, Qualified Personal Residence Trusts, Grantor Retained Annuity Trusts, defective trusts, Irrevocable Life Insurance Trusts, and others—are appropriate—10 percent (1.4 percent)
- 515 Finalize documents and Crummey notices—10 percent (1.4 percent)
- 516 Determine whether a family meeting should be facilitated and appropriate family governance prepared—15 percent (2.1 percent)

**Have you articulated your charitable philosophy or mission statement?—10 percent**

- 531 Develop and share your charitable mission statement and money values—50 percent (1 percent)
- 532 Evaluate lifetime giving and/or giving at death—25 percent (0.5 percent)
- 533 Evaluate charitable lead trusts, remainder trusts, gift annuities, donor-advised funds, and private foundations—25 percent (0.5 percent)

**Have you planned for incapacitation, elder care issues, and final planning needs?—20 percent**

- 541 Discuss writing an ethical will as well as creating a DVD through a personal historian to communicate your values—30 percent (1.2 percent)
- 542 Implement power of attorney documents for financial and health care purposes—40 percent (1.6 percent)
- 543 Establish pre-need written procedures for family to execute final wishes—30 percent (1.2 percent)

**Tracking Progress**

Overwhelmed? Actually, this process makes it easier to keep track of the areas on which we are working. No longer do we fear that something is not being covered, because it is all laid out in a manner that is relatively easy to follow.

It's clear, though, that no practice can work on everything at once. Later in the book, I will spend considerable space going through the analysis of the component pieces of the index. There is a significant amount of advice being delivered to the client. We have found it most effective for meetings to break down the five main categories of the WMI and tackle only one or two of them in the client meeting. Each meeting uncovers further work to be done and new objectives to be established. Therefore, updates on the previous meeting's assignments are provided as new analysis on the current area is being introduced. Essentially, the wealth-management plan is rolling.

This is central to the theme of what we do. You cannot deliver a financial plan once and be done. Any decision closes the door on certain possibilities and opens it on others. Some prospects will think that the plan would be delivered and after that it is mostly housekeeping and investment management. I have said that wealth management is like running a marathon—just

because you have trained for and completed one doesn't mean that you will be in shape for the rest of your life. In any given year, certain components may take priority over other areas, but each area needs to be addressed as a way to insure that issues are constantly being uncovered.

This points out another truth about what we do—over the life of a client relationship, there will surface one or two things that inevitably will make the relationship incredibly valuable to the client. In our practice, we have handled deaths, disabilities, chemical-dependency issues, sales and purchases of businesses, marriages, divorce, and everything else that can happen in life. Invariably, after any of these startling events occur, clients will become more grounded in the relationship and fully understand the value of comprehensive wealth management.

Since there are so many things that must go on at once, we have established a tracking system that measures the progress we are making on each objective. The system involves 10 components:

#### **WMI—status updates for goals**

Not Discussed/Not Defined	0
Opened Discussion	2
Redefine or Revisit Goal	3
Goal Established	4
Research and Modeling Completed	5
Analysis and Recommendation Completed	6
Presentation and Approval	7
Implementation in Progress	8
Goal Strategy Implemented	10
Archived (Goal no longer applies)	1

As we go through each of the areas of the index, we are monitoring our progress in all of our communications to the client in the following way:

#### **Objective is established and categorized using the numbering system.**

For example, a client letter or agenda item would state:

*241: You wish to insure that you are withholding enough from your regular earnings to avoid having to pay estimated taxes on your outside earnings.*

We then discuss how this objective was decided.

*Since you feel that last year's outside income was unusually high, you would rather, if necessary, adjust withholding later in the year to avoid penalties.*

We assign the staff person (or client if it is their responsibility), establish a due date, and put a number as to where we are in the process. When we first establish the goal, we assign 4 to it. As we make progress through the analysis and implementation, the corresponding number will change. These numbers serve as the tool for scoring the index.

If a strategy was implemented, the client would get a 10 in that particular area under which the goal was stored and therefore get full index credit. If we only presented the analysis, the client would receive a seven and therefore get 70 percent of that particular component. If there are multiple objectives under the same component, then each objective is scored separately to create a combined score for the component.

## Conclusion

The practice of comprehensive wealth management is complex. There are constantly moving targets, various assignments and follow-up, shifting priorities, and personalities. A disciplined, accountable approach increases the likelihood of success in the client relationship and client outcomes. This book will share with you the things that we have done to build a thriving practice that combines systems to create consistency coupled with the approach that ensures each client a unique and personal experience.

## Notes

1. I think Roy Diliberto from RTD Financial Advisors based in Philadelphia was the first one I heard describe our purpose as wealth managers “to improve the lives of our clients.” This has always resonated with me because it speaks to the depths to which our relationships are formed and the importance of the work that we do.
2. Our database was developed internally by Lorenz Oliver-King, who spends his days improving it and upgrading it. The advantage of this is that we have a database for customer-relationship management that is centered completely on how we do business. The disadvantage is that we have a full-time employee updating it and modifying it. If we were starting over, we would probably purchase a system like Junxure ([www.junxure.com](http://www.junxure.com)) or ProTracker ([www.protracker.com](http://www.protracker.com)) which can incorporate some of our principles but by which we could offload the programming to a company established to do it.
3. The formula for the value of each component of the index is determined by first taking the value of the particular category (Asset Protection, Disability and Income Protection, Debt Management, Investment Planning, and Estate

Planning), multiplying this by the value of the broad, value-based question within the category (i.e., Have you articulated a life insurance philosophy—34 percent) multiplied by the value of the technical question underneath the value-based question (i.e. Assess the living and liquidity needs of survivors and dependants—50 percent). The value of the example above would be  $0.25 \times 0.34 \times 0.50 = 4.3$  percent of the total index.

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