



# Do the Math

## *Firms and advisors seek the equation that will set them apart*

*For prospective clients, the difference between financial advisor practices is not clear, regardless of the advisor's location (e.g., a wirehouse, bank, or independent RIA) and best-practice financial advisors are struggling to differentiate their businesses.*

In calculus, the derivative is a measurement of how a function changes when the values of its inputs change. The process of finding a derivative is called differentiation.

As the distribution and manufacturing of investment products and the usage of fee-based client pricing increase, the traditional lines between distribution channels have begun to blur. Whereas the wirehouses had been the traditional home of the stock jockey moving the latest IPO, these firms now hold commanding marketshare in the managed accounts industry. Likewise, registered investment advisors (RIAs), long the bellwether of financial advice provision, are now finding that advisors across all channels are encroaching on their value

proposition of unbiased, independent financial advice.

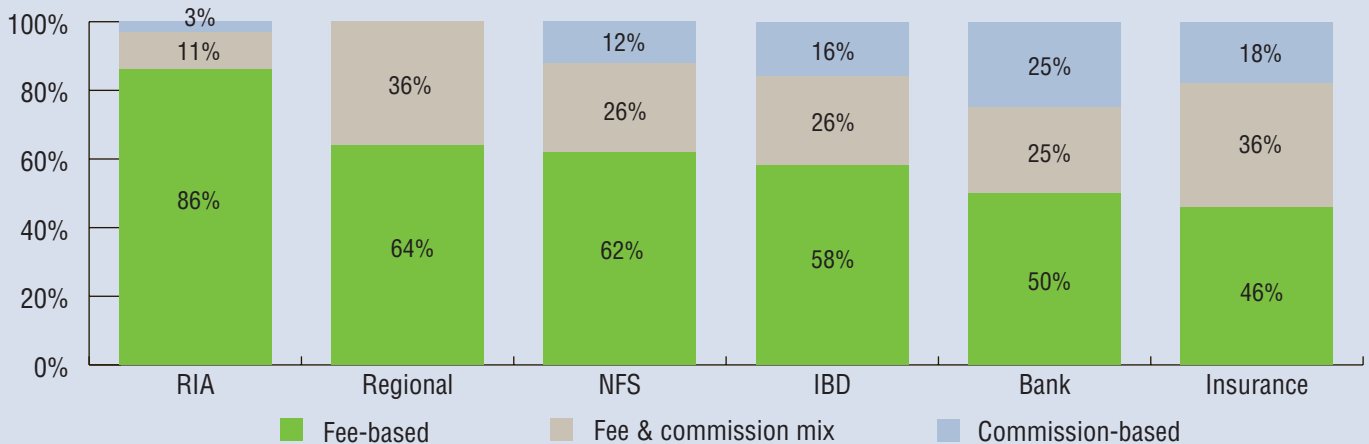
Therefore, for prospective clients, the difference between financial advisor practices is not clear, regardless of the advisor's location (e.g., a wirehouse, bank, or an independent RIA). The result is that best-practice financial advisors are struggling to differentiate their businesses—to find and add the function that will increase the value of their practices.

In this issue of *The Cerulli Edge—Advisor Edition*, we look at some ways in which advisors are trying to set themselves apart. First, we explore the provision of retirement income advice.

There has been much discussion in the

### KEY MARKET TREND: ADVISOR COMPENSATION BY CHANNEL

As advisors increasingly adopt fee-based pricing and open-architecture asset management platforms, traditional lines between distribution channels continue to blur.



Sources: Financial Planning Association, Cerulli Associates

industry about the phenomenon of the retiring Baby Boomers. However, although many advisors are using various strategies to generate income for retired clients, Cerulli analysts believe the vast majority are not creating holistic retirement income plans that take into account all the risks a client faces in a retirement that is 20 years or longer. Confidently planning for an income stream that will last a client throughout retirement represents an opportunity for those advisors that are willing to take the time to learn about and execute this complex planning.

We, therefore, examine the commonalities of organizations that are successfully addressing retirement income planning. We also review some of the tools being provided to advisors and analyze the potential challenges for broker/dealer firms as they look to address this market.

In this issue, we also examine advisor

teams. With the advice needs of wealthy investors growing more complicated, many advisors have joined or formed teams in order to provide a more diverse set of services in their practice. By sharing the administrative aspects of a financial advisory practice, advisors are freed up to spend

more time developing deeper client relationships. Likewise, advisor teams allow their members to focus on and specialize in different aspects of the advice process.

This quarter's quantitative section, built from our third quarter 2007 advisor survey, builds on our differentiation

theme, providing insights into what advisors think clients are seeking, what factors advisors believe are important to the success of their practices, and advisor attitudes around managed accounts, often a driver of an advisor's decision to move to a fee-based business. ♦

**As the distribution and manufacturing of investment products and the usage of fee-based client pricing increase, the traditional lines between distribution channels continue to blur.**

**INSIDE THIS ISSUE**

*Do the Math* .....1  
 ☒ Advisor Compensation by Channel

**RETIREMENT INCOME**

*Differential Equations* .....3  
 ☒ Obstacles to Offering Retirement Income Planning  
*Case Study: FundQuest Retirement Income Planner*  
 ☒ Percentage of Clients by Advisor Confidence in Their Retirement Preparedness

**ADVISOR TEAMS**

*The Addition Reaction* .....8  
 ☒ Team vs. Sole Practitioner Comparison: Target Client Net Worth  
 ☒ Areas of Specialty on Advisor Teams  
 ☒ Structure of Advisor Teams  
 ☒ Advisor Satisfaction with Being on a Team

**QUANTITATIVE UPDATE** .....13

**ADVISOR PERCEPTIONS**

☒ Issues Advisors Believe Are Most Important to Their Clients  
 ☒ Reasons Advisors Believe Clients Choose to Do Business with Them or Their Practice  
 ☒ Reasons Advisors Believe Clients Sought the Assistance of a Financial Advisor

**MANAGED ACCOUNTS**

☒ Advisor Reasons for Using Fee-Based Managed Accounts Instead of Commissions  
 ☒ Expected Advisor Change in Assets Allocated to Managed Accounts  
 ☒ Advisor Perceptions of Unified Managed Accounts (UMAs)

**RETIREMENT INCOME**

☒ Frequency of Use of Retirement Income Strategies

*The Cerulli Edge—Advisor Edition* is a research-based quarterly publication. Each issue is dedicated to a specific theme of interest for readership among financial advisors (including wirehouse, regional, bank, independent contractor, insurer, and RIA reps), in addition to financial industry senior management. Content for each issue is generated by Cerulli Associates' proprietary database and research engine. Cerulli Associates conducts original and independent research that is never sponsored by any company or industry group. The annual subscription fee is \$5,000 per client firm. Subscriptions are available in hard copy and electronically, with up to 15 copies. Each additional recipient beyond 15 copies is \$500. Your subscription also gives you access to all archived issues via our web-based client access service. For details, contact CAmarketing@cerulli.com. *The Cerulli Edge—Advisor Edition* ©2007 is published quarterly by Cerulli Associates, One Exeter Plaza, Boston, MA 02116. Tel: 617-437-0084. Fax: 617-437-1268. E-mail: edge@cerulli.com. Website: www.cerulli.com. Restricted and confidential. Not to be duplicated or distributed. Reproduction in whole or part in any media is prohibited except by permission.

# Differential Equations

## *Differentiation through retirement income planning*

*As the financial services industry actively prepares to service the mass of Baby Boomers headed toward retirement, Cerulli examines the commonalities of organizations that are successfully addressing retirement income planning. We also review some of the tools being provided to advisors and analyze the potential challenges for broker/dealer firms as they look to address this market.*

### KEY IMPLICATIONS

- ◆ As B/D firms prepare their advisors to provide retirement income advice to clients and prospects, their greatest challenge may be the number of functional areas this affects.
- ◆ Successful organizations are typically those wherein a senior executive has championed the cause—encouraging, even forcing, cooperation between diverse departments for effective implementation.
- ◆ In addition to efficiency, organizational cooperation creates a consistency in terms of message. If diverse groups throughout the organization are repeating the same thing, it will eventually have more impact on their advisors—particularly those who may not have seen the value in providing this type of advice.
- ◆ The planning tools offered by the B/D firm are key to a successful retirement income program. The integration of income planning software with the techniques used by advisors to manage their clients after the initial plan is developed is where many B/D firms see the next wave of technological enhancements.

**D**ifferential equations arise whenever a deterministic relationship involving some continuously changing quantities (modeled by functions) and their rates of change (expressed as derivatives) is known or postulated. The retirement planning needs (continuous and changing) of Baby Boomers (drastically increasing quantities of retirees) present such an equation.

The financial services industry—both product manufacturers and distributors—are actively preparing for this mass of Baby Boomers moving toward retirement. Direct providers, such as Fidelity, have dedicated a great deal of resources to provide retirement income advice. And, many product manufacturers, especially variable annuity providers, have emphasized retirement income in the training materials that they develop for advisors. One insurance company executive described retirement income advice as replacing hot stocks as the cocktail party conversation.

The implications for broker/dealer (B/D) firms and advisors are clear. They must be prepared to provide this advice or risk losing clients to those advisors that do. Many of the B/D firms with whom Cerulli analysts have spoken shared tales of reluctant advisors learning software programs, attending trainings, or altering their product mixes—but only after losing a key client to another advisor who did provide these services. In this article, we examine the commonalities of organizations that are successfully addressing this topic. We also review some of the tools being provided to advisors and analyze the potential challenges for B/D firms as they look to address this market.

#### *Organizational cooperation*

As B/D firms prepare their advisors to provide retirement income advice to clients and prospects, their greatest challenge may well be the number of functional areas this

affects. Advisors need training on how to provide this advice; technology tools must be developed and rolled out; complex questions must be supported; and, ultimately, appropriate plans must be implemented.

Successful organizations are typically those wherein a senior executive has championed the cause. This champion creates the sense of urgency in the organization so that retirement income initiatives are given the proper precedence. In addition, they encourage—even force—the cooperation between the diverse departments for effective implementation.

In order to develop this cooperation, Commonwealth Financial Network, a Massachusetts-based B/D firm, began training all of their employees on retirement income advice. Home-office employees, for example, were given demonstrations of the issues that their advisors were addressing. This provided them with a better appreciation of the potential opportunities and challenges facing the advisors and helped those departments with less client contact—such as technology—to brainstorm the most effective solutions.

Other B/D firms have struggled to create this level of cooperation, however. In many cases, a lack of organizational leadership has led to separate departments launching individual initiatives, each addressing retirement income in a silo. For example, a department might create a planning tool and then be forced, post-launch, to integrate other product lines and functions into this tool.

Ultimately, in addition to efficiency, organizational cooperation creates a consistency in terms of message. If diverse groups throughout the organization are repeating the same thing, it will eventually have more impact on their advisors—particularly those who may not have seen the

value in providing this type of advice.

Cerulli analysts believe that the best way to align these groups is with a cross-functional task force that has responsibility for an initiative. As we address in the next section on tools, the team must realize that it will need to trade completeness for speed. In some cases, they can get services to their advisors quicker if they do not try to do everything at once. This then allows additional developments to take into account the desires of the advisors who are taking advantage of the services being provided by the realigned organization.

### *Technology and planning tools*

Key elements of any organizational initiative are the planning tools offered by the B/D firm. These tools are typically technology-based and allow the advisor to determine a client's income needs and whether the client's investment portfolio supports these needs. In developing these programs, B/D firms and providers speak of serving two separate types of advisors.

First, there is the planning-oriented advisor. This advisor is looking for technology that allows significant customization and personalization. Although this level of specificity clearly increases the complexity of the technology, the advisors believe that this personal attention is key to their value proposition. The second (larger) group does not desire as much detail, and values simplicity and ease of use over the ability to carefully personalize. Although this latter group of advisors still see the value of planning in their client relationships, they are willing to trade a level of specificity in exchange for time efficiency.

Firms that have rolled out income-planning tools caution trying to serve both users. This makes sense, as increasing

**The implications for broker/dealer firms and advisors are clear. They must be prepared to provide retirement income advice or risk losing clients to those advisors that do.**

demands on advisors' time (often noted in Cerulli research) make it difficult to get this group to adopt new initiatives. The superusers who demand a high level of customization can often be the vocal minority in new rollouts. If they do not get the level of detail they desire, they will often be outspoken in their disappointment. However, by making these tools too complex, it can be difficult to get the larger group to adopt the technology.

There are a number of ways to ease adoption of technology tools by the majority of advisors. In the second quarter issue of *The Cerulli Edge—Advisor Edition*, we discussed methods, such as on-demand training, that enable advisors to get information when they want and when it is most relevant to them. Many software providers have built in preset scenarios that allow advisors to quickly apply the software program to common client situations. The advisor can then make minor changes to these situations in order to better customize them to fit the precise needs of their client.

Interestingly, there has been a demand for client-facing technology in retirement income planning programs. In some cases, this client-facing tool is used to underscore the need for an advisor. The client walks through a basic scenario, but the tool creates the hook for an advisor and ultimately demonstrates the need for professional advice. Client-facing tools are also used to manage the data-collection process for the advisor. Rather than having to spend time with the client detailing every expense they bear on a monthly basis, the client can fill out their monthly budget, allowing the advisor to concentrate more on implementation during their time together.

### Challenges

As with any new initiative, there are challenges. As mentioned earlier, achieving organizational cooperation is vital to any retirement income program's success.

**OBSTACLES TO OFFERING RETIREMENT INCOME PLANNING**  
While there are many challenges to the development of an effective retirement income program, Cerulli believes that achieving organizational cooperation is vital to its success.

	B/D Advisors	RIAs	Overall
<b>Lack of consumer awareness</b>			
Major obstacle	17.8%	17.4%	<b>17.7%</b>
Somewhat of an obstacle	63.0	37.0	52.9
Not an obstacle	19.2	45.6	29.4
<b>Very time consuming</b>			
Major obstacle	17.8%	13.0%	<b>16.0%</b>
Somewhat of an obstacle	53.4	52.2	52.9
Not an obstacle	28.8	34.8	31.1
<b>Product complexity</b>			
Major obstacle	18.1%	11.1%	<b>15.4%</b>
Somewhat of an obstacle	55.5	37.8	48.7
Not an obstacle	26.4	51.1	35.9
<b>Lack of technology</b>			
Major obstacle	11.1%	8.7%	<b>10.2%</b>
Somewhat of an obstacle	43.1	32.6	39.0
Not an obstacle	45.8	58.7	50.8
<b>Client resistance</b>			
Major obstacle	11.0%	4.3%	<b>8.4%</b>
Somewhat of an obstacle	42.4	43.5	42.9
Not an obstacle	46.6	52.2	48.7
<b>Lack of planning assistance</b>			
Major obstacle	9.7%	4.5%	<b>7.7%</b>
Somewhat of an obstacle	48.6	33.3	42.7
Not an obstacle	41.7	62.2	49.6
<b>Lack of home-office support/resources</b>			
Major obstacle	8.5%	4.3%	<b>6.9%</b>
Somewhat of an obstacle	36.6	28.3	33.3
Not an obstacle	54.9	67.4	59.8
<b>Lack of product offering</b>			
Major obstacle	7.0%	6.5%	<b>6.8%</b>
Somewhat of an obstacle	47.2	34.8	42.4
Not an obstacle	45.8	58.7	50.8
<b>Unable to garner significant compensation</b>			
Major obstacle	4.2%	8.7%	<b>6.0%</b>
Somewhat of an obstacle	38.0	30.4	35.0
Not an obstacle	57.8	60.9	59.0
<b>Lack of training or designations</b>			
Major obstacle	4.2%	4.4%	<b>4.3%</b>
Somewhat of an obstacle	29.1	15.2	23.7
Not an obstacle	66.7	80.4	72.0

Sources: Financial Planning Association, Cerulli Associates

CASE STUDY  
**FUNDQUEST  
RETIREMENT  
INCOME PLANNER**

## Building a Decumulation Plan

Many fee-based managed accounts have been slow to shift their focus from accumulation to distribution. However, FundQuest, a provider of turnkey asset management services, has recently rolled out Retirement Income Planner, a managed account designed to provide for a client's retirement income needs. Retirement Income Planner presents a framework for advisors and clients to develop, implement, and monitor retirement income plans.

The first step is the development and planning process. The advisor identifies the client's current assets as well as their income needs. The program then runs an analysis to measure the client's chances of success and how to optimize their income. If a plan is unrealistic, the advisor and client can discuss options and consider whether or not the client is willing to compromise their original plan.

The program then recommends an asset allocation that can be either security specific or just general asset classes. The program will also make recommendations that might not fit within a traditional managed account and recommend life insurance or annuitization.

In implementation, the advisor and client agree on the plan and set up the client's assets to generate income. The final, but continuously ongoing, step is that of monitoring. The advisor and client can identify any variances from the plan or any changes in the client's life and how that might affect the client's income scenario.

Retirement Income Planner also allows B/D firms providing the tool to their advisors to set rules. For instance, the B/D firm might not allow their advisor to provide an income plan with too low a chance of success. Other examples of rules include the amount of annuitization or life insurance recommended.

Other challenges include software integration, overcoming resistance to change, and an evaluation of fee structures (since retirement income plans require distribution, not accumulation, strategies).

Integrating planning software and looking at how advisors manage their clients after the initial plan can be a particularly daunting challenge. Tying a financial plan to the client's actual holdings goes beyond simply passing a client's age and investments between two applications. At one large B/D firm, once a plan has been established, both quarterly and annual reports are delivered to their clients. These reports detail how the client is doing against their planned income and recalculates their income plan annually. For clients who might have trouble adhering to their budget or have set unrealistic expectations, this helps paint a clearer picture of the consequences of their actions.

This integration is where many B/D firms see the next wave of developments. Functionality might be built that preschedules liquidations from a client account. The client might prefer to take their income from riskier or less risky investments or more or less tax-efficient assets. B/D firms

foresee the ability to make these liquidations automatic when the client does need to withdraw funds. In addition, firms also ultimately see an alerting system for clients and advisors. If a client takes more income than scheduled from their brokerage account, an alert will be sent out notifying both the advisor and the client.

Cerulli analysts believe that improved functionality will also build a tighter tie between fee-based managed accounts and income planning. Currently, the advice and profiling mechanisms in most managed accounts are built around accumulation, not distribution. One exception to this is FundQuest's Retirement Income Planner (see case study above). FundQuest realizes that when it comes to retirement income, the client's risk tolerance is no longer an emotional discussion, but an economic one—how much money they can afford to lose is more important than how much money they can stomach losing. Cerulli believes that sponsors of fee-based accounts will be well served to build income-distribution tools and evolve their asset allocation decisions to support clients who are in the distribution phase.

Anytime new programs or new technol-

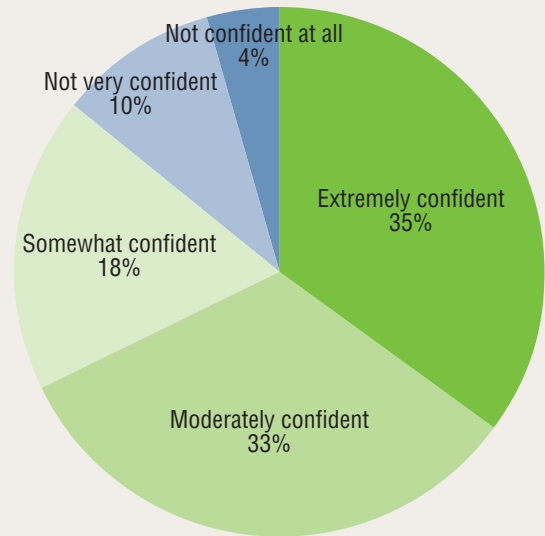
ogy are rolled out to advisors, there is resistance. It must be proven to advisors that making a change to their business will, ultimately, positively impact their bottom line. This resistance can be shared by clients as well. For example, if a client is accustomed to an advisor relationship in which the majority of discussions are about investments, it can be uncomfortable for that client to suddenly start sharing detailed information about their budget during retirement.

However, those advisors and clients who are willing to make the leap to giving and receiving retirement income financial advice typically report positive experiences. Since advisors frequently look to their peers before undertaking a new initiative, firms that have a successful financial advisor speak about their positive retirement income planning experience may inspire other advisors to begin providing retirement income advice or using a planning tool.

It is also important for both advisors and B/D firms to examine their fee structures before moving into retirement income advice provision. Clients may be drawing their assets down, meaning that fee-based advisors will actually face declining revenues as clients live out their retirement plan. In addition, because their retirement income plan will need to be revisited annually and they are receiving income monthly (creating potential for mistakes and questions), they will require far more of the advisor's attention than ever before. Cerulli analysts believe that the most economic way to account for this is through planning or hourly fees. However, the client may resist paying these fees if they have never done so before. In addition,

**Despite challenges, with retirees poised to represent a majority share of the total addressable market (Cerulli estimates 61% of assets will be held by retirees in 2015), there is no doubt that B/D firms will continue to work at providing advisors with the support they need to be successful retirement income planners.**

**PERCENTAGE OF CLIENTS BY ADVISOR CONFIDENCE IN THEIR RETIREMENT PREPAREDNESS**  
 Despite fears about the savings habits of the Baby Boomers, advisors are generally confident in their clients' ability to retire.



Sources: Financial Planning Association, Cerulli Associates

B/D firms must grow comfortable with compliance oversight of those advisors providing retirement income planning advice for a planning or hourly fee.

Despite these challenges, with retirees poised to represent a majority share of the total addressable market (Cerulli Associates estimates that 61% of assets will be held by retirees in the year 2015), there is no doubt that B/D firms will continue to work at providing advisors with the support they need to be successful retirement income planners. While this is no easy task, Cerulli believes that those B/D firms that effectively partner with their advisors—through a firmwide commitment to retirement income, provision of effective income planning tools, the development of a program to address advisor resistance, and careful evaluation of the structures—will be in a position to effectively capture some of the business to be had in this market. ♦

# The Addition Reaction

## *Differentiation through the formation of advisor teams*

*As financial advice practices have grown increasingly analogous, many have tried to distinguish themselves by the depth of advice they provide. As a result, Cerulli analysts have observed a growth in the incidence of advisor teams in recent years.*

### KEY IMPLICATIONS

- ◆ While team members should be like-minded in their goals, the most successful advisor teams combine complementary personalities and business expertise. B/D firms must make the need for this structure clear when communicating the advantages of advisor teams to their advisors.
- ◆ Up-front, written team agreements should be in place, dictating compensation, goals, and responsibilities. B/D firms should provide their advisors with templates that allow advisors to document all key divisions of responsibilities before formally forming a team.
- ◆ Even with up-front diligence, issues will arise as teams work together. B/D firms should have a consulting or coaching mechanism in place that allows advisory teams to effectively solve these issues.

In chemistry, the “addition reaction” is, in its simplest terms, an organic reaction where two or more molecules combine to form a larger one. If the two molecules don’t bond, there follows the self-explanatory “elimination reaction.” Such is often the case for teams of advisors.

As channel lines blur and financial advice practices grow similar, many have tried to stand out by selectively adding advice services. As a result, Cerulli analysts have observed a growth in the incidence of advisor teams in recent years. In addition to this increased demand for advice services from wealthy clients, advisor specialization has led to the popularity of advisor teams.

Many practice consultants and broker/dealer (B/D) firms have actively encouraged their advisors to grow their practices by focusing on wealthier clients. Not surprisingly, Cerulli frequently sees an increasingly wealthy client base as a hallmark of a growing practice. However, advisors’ ability to distinguish themselves to wealthy (and discerning) clients can pre-

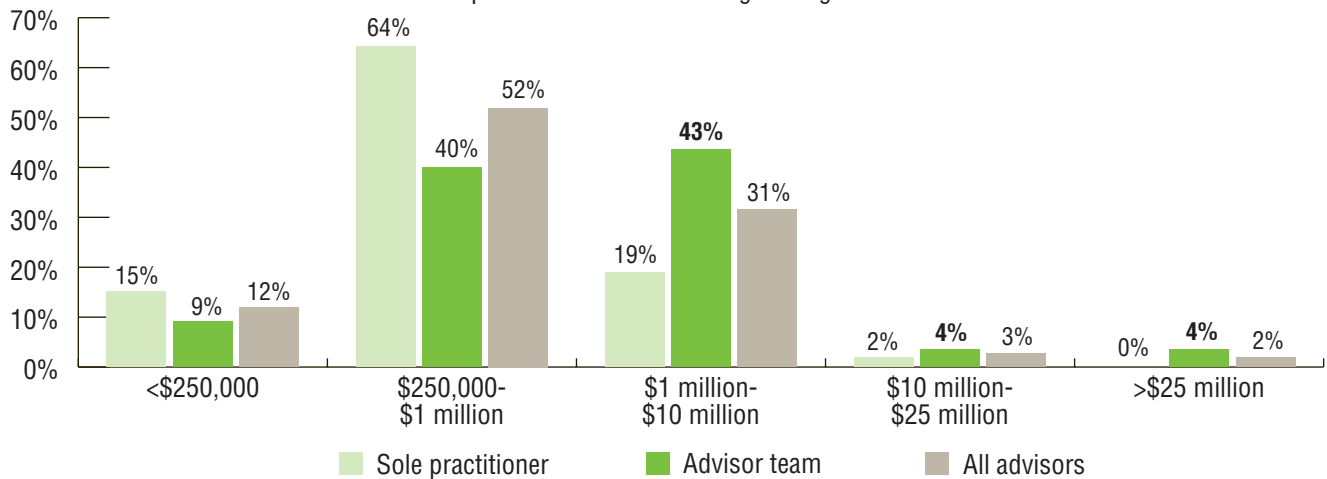
sent a considerable challenge. The advice needs of the high net worth (HNW; defined for purposes of this article as individuals with a net worth of \$10 million or more) are complex, requiring specialized advice and placing considerable demands on an advisor’s time.

Financial advisors are expected by HNW clients not just to be an expert on individual stocks and the capital markets as a whole, but also to at least have access to information on taxation, estate planning, insurance, legal issues, and much more. Clearly, it is difficult, at best, for a single advisor to be an expert in all of these areas.

The best candidates for advisor teams are those advisors who are constantly looking for ways to improve their practice. These advisors are going to be those most receptive to change and the most willing to shift their behaviors in order to grow their practice. These advisors realize that to maximize the potential of their practices, they must constantly evolve the way in which they do business. Although any advisor would admit to wanting to earn

**TEAM VS. SOLE PRACTITIONER COMPARISON: TARGET CLIENT NET WORTH**

Due to the more complex financial needs of the wealthy, advisor teams are more successful than sole practitioners in addressing the high net worth.



Sources: Financial Planning Association, Cerulli Associates

more, many are not willing to give up control of their day-to-day activities. As one industry executive put it, “Some advisors would rather have 100% of nothing than 50% of something.”

***Complementary personality and expertise***

The first key issue for the successful formation of a team of advisors is to ensure that component personalities and expertise are complementary. Since client and time demands for an advisor are so great when serving the HNW, forming an advisor team should be viewed as a way to match complementary strengths and to leverage those strengths. Successful teams of advisors almost always have one advisor who specializes in business development and client acquisition. Other advisors on the team then complement these strengths through expertise in investment management, client service, or another advice discipline. One industry consultant offered the example of a team that was extremely successful in bringing in new clients, but struggled to retain them. The team had multiple business develop-

ment specialists, but not one focused on servicing and retaining clients.

In forming a team, advisors must take a good hard look at what they are good at and what they like to do. Just as importantly, they must also understand those parts of running an advisory practice in which they are not quite as strong. One regional B/D has made this concept of complementary strengths part of its promotion of advisor teams. About three years ago, the B/D firm began active internal promotion for the formation of advisor teams. However, in addition to communicating the advantages of teams to its advisors, it made it clear that complementary personalities and business concentrations were vital to success. As a result, nearly 90% of the firm’s proposed teams were formed.

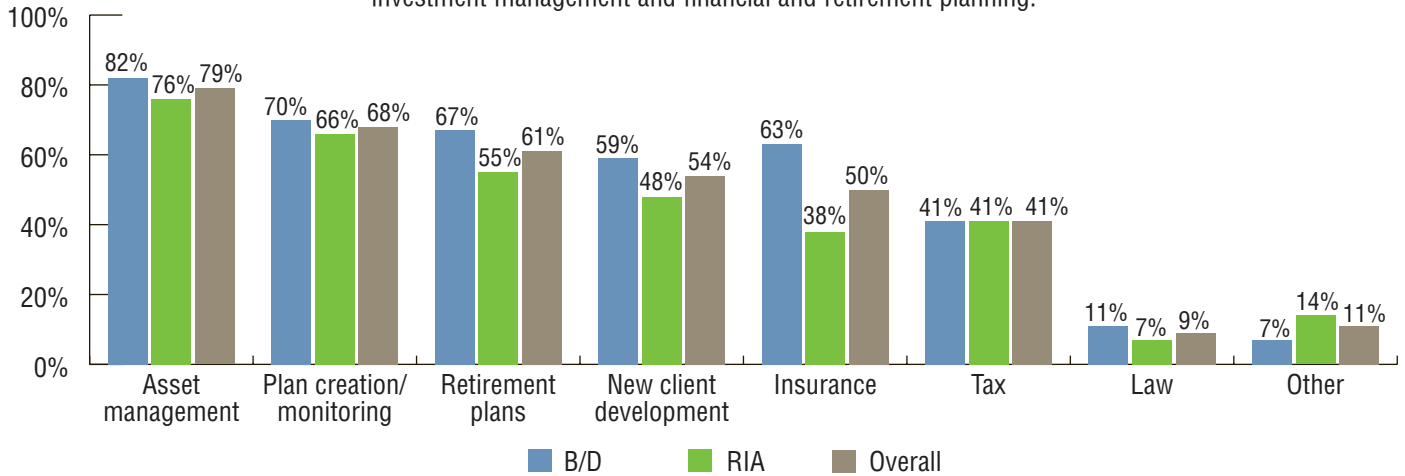
**In forming a team, advisors must take a hard look at what they are good at and what they like to do. Just as importantly, they must also understand those parts of running an advisory practice where they are not quite as strong.**

The team must also match up in other ways. Work ethic and attitudes can also create conflict. A 70-hour per week workaholic can quickly become resentful of a partner who takes off every Wednesday afternoon to play golf, or routinely leaves at 4:30 p.m. to coach Little League. As many of these



**AREAS OF SPECIALTY ON ADVISOR TEAMS**

Specializations on advisor teams are concentrated around the core services provided by advisors— investment management and financial and retirement planning.



Sources: Financial Planning Association, Cerulli Associates

issues as possible should be identified up front to prevent problems down the line.

**Team structures**

Advisor teams take on three primary structures. The most common is one in which a senior advisor dictates responsibilities to junior advisors. The second is a partnership-style structure, in which multiple senior advisors share compensation and responsibilities. Finally, and least common, is a team wherein the component advisors act as specialists with expertise in different advice disciplines.

The senior-junior structure is most common for small teams with two or three advisors. In this case, a senior advisor might bring on a junior advisor to serve smaller clients, handle some administrative aspects of the practice, and do investment research. A common scenario is one in which the senior advisor sells qualified plans and the junior advisor assists with enrollment meetings and capturing smaller rollovers from the plans.

Larger teams are often a combination of two or all three of the aforementioned structures. There are two to three “partner” advisors who have their names on the door and act as the face of the practice. Junior advisors then handle different aspects of

the client service and communication process. Depending upon the niche to which the team markets, there might also be specialists on hand who work on specific advice disciplines.

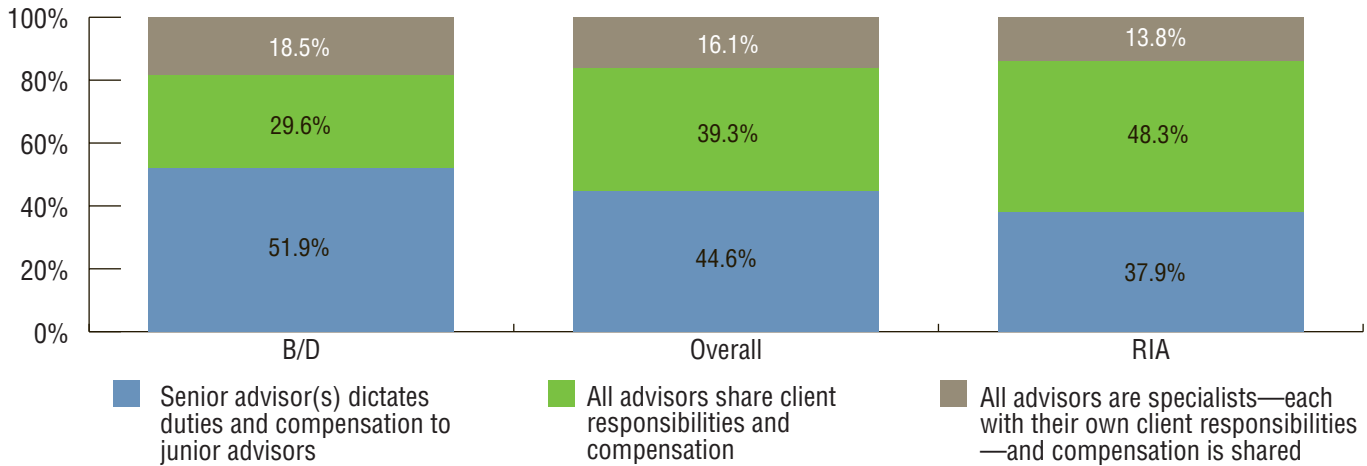
**Put it in writing**

Industry consultants often recommend putting agreements around the team structure in writing, during the formation process. There are three primary areas where new and existing teams formalize their agreements. The first is compensation. Successful compensation agreements not only establish rates of pay, but also build in how compensation might shift over time. If, for example, a senior advisor brings in a junior advisor, there should be agreed upon milestones that might include revenue, assets under management, and specific training whereby the junior advisor’s share of the practice revenues will increase. This agreement should also include a clause dictating how client relationships will be divided if the team were to break up.

The second place where a team should formalize a written agreement is in the division of responsibilities. As we stated earlier, advisor teams are most successful when they are made up of complementary per-

**STRUCTURE OF ADVISOR TEAMS**

The most common team structure features a senior advisor delegating duties to junior team members.



Sources: Financial Planning Association, Cerulli Associates

sonalities and expertise. As the team begins doing business together, it will make the transition much easier if the team members have already agreed on the division of labor.

A written agreement is also beneficial for advisor teams to establish their mission statement or value proposition. Many industry consultants who work with struggling advisor teams report disconnects between the team members in their understanding of their team's value proposition. In these cases, when asked what makes the team unique, each component member typically has a similar, but nonetheless distinctly different, idea of what sets them apart.

One independent advisory team reported that having a written agreement concerning their value proposition helped them to resolve conflicts. When team advisors had different opinions on how to attack an issue, the team found it could often be resolved simply by referring back to its mission statement.

***Communication and client service***

Inevitably, there will be conflict when people with various personalities work together. Many of these potential conflicts can be resolved, however, through careful

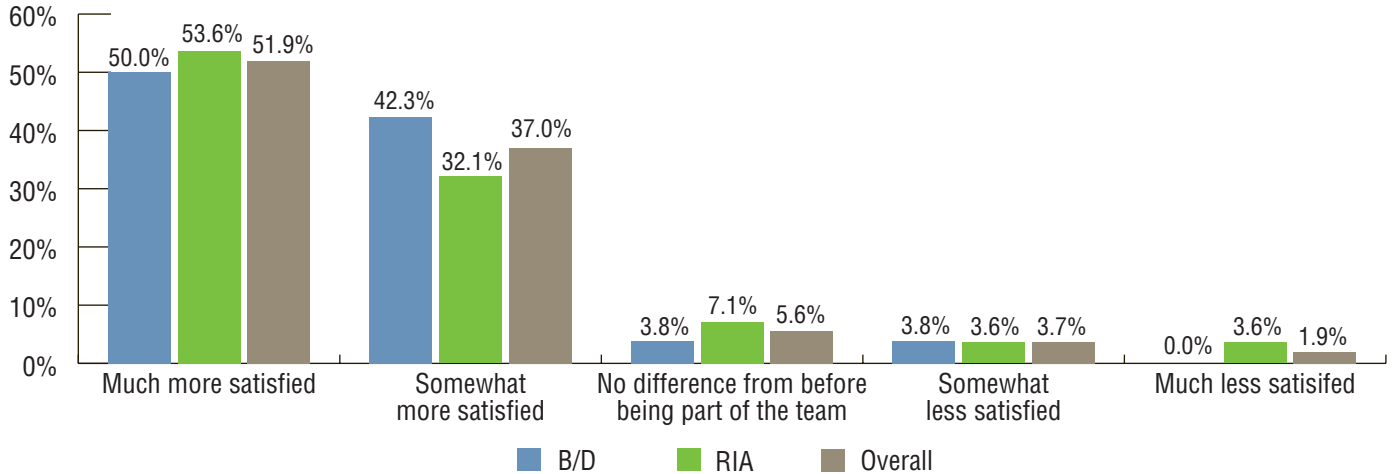
consideration in the up-front planning process. In addition, often a key theme in resolving these conflicts is communication. An example of this is client service. A team member might speak to a client regarding an issue or question. The next time the client calls in, if they speak with a different team member, the client expects that member to know the details of their situation. If the team member does not, it appears to the client that the team is merely a collection of people, rather than a cohesive service unit.

Advisory teams can avoid this type of issue through productive internal meetings. Many teams hold regular meetings, but the meetings are not productive and do not end up as forums for sharing important issues. These meetings should have effective agendas and all team members should have an idea of what issues need to be discussed. If there is a particular area that needs special attention, a specific meeting can be set up for that purpose as well. Regardless, team members should use these forums to ensure that all team members are apprised of all key issues.

Many teams also utilize daily e-mails as a way to keep each other up to date on key developments. Either at the start or end of the day, each team member will share an e-mail with key developments for the day so

**ADVISOR SATISFACTION WITH BEING ON A TEAM**

Overwhelmingly, advisors report being satisfied with the team setting, with nearly 90% of advisors reporting that they are happier on a team.



Sources: Financial Planning Association, Cerulli Associates

that other team members will be in the loop with what is going on.

Customer relationship management (CRM) systems, through which every client interaction is recorded, can also enable effective client service. Although, at first glance, this appears to be a silver bullet solution, financial advisors are notoriously poor at entering records of their conversations into a CRM system. If a team is going to use this as a solution, all team members—not just those with administrative responsibilities—must be diligent about use of the system.

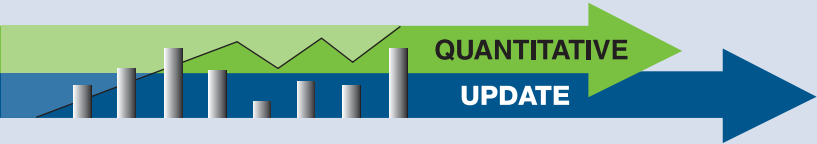
***B/D firm guidance***

For B/D firms, it is not enough to simply encourage team formation. Like any new initiative, the firm must convince advisors of the value of teams. With nearly 50% of financial advisors operating in a team currently, it should not be difficult for B/D firms to find positive role models. In promoting team formation, it's important for the B/D firm to clearly identify the specific practices of successful teams that a new team should emulate. The B/D should also help the prospective team execute the necessary team organization details, (*e.g.*, evaluating the division of responsibilities) in

order to ensure that the team will be as efficient as possible. Finally, there should be some structure in place so that the B/D firm can coach the team through potential conflicts.

By working with a team of advisors to overcome the challenges inherent in team formation, there exist significant benefits for both the advisors and the B/D firm. Not only are teams more successful in addressing HNW clients (often a key component of a growing advisory practice), but also advisors operating on teams report being far more satisfied as a member of a team than they were as sole practitioners. Advisors that join a team can concentrate on those elements of the job that they most enjoy. In addition, having back-up team members and processes in place makes it easier for them to take time off.

B/D firms should not be forcing team formation, however. Some advisors simply do not want to work with other people. An arranged “marriage” will likely have inherent tension from the start. However, since there are clear advantages to advisor teams for both the advisors and the B/D firm, B/Ds should be publicizing these advantages and providing advisors with examples of successful advisor teams. ♦



**ADVISOR PERCEPTIONS**

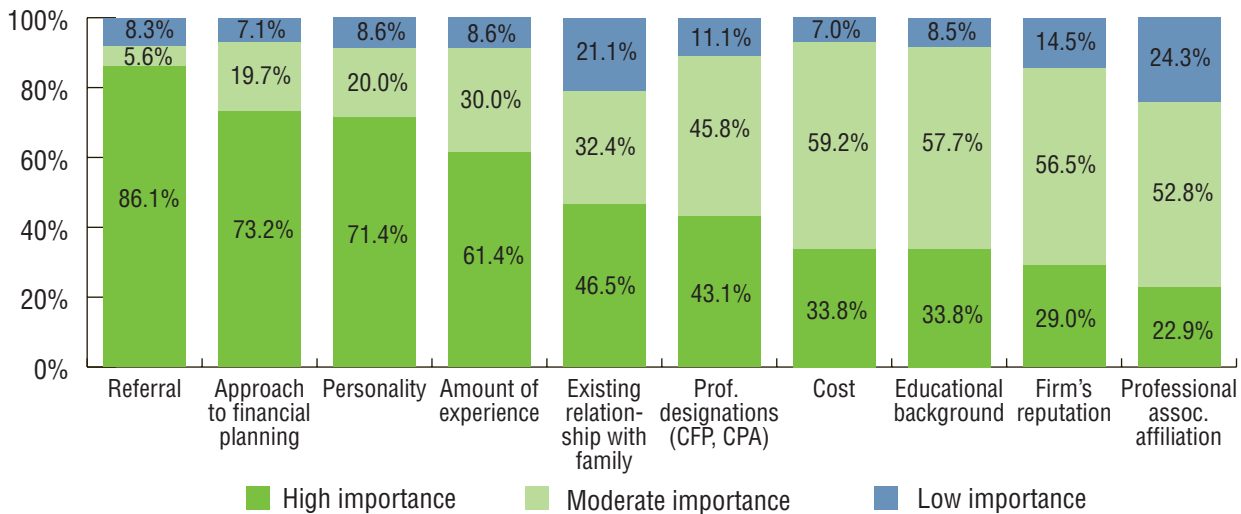
**ISSUES ADVISORS BELIEVE ARE MOST IMPORTANT TO THEIR CLIENTS**

	Highly important	Somewhat important	Not at all important
Increasing clients' current asset level	74.3%	17.6%	8.1%
Maintaining clients' existing lifestyle	68.9	18.9	12.2
Managing investment risk	54.1	37.8	8.1
Maintaining current asset levels	49.3	41.1	9.6
Protecting family in the event of premature death	41.1	50.7	8.2
Financing children's college education	39.2	52.7	8.1
Affording healthcare for their family	38.4	52.0	9.6
Minimizing income and capital gains taxes	24.3	70.3	5.4
Managing debt	20.8	63.9	15.3
Protecting clients' estate from the impact of taxes	20.5	64.4	15.1
Leaving an estate for heirs	13.7	76.7	9.6
Teaching their children the value of money	13.7	60.3	26.0
Giving to charity	5.5	64.4	30.1

Sources: Financial Planning Association, Cerulli Associates

According to advisors, client concerns that can be solved with investment management and prudent asset allocation are the most common concerns for retail clients. Retail clients with significant assets to invest either do not have the time to manage and research their own investments or are afraid of making a mistake in doing so. Regardless of the reasons, advisors believe that help with these issues are foremost in their clients' minds in seeking financial advice. Softer issues such as creating a legacy, saving for educational expenses, and affording healthcare rank much lower on the list of investors' concerns.

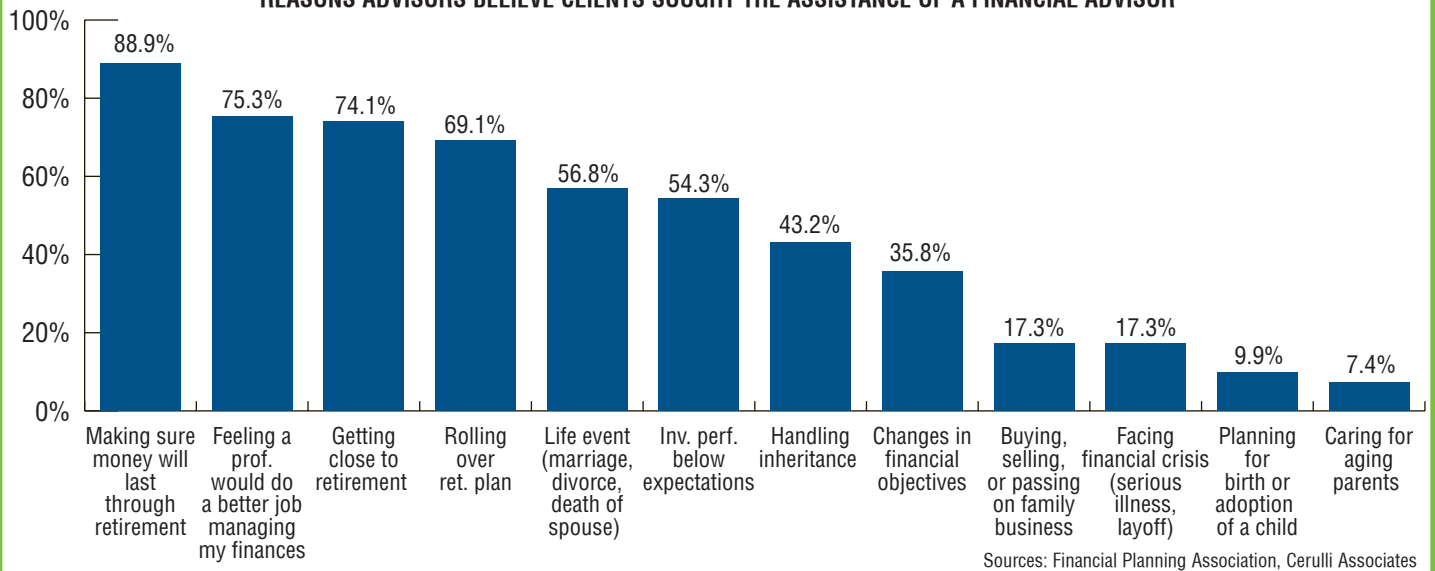
**REASONS ADVISORS BELIEVE CLIENTS CHOOSE TO DO BUSINESS WITH THEM OR THEIR PRACTICE**



Sources: Financial Planning Association, Cerulli Associates

Referrals rank as the most important reason clients choose to work with an advisor. There are two primary sources of referrals for financial advisors. The first is referrals from existing clients. The second is referrals from a well-developed professional network. For best-practice advisors that are addressing higher-net-worth clients, a developed referral source is often a common hallmark of their practice. Examples of this network include CPAs, attorneys (including divorce attorneys), and HR departments of publicly traded companies.

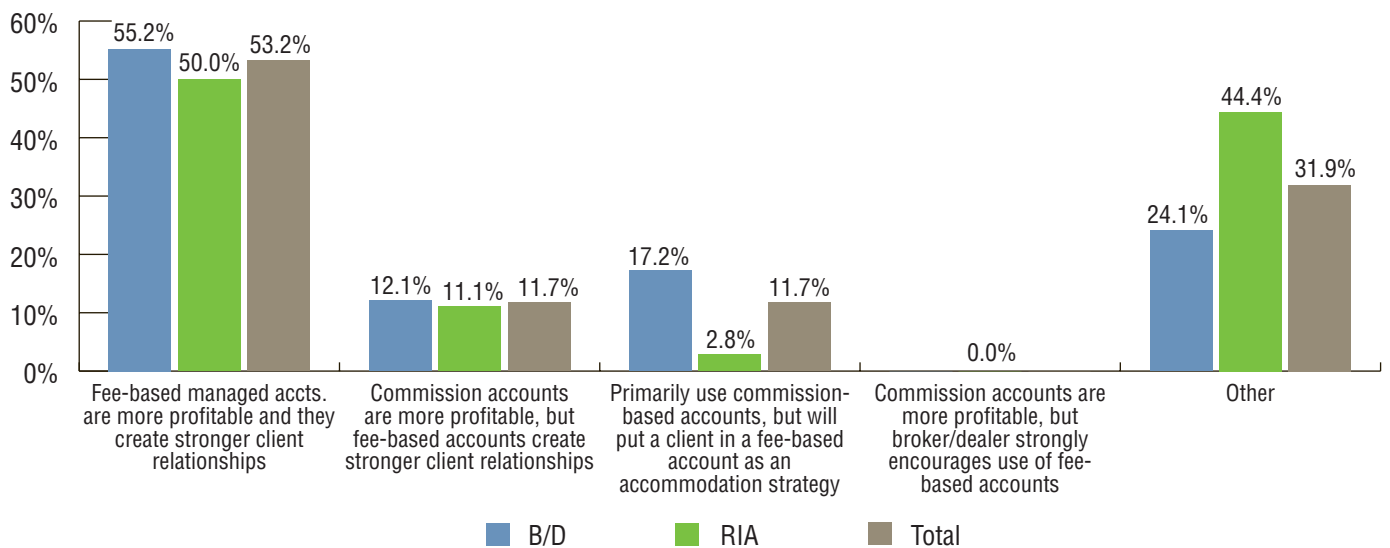
**REASONS ADVISORS BELIEVE CLIENTS SOUGHT THE ASSISTANCE OF A FINANCIAL ADVISOR**



Advisors believe retirement planning is a primary concern of their clients. Three of the four most common reasons advisors believe their clients sought them out are ensuring that their money will last throughout retirement, getting close to retirement, or having a retirement plan to rollover. As the Baby Boomers move closer to retirement, advisors must ensure that they are well positioned to provide the retirement advice these clients demand. As we detailed earlier in this issue, providing retirement income planning is a clear way for advisors to distinguish themselves in the eyes of clients and prospective clients. However, B/D firms and service agents must supply advisors with the necessary tools and training to begin providing these services and already time-strapped advisors must make the time to provide this advice.

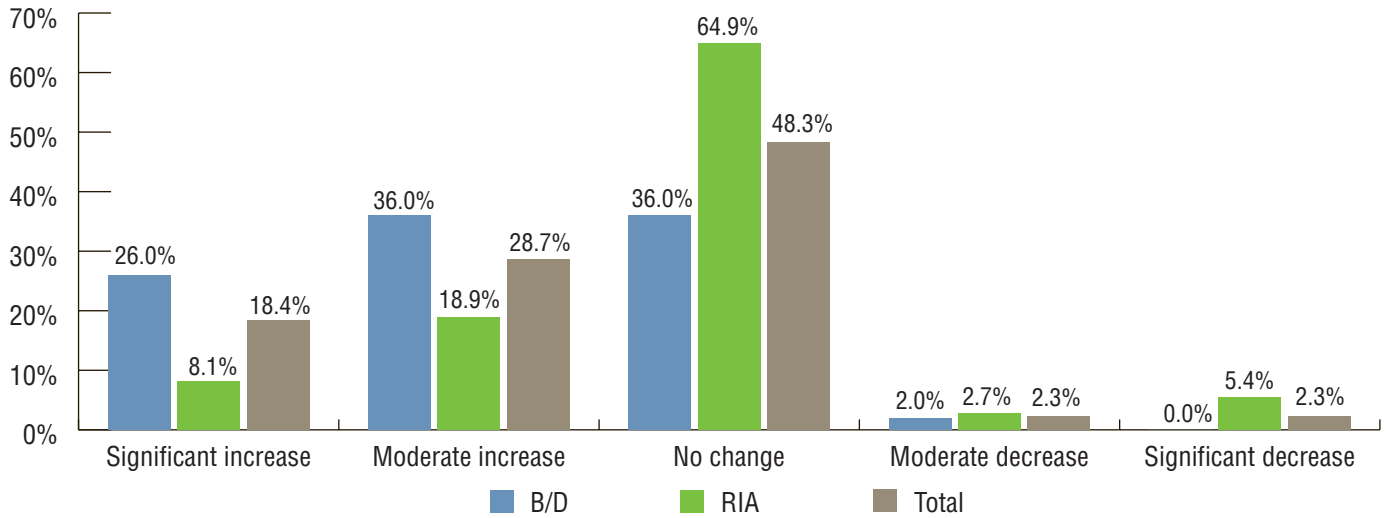
**MANAGED ACCOUNTS**

**ADVISOR REASONS FOR USING FEE-BASED MANAGED ACCOUNTS INSTEAD OF COMMISSIONS**



Advisors feel strongly about their use of managed accounts, generally believing that they create stronger client relationships and are more profitable. Client profiling and monitoring tools create opportunities for advisors to have more frequent client contact than they might otherwise. Likewise, the asset allocation component of these programs allows advisors to sell an investment process rather than depending on the sexiness of recent performance to generate a commission. Finally, advisors believe the fee structure aligns their interests with their clients by seeking to grow their assets rather than complete a transaction.

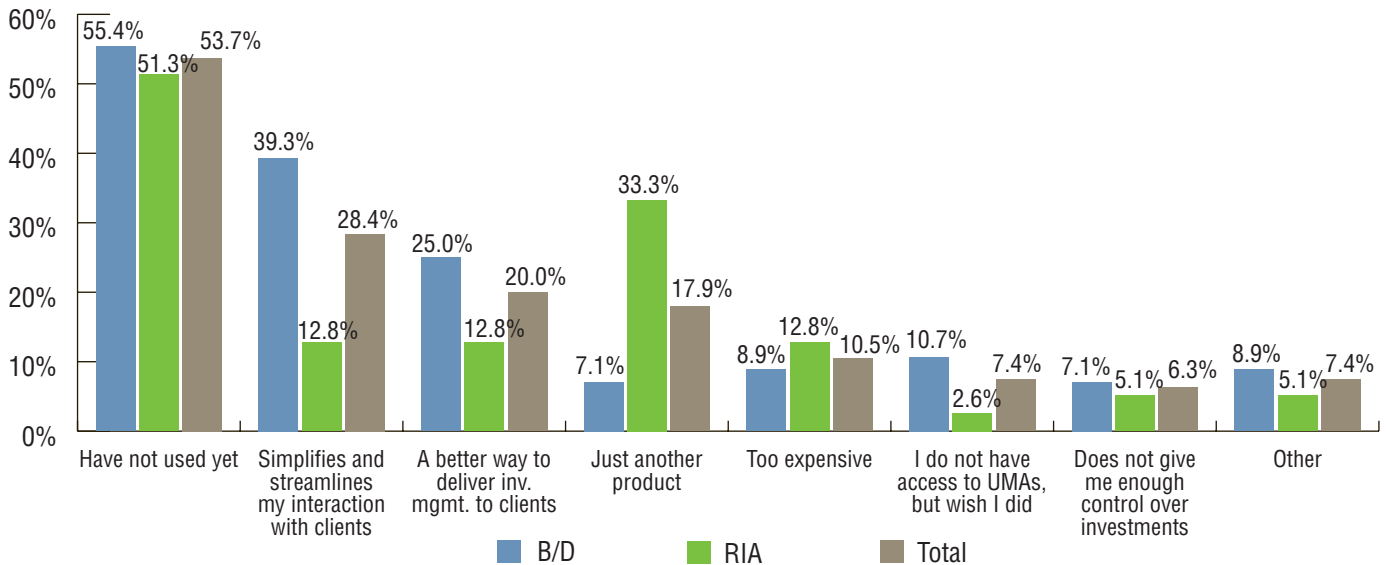
**EXPECTED ADVISOR CHANGE IN ASSETS ALLOCATED TO MANAGED ACCOUNTS**



Sources: Financial Planning Association, Cerulli Associates

Drawn to their fee-based pricing and frequent research assistance, the majority of registered representatives at broker/dealer (B/D) firms expect to increase their usage of managed accounts. RIAs, however, are more sanguine, with only about one-quarter expecting to increase their usage of managed accounts. Managed account programs offer advisors at B/D firms the ability to operate much like RIAs, by offering open-architecture investment management and fee-based pricing. However, RIAs take great pride in their independence and often are reluctant to adopt the research assistance provided by many managed account programs. However, RIA firms, which operate as small businesses, can often benefit from managed accounts as technology platforms that offer high-end reporting and tax optimization tools.

**ADVISOR PERCEPTIONS OF UNIFIED MANAGED ACCOUNTS (UMAs)**



Sources: Financial Planning Association, Cerulli Associates

Sponsors of unified managed accounts (UMAs) have an uphill battle as the majority of advisors report that they have not used the product. However, the opinions of advisors associated with B/D firms are generally positive as they give high scores to the UMA as a means of streamlining client interactions and delivering asset management to clients. Again, RIAs are far less excited, with a third describing the UMA as just another product. For the UMA to catch on as the delivery mechanism of choice, sponsors must be willing to take the time and effort necessary to educate advisors on the benefits of these vehicle-neutral programs.

RETIREMENT INCOME

FREQUENCY OF USE OF RETIREMENT INCOME STRATEGIES

	B/D	RIA	Overall
<b>Systematic withdrawals from mutual funds</b>			
Very frequently	52.1%	37.5%	46.2%
Somewhat frequently	35.2	37.5	36.1
Not frequently	12.7	25.0	17.7
<b>Dividend paying stocks or mutual funds</b>			
Very frequently	44.9%	46.0%	45.4%
Somewhat frequently	44.9	36.0	41.2
Not frequently	10.2	18.0	13.4
<b>Individual fixed income securities</b>			
Very frequently	21.4%	36.7%	27.7%
Somewhat frequently	22.9	30.6	26.1
Not frequently	55.7	32.7	46.2
<b>Variable annuities with living benefits</b>			
Very frequently	33.8%	11.1%	25.0%
Somewhat frequently	39.4	13.3	29.3
Not frequently	26.8	75.6	45.7
<b>Systematic withdrawals from variable annuities</b>			
Very frequently	27.5%	10.4%	20.5%
Somewhat frequently	45.0	31.3	39.3
Not frequently	27.5	58.3	40.2
<b>Packaged retirement income mutual funds</b>			
Very frequently	5.6%	6.5%	6.0%
Somewhat frequently	26.8	15.2	22.2%
Not frequently	67.6	78.3	71.8
<b>Annuitization</b>			
Very frequently	4.3%	6.5%	5.2%
Somewhat frequently	22.9	19.6	21.5
Not frequently	72.8	73.9	73.3
<b>Reverse mortgages</b>			
Very frequently	0.0%	4.5%	1.8%
Somewhat frequently	2.9	13.3	7.0
Not frequently	97.1	82.2	91.2

Sources: Financial Planning Association, Cerulli Associates

The most popular methods for drawing retirement income are some of the simplest. Systematic withdrawals from mutual funds and dividend-paying securities are the most popular with advisors. Annuities, both those with living benefits and those without, rank among the lowest. The variable annuity industry must ensure that it is demonstrating how its products can be used to generate a guaranteed retirement income stream, rather than comparing product features.



**REGISTERED INVESTMENT ADVISORS:  
 EVALUATING OPPORTUNITIES IN A MATURING MARKETPLACE**

This recently released **Cerulli Report™** examines the independent retail registered investment advisor (RIA) marketplace. It segments and sizes the market in a variety of ways and evaluates characteristics of each. The 200-page report provides an in-depth analysis of the opportunities and challenges within this channel for service agents, product manufacturers, broker/dealers, and other service providers. **Data included in this report:** Market sizing and segmentation; Challenges and profiles of RIA market segments; Sizing, ranking, and profiles of top service agents; RIA attitudes on topics including product usage, succession planning, and service agents.

**Available now. Price: US\$10,000**

For more about this report and others, please visit [www.cerulli.com](http://www.cerulli.com) or contact Marketing & Business Development at 617.437.0084 or [CAmarketing@cerulli.com](mailto:CAmarketing@cerulli.com).