Planning in Mayhem
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- Outline -

Recent events in the investment marketplace are likely to spur the fastest and most significant stage of evolution that the financial planning profession has ever seen. The changes will center around three areas: investment advice (including more sophisticated investment planning); client services (and advice more closely integrated with a client's personal goals and objectives), and practice management (covering a range of issues, including more sophisticated management of staff and career paths, and increasingly clear definition of fiduciary behavior).

Some issues to consider going forward:

Investments: The recent market meltdown and (arguably) our navigation of a secular bear market suggests different investment strategies should be applied during different market conditions. This, of course, requires the ability to recognize the differences; planners of the future will spend more time becoming aware of macroeconomic trends and economic data, and also pay more attention to market valuations--the missing ingredient in MPT calculations. Longer-term, it seems as if the MPT paradigm is about to be replaced as the reigning investment orthodoxy in the profession. The presentation will include a review of different possible new investment philosophies that are emerging around the profession.

Also: a detailed discussion of retirement distribution planning--how much can be taken from a portfolio, and planning on which account should be liquidated first, and the tax implications going forward. (A review of the technical work being done here.)

Client services: Advisors will increasingly adopt a new, expanded version of the first step of the Six Step Financial Planning Process: Identifying client goals, not only in terms of their financial lives, but also in terms of how their financial life is integrated with their personal goals. This is likely to become the biggest change in the client services arena going forward, and in an uncertain/unsettled investment environment, it is becoming the primary area where advisors can add demonstrable value to a client relationship.

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INSIDE INFORMATION

The newsletter for serious financial advisors. (www.bobveres.com)

Also in this issue:

Practice Management: ***Now tht you've heard what the consultants are recommending, let's look at what advisors are actually doing to prepare for 2009 and whatever comes after.*** **(see page 11)**

MANAGING IN MAYHEM

Management consultants and commentators Mark Tibergien, Rebecca Pomering, Stephanie Bogan, Angie Herbers, Diane MacPhee and Gary Davis offer their best advice on how to survive--and even prosper in--the 2009 revenue crisis.

Compared to other professions, financial planning and investment advice is in its infancy, and this shows up nowhere more clearly than in its still-emerging practice management models. Consultants familiar with other fields look at today's planning firms with a mixture of bemusement and frustration. They see virtually no competition and limitless demand for planning services, and yet practices are routinely running on less than 20% profit margins, founders are often oblivious to earning a return on their investment in the firm, hiring practices and HR functions tend toward the amateurish and who has time to conduct a marketing campaign? Market share is fragmented to an extent in medicine, law or accounting, and every community has advisors who provide their services (often at a high level) working out of the bonus room over their garage. They routinely encounter a kind of reverse pride in neglected operational and staff management in the name of devoting more time to the tending of clients.

All of that is about to change.

In the coming year, planners of all stripes, and firms of all sizes, will have to manage their way through a significant revenue crisis. Those who bill exclusively on assets under management may have to live on 20%-35% fewer revenues than they did in 2008--and if they budgeted optimistically, this could be up to 40% less than projected. For some, these gloomy numbers may prove to be an underestimate; who knows how many significant clients will leave unexpectedly, or how many others will, in the heat of the battle, decide it's safer to retreat to cash?

The result is predictable: a

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EARLY WARNING

• Unfortunately, two of the very best conferences of the early part of the year are directly in conflict with each other. The NAPFA Investments Conference, the first of its kind, will be held January 20-22 at the Renaissance Vinoy in St. Petersburg, FL, and will explore all the issues that we're learning from the current market downturn--and, possibly, whether it's possible to capture more than your share of the upside (http://www.napfa.org/calendar/calendar/event.asp?EVENT_ID=856&). On the other coast, the AICPA Advanced Personal Financial Planning Conference (http://www.cpa2biz.com/AST/AICPA_CPA2BIZ_Specials/OtherWaysToShop/EarlyBirdDiscounts/PRD~PC-PFP/PC-PFP.jsp) will be held January 19-21 at the Hilton San Diego Bayfront, and combine practice management, advanced planning and investment sessions with more high-name-recognition speakers than I could list here.

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series of live-or-die management challenges which will force the planning community to put unprecedented time, energy and focus into the line-by-line, detail-by-detail operational management of their practices. The revenue crisis will implacably weed out those who can't get their costs under control, streamline their operations, and/or market more effectively than they ever have before.

No cloud comes without a silver lining, and this very dark one is no exception. The survivors--perhaps 80% of today's planners, perhaps fewer--will enter the next market upturn with more staff cohesion, better management practices and healthier profit margins. The coming revenue crisis will force them to make long-delayed hard choices and provide a crash course in effective management that will raise the professionalism of the planning world.

For this article, I contacted some of the wisest practice management consultants in the planning ecology, and asked them to give our community their best advice, and some sound management guidelines, as we prepare to meet this challenge. They all agreed that those who take action now, and who take a realistic look at what has to be done in 2009, will have a significant leg up on those who are either in denial or praying for a merciful stock market recovery.

Step One: Tame the numbers. What does the future look like, and what can you do about it?

Diane MacPhee, of DMAC Consulting Services (www.dmacconsulting.org), recommends that you come into the office on Saturday morning when nobody is around and the phones aren't ringing, and perform a detailed projection of your upcoming 2009 revenues and expenses. "You need to see what you're facing before you can make any decisions," she says.

What will this analysis look like? Mark Tibergien, late of the Moss Adams consultancy, now president of Pershing Advisor Solutions, suggests that you start by making some assumptions about the market and the impact on your cash flow for each of the next five quarters. What if the market stays flat? What if it continues to decline? Then look at which of your clients may be at risk. "Bad markets will test client loyalty like nothing you've ever seen," he says. "Incorporate into your analysis some worst-case scenarios, assuming the markets decline further and some of your at-risk clients leave."

Stephanie Bogan, of Quantuvis Consulting (www.quantuvis.com) would even have you go out 24 or 36 months with various assumptions, looking at best case and worst-case scenarios. "The point," she says, "is to anticipate conditions and adjust to them in advance of need."

Then, says Tibergien, look at your expenses, and divide them into two groups: nice-to-have and need-to-have. "Immediately put a freeze on the nice-to-have or discretionary expenditures," he says, "including travel and entertainment that doesn't help your business today, and watch the signals you give out as to where you eat, drink and stay. Look at all the training programs, study groups and conferences that you and staff normally attend, and make a decision about what is critical and what you could pass on this year."

If you can, defer all capital expenditures that will not have a material impact on your business for the next 18 months, including new software and hardware.

This expenditure review may include a staff evaluation as well. "Look at who has been making a consistent contribution and who has been lagging," adds Tibergien. "Who do you think will be valuable in the long-term and who is not likely to grow? Who is demonstrating good leadership during these times and who is panicking?"

Julie Littlechild, of Advisor Impact (www.advisorimpact.com), says that this exercise alone will improve the operational efficiency of a high percentage of advisory firms. "Many owners don't have a good handle on the numbers," she says. "But they realize, now, that they need to. This is not the time to have faith that everything will turn out OK."

Angie Herbers, of Financial Advisor Resource, Inc. (www.financialadvisorresource.com), says that advisors who project backwards and forwards will suddenly realize that their challenges are somewhat unique in the business world. "In other sectors," she says, "increasing revenues usually translates into more work, and decreasing revenues means less work has to be done. The situation is just the opposite with advisors."

How so? In bad economic times, when people are buying fewer widgets, the widget company manager can lay off employees and produce fewer widgets in the factory. But in the advisory business, clients are happiest and need the least attention during good economic times, when revenues are also going up. In tougher economic environments, advisory businesses will experience a revenue decline precisely when they are facing an increased workload, as clients need more hand-holding and communications. It's as if the widget company had to hire more workers and send the factories into overdrive when the market for widgets has dried up.

As a result, advisory firms need to be unusually profitable during the good times, to offset the fact that they will tend to be unusually unprofitable and have less elasticity during market downturns. But how many advisory firms reached for unusual profitability over the last three to five years?

"In the firms that I work with," Herbers says, referring to her consulting services, "we project a very conservative growth rate, and our budgets and expenses for that year are based on the revenues from the previous year, NOT on projected revenues based on past growth rates."

Step Two: Evaluate the possibilities. Cut your own revenues first--if you can afford it. (If you can't, then promise yourself to fix that as soon as the markets return to normal.)

At this point, most advisory firms will be looking at a shortfall: a negative difference between 2009 revenues and the revised (downward) projected expenses in at least some of their gloomiest projected scenarios.

Once you have a decent idea of what kinds of possible futures you're facing, Tibergien recommends that you look at your personal liquidity and retained earnings, and figure out how long you can live off of your savings without additional inflow. (He adds that you should make sure your significant other is brought into this discussion. "Few things strain a relationship more than financial surprises," he says.)

Much of the revenue slack will have to be taken up by severe cuts to the owner compensation. "It is the owner who takes the real risk, which is why the owner should have been rewarded for taking that risk during the good times," says Littlechild. "Every small business owner has to do whatever is necessary to protect the business and the staff if at all possible."

And, she adds, taking the biggest hit sends a positive message to the rest of the staff. "I know my team recognizes that despite anything they may be feeling, I'm taking the brunt of the stress in my own firm and trying to protect them," she says. "I think this creates the kind of bond we all need during the tough times."

According to Pomering, larger firms--which typically have much greater owner compensation--will be better prepared to weather the storm through an owner compensation reduction plan than smaller ones. "The average owner income for a firm with more than $5 million in revenue last year was almost $1 million," she says. "If their compensation goes down by $500,000, they are still making vastly more than the national average, and it gives them some flexibility."

Smaller firms are another matter. If an advisor owner was taking home $120,000 in profits last year, if they see a 20% decline in their income, they might be taking home $20,000 or $30,000," says Pomering.

Quantuvis has created a Monte Carlo business analyzer for advisory firms, and Bogan shares

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a simplified example: a smallish firm with $450,000 in revenues last year, expenses of $300,000, and the principal basically takes the difference home as income. If revenues fall 20%, that creates a $90,000 shortfall, which can be absorbed by the principal in whole, or the firm could explore cuts in expenses. A comparable firm with $150,000 in a reserve account could fund the shortfall for a year and nine months out of reserves. A 35% drop in revenues basically wipes out the owner's compensation for both firms and creates an additional shortfall that will have to be found in expense cuts.

"It's funny how much smoother these shareholder meetings used to go back when our stock price was rising."

Step Three: Engage your staff. This is your best chance to forge a better team relationship.

MacPhee is recommending, to her coaching client advisors, they take full advantage of this opportunity to raise the responsibility level of their employees. "Don't keep them out of the loop," she warns. "They're sharing some of the pain, and you should let them be part of the solution."

How? Start by taking the temperature of the firm. "That staff meeting should start with: first, let's be honest and look at the emotions that are running around this office, and talk about how everybody is really feeling about everything," says MacPhee. "Is the morale low here? Are you irritated? Are clients yelling at you?"

Then, when you've listened and heard the answers, talk about the analysis you performed over the weekend in as much detail as you're comfortable with. "Say to your staff: I am not doing this to prepare you for a pay cut; I am doing this to talk about what we can do to turn this around," says MacPhee. "Perhaps we can bring in new clients. Where are we spending money that we don't really have to be spending? If it's handled right, that meeting creates a sense of: we're all in this together. It builds a bond between you and your staff."

Littlechild says that this can also help keep the staff's focus off of fear. "Clients are nervous, but so too are employees," she says. "Engaging them in that process of problem-solving will help you come up with solutions, but it will also help to keep those people on the solution end instead of the panic end."

As you go over the numbers, the most difficult question will be: how much of the expense cuts will affect staff compensation? There are two possibilities: reducing staff, and/or reducing compensation outlays as you continuing to employ your current staff.

Rebecca Pomering, who is now president of the Moss Adams financial planning unit (and now faces these issues herself as a manager) notes that a minority of planning practices will discover that they are overstaffed in one area or another. For them, the looming revenue crisis will provide the incentive and opportunity to make a decision the owner(s) may have been putting off.

But Pomering recommends that most advisors think twice before downsizing. Advisory firms are working much harder now than they were during more normal market behavior. If your staff people are all doing productive work, you are probably not at a point where you can do without them. "In our office, we felt like everyone was at or near 100% capacity before," she says, "so we moved them all to 110% and got some additional operational efficiencies that way." (This is not, she adds, a viable *long-term* solution.)

If there ARE layoffs, they will need to be handled with extraordinary care. Tibergien recommends that you consult with an HR specialist or labor attorney, create and rehearse a script, treat everybody with dignity, and make it clear in your conversation with a downsized employee that this is a performance-based--rather than an economic-based--decision; otherwise you might be obligated to offer them a job when you begin rehiring again. "Be careful about doling out excessive severance," he adds. "You may feel the need to pay something to help your employee through the next few weeks, but if it is an amount that goes beyond a month's pay, you might just ask yourself why you are letting the person go in the first place."

Also: Offer to provide them with a reference if you honestly can. And if you want them back, let them know you will try to hire them when the situation improves--but, Tibergien warns, don't overdo this or you could get yourself in trouble.

Finally, be aware of possible fraud, privacy breaches, theft, vandalism and attacks on your computer security--all of which increase during tough economic times. "Pay attention and protect yourself," Tibergien warns. "Don't let people linger after you've let them go, and get back all the keys and credit cards quickly."

What about bonuses and salary? This can be the trickiest area of all. Pomering has preached in the past that advisory firms offer two kinds of bonus pools: one based on firm profitability, the other on individual performance. Alas, not many have taken her advice to heart; most bonus pools that she has seen do not explicitly state that bonuses are related to firm performance, so they are not quite as flexible as some advisors might believe. "If the staff felt like their bonuses were based on their own individual performance, and if they worked harder than ever this year, they will be surprised if they don't receive that extra compensation," she says. "If their plan said, if you do a good job, then you are going to get a bonus, and those people did a good job this year, it might be unwise not give them what they believe you have promised."

Better, she says, to revise the plan at the end of this year so you're not in the same place next year if the economy hasn't recovered. "Now is a good time to say, we increase base pay when the market increases base pay," she says, "and that we pay incentive pay when the firm performs well and you perform well. Next year, you might have to say, you performed well this year, but the firm didn't perform well."

Even if the market DOES turn around toward the end of next year, and profits begin to flow again, this could be a positive long-term adjustment. "This will happen again," says Pomering. "This is not the last time that the markets are going to go down, and the small businesses that manage to make it through this challenging time hopefully can get themselves better-prepared, both from their personal financial perspective and their business perspective."

Both Littlechild and Herbers suggest, counterintuitively, that you might want to give some form of additional salary or at least a token surprise bonus this year. "Ideally, baseline salary should be sufficient compensation for any staff member, and they should be able to live on that salary with or without a bonus," says Littlechild. "But on the flipside, sometimes a small raise during a tough time can go a very long way to demonstrating commitment to staff and to compensating them for the extra effort they may need to put in during the period ahead. It's a signal of commitment to staff who are seeing others losing their jobs left, right and center."

Herbers recommends that her clients set aside a portion of revenues for a bonus pool regardless of what the market delivers. "If you hold back a certain percentage of

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gross revenue for each professional employee, and revenues fall, you are still going to have bonuses," she says. "And you need those bonuses the most when times are bad, because the workload is higher. If you go on straight profit margin, and the revenues fall and that money is not budgeted, employee bonuses go by the wayside exactly when you need them most for morale. After all," she says, "your best client retention method in hard times is your employees' service to clients."

Step Four: Look for ways to grow out of the shortfall. Increased marketing opportunities are the silverest lining in this cloud.

Every consultant whose voice you hear in this article said essentially the same thing: this is an extraordinary, perhaps once-on-a-lifetime opportunity to grow your client base. While you're working hard to reassure your own clients, millions of prospects and members of the community are experiencing exactly the same fears and concerns--creating a limitless opportunity for spreading your expertise, reassurance and wisdom. If somebody out there is breathing, then he or she is concerned about the markets right now--and about retirement, weathering the possibility of a job loss and all the other issues that financial planners are trained to evaluate.

"The marketing opportunities in a downturn are the reward for doing the right things for clients in an environment where some advisors are in hiding," says Littlechild. "The time for referrals is when people are talking about financial challenges, and that is definitely the case now."

In Littlechild's experience, advisors all tend to look pretty much the same when the markets are trending upward, but they can look remarkably distinctive in a bearish environment. "This market is showing us which advisors have tied their value directly to market performance, and which have effectively positioned their value to clients as distinct from the market," she says.

This distinction has shown up most clearly in the client survey work that Advisor Impact conducts for advisory firms around North America. "Not surprisingly," she says in a dry understatement, "in the last couple of months we've seen a decline in satisfaction regarding investment performance. And yet," she adds, "we also see that clients are, at the same time, able to give their advisors high marks on the quality of the plan, the extent to which the advisor understands their financial goals and the extent to which the advisor is proactive. We're seeing clients giving poor ratings on performance and yet high ratings on the other dimensions. For advisors to hold onto their clients, they need to be seen as adding value beyond what the portfolio is doing."

I've included these comments, not because you need a pep talk or some reaffirmation of your value, but because all of the consultants, in one way or another, stressed that your marketing efforts in 2009 should proceed out of terrific client service--and especially client services that keep people on track with a plan, with consistent outreach and reassurance, with what Herbers and Bogan describe as consistent client service programs. Reducing many minutes of redundant conversation to a few lines, make sure you maintain high levels of client service into 2009 and, perhaps, even consider making your client communications more systematic and intimate. As Pomering put it: "I honestly wish we had the kind of client contact every year that we had this year. I wish we didn't have to wait for desperate times to be strengthening our client relationships the way we have the past two months."

These strengthened client relationships are the key to your marketing plan in 2009.

What will it look like? MacPhee recommends that you include in your initial evaluation some estimate of how many new clients you would have to bring in to make up for the 2009 revenue shortfall,. But as you do this, warns Pomering, don't make the mistake of projecting that those clients will translate into firm revenues too quickly. "In this environment, you are likely to have clients touching and feeling you longer before they move in their assets," she says. "Clients are scared. We are finding that clients are more interested in having the initial conversation, but they aren't as quick to move their assets as they might have been in the past. It could be two quarters before you feel any revenue impact after somebody decides to work with you."

This evaluation could become the last part of your initial meeting with staff, a few minutes to talk about how many new clients you estimate will be needed in 2009. "You can tell them about the marketing plans that you made but never really got around to implementing," says MacPhee, "and ask everybody to think about two or three ideas for getting new clients in the door. At a second meeting, don't pick 20 ideas, but find three that you think will be workable, and schedule a process for getting them done."

Meanwhile, MacPhee recommends that you build on all the stored up good will and the closer bond with clients that you're experiencing right now to ask more aggressively--but gently--for introductions to other potential clients.

"We ARE doing everything we can to protect the employees, Finster, but in this case it was either you or the corporate jet."

"If you have a great appointment with a client," she says, "if there is a great moment, capture it by saying to the client, you know what? We love working with people like you, and I want to do what we've done here today with others. Can you spend a little time when you get home and think of anybody you could introduce me to? And I always say to my coaching clients, try to be graphic, so it will help them remember the conversation," she adds. "Say to them, listen, even if it is 11:00 at night and you think of somebody, call my office. I won't be there. Just leave it on the voice mail. Saying something like that is a graphic example that might stick in their head."

Consider offering a review of a friend or colleague's financial situation--the portfolio and retirement projections, if there are any. "People are scared, and you can be there to alleviate those fears," says Littlechild. "In doing the right thing, you will add new clients, because your clients will want to offer solutions to the friends and colleagues they hear complaining about poor service right now."

Bogan recommends that you schedule phone reviews with your top 50 clients, and view every conversation as a powerful referral opportunity. Send periodic market updates, and reinforce the idea that clients and their friends and neighbors can turn to you during market crises. Bring in outside experts, if they are available, to speak to clients. And invite clients to add their friends and relations to the mailing list, and to participate in the conference calls.

If you need revenues in a hurry, or want to broaden your marketing outreach as far as it will go, offer to do client situation/portfolio assessments on a pure fee basis. "The message that your clients can send to their friends," says Pomering, "is: 'if they don't have a financial plan in place that takes a look at your long-term objectives and your risk tolerance, I'll help them look at that and make sure their investments are aligned with it, and make sure they are structured in the best possible way.' Most advisors charge planning fees on the up-front casewriting activity," she adds, "and they could start taking on clients who are not

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asset management clients, simply for the additional quick revenues in the door." They could open their doors to more planning work without the AUM necessarily being attached to it--and, of course, some of those people will ask you to manage their assets.

MacPhee recommends that you also become more aggressive about contacting the local media and saying, I can offer a column on what we are doing with our clients to get through a crisis like this. I know you must have several readers who are probably concerned about this market downturn.

Of course, you always have to be careful with the media. "I think it is a good idea to stick to one or two good people who you like and trust, who aren't going to stab you in the back," she says.

Meanwhile, look for opportunities to talk with groups of potential clients during this time of market uncertainty, and be creative. "Public speaking doesn't have to be 200 people in the room," says MacPhee. "You can say to a client: is there an opportunity for me to come out to your office and maybe meet with two or three of your co-workers in a conference room and give a 30 minute rundown on why it might be a good idea to go into a Roth IRA for your kids or something like that? Could it be a waste of time?" she asks rhetorically. "Yes. Could you get one client out of five people in the room? Possibly."

"This is also a great time for people to circle back with centers of influence in the community," says Pomering: "including attorneys, CPAs, other people who have nervous clients of their own, who may not know what to say to their clients right now. You're talking to centers of influence who may be holding their breath," she adds, "not only in regards to their own portfolios, but also in regard to their clients'. A lot of people feel like they need to be doing more for their clients right now, and it is one of the best ways for advisors to position with those centers of influence."

Advisory firms which decide to take full advantage of this marketing opportunity could find themselves swinging dizzily from precarious to prosperous to extremely prosperous in the next inevitable upturn. Bogan points out that for most firms, client assets are inextricably tied to firm revenues. She reminds the advisors she works with that they are telling their clients to stay invested because the inevitable upturn will take their portfolios dramatically higher. If the advisor can bring on new clients during the downturn, the upturn will have a slingshot effect on their practices, taking the firm itself to new revenue heights.

"The markets are pulling back, which creates considerable tension," she says. "But the greater the tension, the greater the trajectory when the release occurs. The tension which challenged you then starts working to your considerable advantage, propelling you farther than you could otherwise have gone. The laws of physics," she adds, "seem to apply in business as well."

Step Five: Find additional office and personal efficiencies--and spend a few minutes thinking about your compensation structure.

Tibergien recommends that you evaluate all of your vendor relationships and explore whether you can leverage them more than you are currently. "Custodians and broker-dealers may be able to help you with certain practice management, technology or outsource solutions, or you may find new options from other providers," he says. Beyond that, he suggests that you seriously consider resigning from any boards or organizations that don't fulfill you personally, benefit your business--or, for that matter, make as much of an impact on your constituency as you originally thought.

And, he says, if you have ever considered a merger in the past, this may be the time to resurrect the discussions with another advisor in your community. "Don't be rash about it," he warns, "but if there is a philosophical fit and a cultural fit, a merger at this time may be advantageous to both firms as you create synergy and economies between you."

Herbers says that this is a good time to meditate on the value--or lack thereof--of a pure AUM pricing structure. She thinks the optimal arrangement is a hybrid based on the services that are provided. "Many of my clients charge a retainer fee for the services they provide in the financial plan and then a lower AUM fee for investment management," she says.

"As soon as the government bailout check clears, we'll start a massive TV ad campaign that will bury those fiduciary planners and use the rest of the money to outspend their lobbyists 20 to 1."

"That way, when the market turns south, much of their revenue is protected from significant loss."

Gary Davis, of Beneficial Concepts Group, a management consulting firm in Stockton, NJ (www.beneficialconceptsgroup.com), says that these stressful times of staff bonding can be the ideal time for advisors to begin delegating more of the work that they've been dysfunctionally doing themselves for years, so they can free up time for marketing and increased attention on clients. Initially, this will require the advisor to spend additional time documenting how he or she does certain activities. "Efficient, empowering delegation cannot occur until the process being delegated is documented the way the person delegating the function expects the work to be completed," says Davis. "And the person reviewing the work needs to be empowered to review and suggest any improvements to the process."

Herbers warns that some operational efficiencies should wait for better days. "The last thing you want to do in hard times is ask your employees to start documenting THEIR processes and procedures when they are in survival mode," she says. "This says to them, indirectly, that their job is not stable and so you need them to write down all the things you do and how, so if we lay you off, it will be easier for us to do what you're doing. Plus," she adds, "it creates more work for them. Operational processes and procedures are designed to be implemented during the good times to protect against the impact of the bad times, not created in the bad times to react to the bad times."

Davis also recommends that advisors look into outsourcing some of the more time-intensive functions in the office. He suggests that you look first at non-core competency job functions. Does it make sense to be handling your own payroll work? What increased efficiencies could obtained by outsourcing portfolio downloading and performance reporting?

MacPhee points out that office clutter can add to the stress and perception that you're overwhelmed. "Take a day and get all the shredding out of the office," she suggests. If you have client file folders all over the place, she says, have somebody on the staff catalogue each of them, where they're going to go and what needs to be done with each of them--so they're out of sight, and you're not using the file folder as the reminder of things that need to be done.

"I talk to advisors who are terrified of putting those cluttering files in the cabinet drawers, because once it is out of sight, out of mind, there is that ticking bomb of something not getting done," she says. "I tell them, do not put anything behind a credenza door or a cabinet without indexing it first. Put the index reminder in your CRM or on a simple low-technology pad of paper, or get four-by-six-inch index cards. Then they can flip through the cards and take out whatever file they're working on--and just move everything else out of the office, so you can walk in and not feel completely drained facing

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all the stuff around you."

Step Six: Start paying closer attention to your own health and well-being. What feels like a sprint may be a marathon.

This leads to a piece of advice that all the consultants touched on in one way or another: self-care during the storm. "I see a lot of advisors working long hours, and my best advice is: you need to take care of yourself; otherwise you aren't going to be able to sustain the pace," says MacPhee. "Find a way to sweat, run, walk, do whatever you do for fun. Too many advisors are saying, I don't have time for fun right now," she says, "but sooner or later, their fatigue is going to start spilling out on the phone to clients."

Littlechild expects to see signs of clinical depression in advisors around the country--not just, she says, because times are tough, but also because business owners (and financial advisors in particular) feel a deep sense of responsibility to keep their teams employed and to protect their clients' retirement funds to the extent possible. "As much as advisors need to demonstrate real leadership for their clients right now," she says, "they probably need to start first by making sure they are OK themselves."

"Dealing with your clients has been quite stressful already, so dealing with tough decisions that could impact the lives and livelihood of your staff could put you off the charts." adds Tibergien. He recommends that you try not to take up excessive drinking or emotional eating. "Maintain your schedule as best you can so that you don't add to the stress, and find healthy ways to decompress," he says. "It's also a good idea to hang on to your friends and keep communicating with your significant other--they can't read your mind or know what you are really feeling, so don't let your funk infect the relationship."

Tibergien found himself recalling his own, sometimes inadequate, responses to past traumatic markets, particularly while running his own business in the downturn of the early 1990s. "I knew the next time that I'd be better prepared emotionally and intellectually, and I have been," he says. "But everybody running a business today must know that they will still make mistakes."

MacPhee recommends that you take a few minutes and think back to what it was like when you first started your practice. "Where's that enthusiasm? Where's that energy?" she asks. "Try to remember why you do this," she says. "Do you still feel the same way? Try to recapture some of that same zest, the same commitment of: I'm going to make this work, and do whatever it takes."

There seems no question that 2009 will someday be regarded as a seminal test of the planning profession, a time when survival comes into question. But as you can see from this compendium of advice, none of the mitigating survival techniques are difficult to understand, and most of them are not hard to implement. The key issue is distraction; when so much is going on in the markets, when clients need your time and attention, your natural instincts--as someone born to be a fiduciary--will be to put your focus on *them* and neglect your practice.

But it isn't hard to realize that you owe your staff at least the same consideration as your clients. And if it IS hard, well… This article is addressed primarily to practice owners, but if you are an advisor working within a larger planning practice, it may be, by default, your job to initiate these survival steps and see that they're implemented. Some advisors will never pay proper attention to the management of their practices, but hopefully they have people in the office who can fill in that gap.

My own sense is that 2009 is the dawning of a new era in financial services, the era of the fiduciary, the time when the independent advisory practice emerges from the shadows of the brokerage giants, when the best of the brokers join our ranks and some of the worst conflicts are driven from the reigning advice model. Those advisors with the foresight to see this shift and fully participate in it will suddenly, a few years down the road, find themselves in a position of unusual prosperity. And the profession itself will finally shed its amateur roots and adopt mature business practices that allow it to grow into the role that the brokerage firms have abdicated.

The great revenue crisis of 2009 will cull the herd and reward the survivors. I hope you, and your firm, will be there with me to celebrate the next market upturn in a less conflicted world of financial advice. ■

Practice Management

Shortfall Planning

What more than 150 different advisory firms are doing, and planning to do, to address the revenue crisis of 2009.

As most of you know, I asked the *Inside Information* community to give us a look at their practice management preparations for 2009, on the not-improbable assumption that the markets might fail to recover all of their 2008 losses between now and the end of the year. This general topic became, in different messages, highly specific--addressing estimated revenue shortfalls, areas of the budget that different firm owners consider discretionary, and the sensitive issues of staff cuts and salary freezes. Many advisors--including, as you'll see, virtually all of the larger firms--wanted their responses to be off-the-record, here reported simply as a large firm in the Midwest, or a largish firm in the Northeast.

I think it's fair to say, up-front, that this summary article doesn't offer a representative sampling of the profession. The respondents tended to be those who have spent considerable time thinking about the subject, and may be more comfortable than average with practice management issues. A fairer assessment is that you're about to hear what some of the more advanced advisory firms are thinking as they step, warily, into the uncharted waters of the coming year.

Lest anybody think that 2009 will be anything but a cruel test for the weaker (revenue-wise) practices, you should hear the unhappy voices of a small group of members of the Inside Information community. "The economics of [my practice] just don't work out long-term if AUM revenues are down 50%," says one. "And it is very difficult to think of charging clients more at a time like this." This advisor reports that some significant clients have retreated to CDs and opted out of paying asset management fees. "I really can't blame them," she says. "I love all my clients, but don't have any time to market for new ones, nor do I have the time or energy at the moment to deal with new people anyway. I am taking it quarter by quarter to see if I can survive this downturn," she adds, "but I'm not optimistic."

Another advisor reports being undercapitalized and narrowly profitable BEFORE the downturn; she now regrets that she didn't raise her fees during the calm before the storm. Raising them now--even though she is providing considerably more value--would be difficult. "I may not make it through this," she says. "I've learned an important lesson, but what good will it do me if I don't have a practice?"

Advisory owners who have taken a hard look at the numbers report that their total revenues will decline by anywhere from 15% (for those who were foresighted or lucky enough to reduce exposure to equities before the worst of the plunge, or whose revenues include a healthy dose of planning fees which will NOT experience a downturn), to as much as 30%--with the great majority reporting something in the neighborhood of 25%. This is not a small setback. "In terms of assets, we are back where we were in 2004," says Bob Kargenian, of TABR Capital Management in Orange, CA.

How do you take up the slack? Most advisors seem to be looking first at cutting their own revenues, and in some cases, that's sufficient. "As a personal service firm with fixed overhead close to 50% of gross," says Tom Sullivan, in Roseville, MN, "a 30% reduction in revenues translates into a temporary 60% reduction in owner compensation. Hopefully most advisors are prepared to weather that kind of storm," he adds, "since it happens to real world businesses all the time."

Cindy Conger, who practices in Little Rock, AR, has suspended her 401(k) contributions until she sees an increase in revenues. "That should keep my net pay approximately the same, so I can pay my personal bills," she says. "I'm going to miss out on this buying opportunity," she laments, "but I don't feel like it makes sense to borrow money in this environment." Shashin Shah, of SGS Wealth Management in Dallas, TX suspended his bonus in order to put away an amount equivalent to his employee's salary through the second quarter of 2009 into a reserve fund.

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The larger firms in my survey were far more likely than smaller ones to report that the owners were taking most of the pain on themselves. One, who asked not to be named, reports that her firm's owners are cutting their compensation by 33%. "Remind me why I wanted to be an owner...?" she says. Jeff Buckner, at Plancorp, Inc. in Chesterfield, MO, says that his firm looked at the numbers and decided to keep paying staff bonuses and raises (in the 4-5% range), and is even hiring two new senior employees to help with business development and client relationship management. "But," he says, "the anticipated owner distributions for 2009 will be significantly reduced compared to the last several years."

At Emerson Wealth Management in Troy, MI, Casey Bear says that the anticipated 25% drop in revenue happens to be exactly the firm's projected profit margin. "Essentially, my partners and I will be living off our base salaries for a while," he says. "To date, we have not touched staff compensation and benefits, and do not plan on doing so; it is our view that the principals of the firm should suffer first, since when this whole mess turns around, we will be the ones who will prosper." Kay Kramer, of KLB Financial in Edina, MN, says that for the next six to twelve months, her firm's owners may be paid no more than their management staffers. "We figure it's the price of ownership," she says.

Kargenian agrees. "I reap the most when we are excelling, and I will suffer the most when we struggle. That's the way the person at the top is supposed to act," he says, "unlike all of our corporations whose management takes excessive pay packages regardless of how much money their company has lost."

Budget cutbacks

Some firms have been preparing for this downturn as part of their normal budgeting process; I heard from a few advisors who routinely identify, in advance, the places where they would cut in the event of a market downturn. "Since I don't know of any AUM revenue loss insurance," says Gary Silverman, founder of Personal Money Planning in Wichita, KS, "I self-insure by having mechanisms in place to allow me to drop expenses down by at least 25% for a year or longer." This coming year, the discretionary expenses thrown overboard include equipment replacements and pay raises for himself and staff, plus bonuses which are specifically tied to firm profitability, and represent up to 20% of the staff salary.

Meanwhile, he's taken 20% of his personal income and set it aside in a money market fund rather than putting it into his retirement accounts. "While I'd love to use the money to buy while the market is this low," he says, "I'd rather err toward prudence. My current plan is to use some of this as a year-end bonus for my employees. They've been working hard and deserve it."

Elyse Foster, who practices in Boulder, CO, has met with her staff twice to let them know they don't have to worry about their jobs, layoffs or the health of the company, and then scheduled a meeting with each person separately, including the intern. She froze salaries for most employees, but, she says, "like a lot of firms, we have been generous in the past, so this was not a big disappointment. A small COLA for each employee will be activated and paid retroactively once the markets settle a bit."

Most larger practices appear to be holding the line on their staffing, and the firms with more modest owner income in relation to revenues are now finding incremental savings by cutting back on bonuses and salary increases. A Midwest firm cites the most common staff formula. "We are doing everything we can to avoid layoffs," says a company principal, "which means freezing all salaries and no profit sharing plan contributions or bonus pool, cutting CE budgets from 5% of salary to 2.5% of salary, and cutting out two employee outings which each cost around $5,000." In addition, the firm has eliminated employee gifts, hiring interns, and has put off taking over new office space. Kargenian reports that his firm will give the staff full bonuses for 2008 but no raises in salary and no profit-sharing contribution.

Some advisors are becoming creative about walking the line between saving salary revenues and keeping staff motivated and feeling appreciated. One advisor, who asked not to be named, is giving employees one day off every two weeks in lieu of a salary increase. Others, like Foster, are delaying but accruing cost of living salary increases.

Another common theme of the messages is planning to cut back on office space in the coming year when the lease comes up for renewal. In fact, this was mentioned in so many of the messages I received that I drew two conclusions: 1) that the average planning firm has been operating with more square footage than is strictly necessary, and 2) if other firms in other industries are looking in the same direction, the commercial real estate sector could experience a sudden, sharp, unexpected-but-entirely-predictable downturn in the next 12 months.

Randy Brunson, who practices in Duluth, GA, took a sharp pencil to his budget and excised three charity golf events (his favorite form of marketing), plus assorted upgrades in technology and training costs. The result made the expected revenues balance with expected expenses under conservative (read: gloomy) market projections. "Any revenue over our monthly budgeted revenue will go into a contingency reserve," he says.

Some of the decisions are easier than others. Tony Pondel, who practices in Skokie, IL, is still looking at one budget item: the two client appreciation events he holds each year for his top 100 clients. "One side of me says they would be ticked if their portfolio is down 20% while I seem to be able to host big parties," he says. "But if we don't do the event, does it mean we aren't saying "thanks" to those who have stuck with us through the storm? If we do an event only for the top 20 clients, how do we break the news to the other 80 who have been invited over the years but not now? I'd be interested to know what others are doing," he says.

"Oh come off it, Fargis. There's at least a dozen men at this firm who could have converted that $20 million portfolio into commissions."

Hiring decisions

Most advisors with a more severe revenue squeeze seem to be freezing their hiring, rather than firing people currently working in the office. A lot of advisors with smaller firms told stories similar to what Mark Briggs, who practices in Glastonbury, CT, told me. He was actively looking for a person to replace a key staffer who left over the summer, but when the market took its dive, he decided to bring back the old employee on a part-time basis.

Others think this is the wrong time to be cutting back. "Our experience after the tech burst was that we did get more business and you need experienced people," says Dwight Mikulis, at Pinnacle Advisory Group in Silver Spring, MD. David Robinson, of Resource Consulting Group in Austin, TX, thinks that arbitrary or panicked staff reductions would end up costing him money in the long run. "When I consider the time required and cost of investing in staff training at all levels, I have no intention of reducing my employment size," he says. In fact, he has reduced his personal base salary to create margin for another hire--a specialist to support the advisors at his firm.

Others echoed this theme. "I will not jeopardize the great team I have with layoffs if there is anything humanly possible to avoid it," says Foster.

Jeff Hicks, who practices in Bethalto, IL, thinks this is a great time to invest in his firm. Although staff bonuses have been decreased and the travel expense budget has

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been halved, he has redesigned his firm's signage and appearance from the street and added a staff person. "If we're going to grow, current market conditions dictate that we invest in ourselves," he says. "We anticipate an increase of 15% in financial planning fees and an increase of 20% in referrals year over year."

Billing structures

We may look back on 2009 as the year when planning firms finally got serious about breaking the dysfunctional link between client assets and their quarterly compensation. Not surprisingly, advisors who are charging retainer fees report that they are feeling considerably less pain than their peers, and those who are in the process of making the switch with their new clients are happy with the change. Foster reports that she long ago put her largest clients on retainer fees, which has smoothed out revenues overall, and the due diligence fees she charges for private equity investments are expected to remain steady regardless of market performance. Scott Kahan, of Financial Asset Management Corp. in New York, expects a LOT of advisors to start considering the flat fee model that his firm uses. "It may not give us the big increases in up years, but it sure is protecting us on the downside," he says. "When we made the change, it was not due to falling markets or revenues; it seemed to make sense since, as financial planners, having compensation focused on the markets made no sense."

Chuck Bowes, of Runyon & Bowes in Oakland, CA, says that his firm increased revenue in October by 10% due to new client flow with fixed fee contracts. "This has helped tremendously," he says. "Obviously the fixed fee will hold us back as things recover, but the new clients should more than offset our projected revenue shortfall."

Brunson reports that 90% of his firm's current revenues are tied to AUM, but the six new clients he is adding at the end of this year will all be billed on a flat fee retainer basis, tied to net worth and adjusted annually. "This allows us to have the fee reflect the scope of the engagement, and in the client's mind, untie our fee to financial assets," he says.

Some have evolved hybrid models which are slow to rise and slower to fall. "We charge a retainer fee based on assets, which is locked in for 12 months," says Tim Brown, of Eden Prairie, MN. "This is definitely helping to slow the decline in fees." Even so, he estimates that revenues will decline by 20% over the next six months.

Jeffrey Ross, of The Planners Edge in Mercer Island, WA, was actually in transition from a C-share model to AUM when the market storm hit his practice, and now he's rethinking how he's going to manage the transition. "I'm beginning to think of the AUM percentage as an 'incentive' element--a percentage stake in the progress of the account, so that we have an incentive to manage it well," he says, "which is completely different from today's AUM model, which covers all planning services in one bundled percentage. One wants to have some portion of the compensation to be incentive-based," he adds, "but the AUM model seems to be too dependent on market behavior."

His hope is to move clients to a fixed fee for wisdom, leadership and capability, on top of a lower 50 basis point AUM fee--which provides a profit after the costs of administration, management and tracking of the portfolio.

Carolyn McClanahan, who practices in Jacksonville, FL, cannot understand why all professionals don't charge the same fees regardless of market outcome. She comes to the planning world as a licensed medical doctor, where this business dynamic is taken for granted. "Doctors charge patients on a best efforts basis," she says. "We cannot predict if the patient will have a good outcome, but we try really hard to make that happen. If someone dies at the hospital from injuries incurred in a car wreck, we still have to pay the doctors, nurses, and for all the technology we used to try and save them. There are many more reasons to do flat retainers, but the biggest is we need to get away from AUM and sales if we want to make financial planning a true profession."

Growing out of the hole

Many advisors report a sudden, unexpected increase in new prospects knocking on their door, and a few have increased their marketing efforts in hopes of adding new assets and offsetting next year's shortfall. "When others hide, it's the best time to be visible," says Michael Valdez, of Triangulum Financial Partners in

Tampa, FL.

"We expect to add $50 million in new assets in the first quarter of next year," says Joe Gordon, in Durham, NC, "which will bring in $250,000 in recurring new fees to offset $600,000 in reduced fees as a result of the market contraction."

I'm also hearing more creative approaches to marketing than I have in the past. For instance, Gerry Gasber, who practices in Gold River, CA, has spent the last month and a half getting to meet his clients' CPAs over lunch. He's offering them a professional discount on his services if they want a review of their personal portfolios and asset management going forward, and if they refer distressed clients to him, he will offer those referred clients a meaningful discount on his fees for the first three years of the relationship.

Bob Adams, of Armstrong Retirement Planning in Cupertino, CA, has upped his referral efforts by mentioning at his quarterly review meetings that he is taking on new clients--and he has been willing to take on more straight financial planning engagements to supplement income. In addition, he found a way to bring in new clients that is way out of the traditional marketing box. "One near-retirement couple both lost their jobs over a year ago, and haven't had much luck finding new ones," he says. "I volunteered to let them pay me a quarter late, and they were thrilled. They've since agreed to be a reference, and have provided me with two great referrals."

The result of all this? "I've increased my client base by 10% in the last two months," Adams reports.

Barbara Culver, of Resonate, Inc. in Cincinnati, OH, is now sponsoring client events with an emphasis on intergenerational communication and planning. Parent clients are invited to bring their adult children. "The goal here is to increase fee-based plans," she says, "and gain the adult children as clients." She is also actively seeking media interviews by offering ideas on what to do now for your portfolio and personal financial life. An advisor who asked me not to use her name offered a terrific suggestion; she's networking with local therapists, whose patients might be suffering emotionally from the market downturn.

Brent Brodeski, of Savant Capital Management in Rockford, IL, offered perhaps the most aggressive new marketing push among those who responded; his firm hosted two town hall meetings among clients, and invited them to submit questions in advance. Savant's web site now offers the 30 most common questions, with answers, plus a library of selected outside "best" articles in the consumer press, designed to help clients and prospects cut through the financial noise by highlighting the insights of the most respected investors and journalists. The site also features a "bear market resource center" (www.savantcapital.com/bearmarket), and Brodeski drove traffic to his firm's multifaceted online resource by highlighting it in a full-page ad in the local newspaper.

As the year goes on, there will almost certainly be more to report; more creative ways to cut the budget, more rethinking of how to charge clients and compensate staff, and we may see the second article in this newsletter normalize more closely with the advice in the first one. And, alas, some advisors will suddenly vanish from the professional landscape.

Yet if any advisors are looking at 2009 with dread, or avoiding the whole practice management issue because they're too focused on client service, the message from this article should be reassuring. Yes, there will be firms whose profit margin is simply too low to survive no matter what they do, and other advisory practices will lose so many clients that they lose viability. But the better advisors, with more mainstream (large and small) practices can take some fairly basic precautions and ride out the storm with a minimum of pain and suffering. The model is not that complicated; it simply requires attention and follow-through.

The upside is that many advisory firms are being forced to make hard decisions they probably should have made earlier, and will learn practice management lessons that will serve them well in the (eventual) market upturn--including the absolute necessity that they start to generate a significant profit on their owner's equity, since they never know when that will become their margin of safety.

Look for a leaner, stronger, more profitable profession sometime after 2009, and outside of our Inside Information community, look for a lot of unnecessary floundering where these simple precautions were too long delayed. As always, knowledge will be power, and preparation will determine fate; it's the eternal lesson that bear markets and economic downturns teach the unwary. ■

The presentation will include a procedural definition of life planning, and how it will fundamentally change the first and last steps of the Six Step Process. A key takeaway is psychware concepts: how to gain a much deeper understanding of the client's goals and objectives. How do these principles and probing questions work? Examples and specific client situations.

Advisors will also have to grapple with the new definition of retirement, and how this will change traditional retirement planning services. (When people work in retirement, and continue to earn an income, it greatly affects the accumulation numbers and distribution planning, particularly in conjunction with when to take Social Security benefits.)

The presentation will include examples of life planning, netweaving, outsourcing--where financial advisors solved real-world client problems that seemed beyond the traditional scope of the planning arrangement.

The talk will conclude with a discussion of practice management issues, which are essentially extensions of the client services discussion, but the tools and techniques are applied to staff members, facilitating their growth and professional evolution, creating an atmosphere which facilitates the ethical, fiduciary delivery of investment and personal advice that is clearly in the best interests of the client. There will be innovative services created out of the newly evolving software widely available (but seldom fully utilized): such as performance statements that give quarterly updates on the client's achievement of goals, an online lockbox containing copies of a client's key documents (will trust documents, life insurance policies etc.).

And finally: The anthem of the financial services profession as it becomes a central part of the world economy.