How to Build a Scalable Foundation for Growing Your Advisory Practice
Table of Contents

A World Full of Opportunity .................................................. 1
What Clients Want .............................................................. 1
How Financial Advisors Are Responding ............................... 2
Heightening the Client Experience ...................................... 4
Quality and Professionalism ............................................... 5
Efficiency, Transparency and Ease of Use ............................... 6
Filling the Role of Fiduciary .................................................. 7
Developing the Solution ....................................................... 8
Due Diligence Questions for Selecting an Asset Management Platform .................................................. 10
About Securities America ..................................................... Inside Back Cover
A World Full of Opportunity

Financial advisors today face a unique set of challenges. The global economy is emerging slowly and unevenly from the grip of the Great Recession. World events, new efforts to impose fiscal responsibility, market volatility and low interest rates all create questions about how best to advise clients about the future. New regulations and changing business models alter the competitive landscape daily. Keeping up with it all can be a daunting task.

This is also a period of great opportunity for advisors. Clients have never needed or valued expert investment advice more than they do today. An advisor who can help clients identify long-term goals and develop comprehensive solutions to meet them has the chance to build a growing, thriving practice. However, that opportunity will be there for advisors who are prepared to take advantage of it. Being prepared means establishing a solid, scalable foundation for your practice that allows you to efficiently deliver the products and services your clients need in any environment. It means organizing your practice so you have the time to truly understand your clients’ unique goals, objectives and values and build the trust that is fundamental to a lasting relationship.

This paper offers ideas on how to build a scalable foundation for your advisory practice that will allow you to meet the varying demands of your clients as your practice grows. The advice contained in this paper is based on industry research and the practical observations of advisors who have had success building a scalable foundation for their practices.

What Clients Want

Clients entrust their future financial security to their financial advisors. So it should not be surprising that they named “trustworthiness” as the most important attribute in the selection of a financial advisor in a 2006 study by State Street Global Advisors and Knowledge@Wharton. Trustworthiness was followed in importance by “understands family needs and goals,” followed by “communication practices,” “low cost” and lastly “performance.

The same study found that the most important personal attribute of an advisor was knowledge. This is consistent with the finding that trustworthiness is the most important factor in selecting an advisor. It would be hard to entrust your financial future to an advisor who is not knowledgeable. The next most important personal attribute was responsiveness, followed by proactiveness. These attributes, obviously, are related to high service levels.

These findings are consistent with a 2009 report by Cerulli Associates, which found that client satisfaction depends more on their advisor’s service levels and knowledge than on portfolio performance. They are also consistent with research done by Russ Alan Prince in 2007 who found that advisors who spend more than 60% of their time on building client relationships have annual incomes three times higher than advisors who spend only 30% to 60% of their time on client-facing activities. And they earn nearly six times more than advisors who spend less than 30% of their time building client relationships.
Of course, much has been written over the years about the importance of building strong, trusting relationships with clients; understanding their needs, goals and values; proactively communicating with them; and being responsive to their needs. No one would argue that these things aren’t important. But these are not the only things that are important to them.

Although it may not be at the top of their list in selecting a financial advisor, investment performance is important to them, too. Some may be focused on capital preservation while others are focused on generating high returns, but all of them care about the results that are achieved through the investment of their assets. After all, it is through those results that they achieve, or fail to achieve, the goals that they establish with the help of their advisors.

Because performance is important, access to quality investment choices is also important. Some advisors build client portfolios themselves using individual securities, mutual funds, ETFs or other investment vehicles. Others use third-party mutual fund strategists and/or separate account managers to achieve the same goal. Many advisors use a flexible approach and make the “build or buy” decision based on client needs.

Whatever approach you take, it is important to have access to a range of options to meet the varying needs of your diverse client base. Clients often have experiences and biases that influence their preferences for certain approaches to investing. Being able to respond by providing the types of investments that make clients feel most comfortable is important. Even when clients have no specific preferences, you must be able to provide investment options that are suitable and tailored to the client’s individual needs and objectives.

Clients care about the little things, too. They want performance reporting that is clear and informative. They want a billing process that is timely, accurate and transparent. They want to be able to open and make changes to their accounts quickly and efficiently. They want a streamlined contribution and withdrawal process. They want online access to their accounts at any time and they want to be able to view multiple accounts on an aggregate basis.

Meeting all of these needs efficiently and in a manner that creates an excellent client experience requires planning and the marshaling of a host of resources. The good news is this is a path that many successful advisors have already traveled. Their experiences can provide insight on what it takes to build a scalable foundation for a growing advisory practice.

How Financial Advisors Are Responding

Most financial advisors do not need a study to tell them what their clients want. Their clients tell them every day. Advisors appear to be listening.

A recent study done by CEG Worldwide shows how advisors have modified their practices over the years to respond to the needs of their clients. In 2001 CEG performed a broad industry survey and found that 86.2% of the advisors they interviewed were “investment-centric.” That is, their greatest priorities were on investments, not client
relationships. Only 13.8% of advisors were “client-centric.” In 2012 CEG repeated the survey and identified a dramatic change. They discovered that 89.5% of advisors were client-centric and only 10.5% were investment-centric.

**Advisors’ Priorities Based on Client’s “Needs”**

<table>
<thead>
<tr>
<th>Year</th>
<th>investment-centric</th>
<th>client-centric</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>13.8%</td>
<td>86.2%</td>
</tr>
<tr>
<td>2012</td>
<td>10.5%</td>
<td>89.5%</td>
</tr>
</tbody>
</table>

John Bowen, CEO of CEG, explains the reason for this shift: “When advisors foster deep client relationships, they gain a deeper understanding of the client’s financial concerns and are thus better able to effectively address these concerns. This, in turn, results in greater client satisfaction—making it easier for advisors to ask for, and get, additional assets and introductions to prospects.”

Knowing the importance of fostering deep client relationships is one thing. Finding the time to do it is another. Managing all aspects of a comprehensive financial planning or wealth management firm takes time. How can an advisor carve out enough time during the day to give clients the attention they increasingly demand?

An advisor can simply work more hours and try to increase the amount of time spent with clients. But often there just aren’t enough additional hours in a day to make a difference. And working longer hours has a negative lifestyle impact and can lead to professional burn-out. Working longer hours may also degrade the quality of the client/advisor interactions.

Another solution is to hire more staff and build the infrastructure necessary to free an advisor from day-to-day portfolio management, back office and administrative responsibilities. Hiring staff and building infrastructure can be costly and adds to the fixed expenses associated with running a practice. These things take time, too, and can create ongoing management responsibilities that further take away from time spent with clients. And then there is the quality issue. Just because you have staff and infrastructure in place does not mean that the quality of what you have built will stand the test in an increasingly competitive world.

Research suggests that many advisors have concluded that becoming more client-centric requires a fundamental shift in the way they have traditionally done business. This has led to an increasing reliance on outsourced portfolio management services. By off-loading portfolio management responsibilities advisors have been able to gain more time to devote to client-facing interactions. Research from Tiburon Strategic Advisors shows that assets outsourced by independent advisors have grown from $16 billion in 1996 to over $250 billion in 2011.
This trend appears to be gaining ground among advisors. The FPAs “2010 Trends in Investing” survey found that 42.5% of advisors surveyed outsourced some or all of their investment management. In a more recent survey done by Northern Trust, “Investment Management Outsourcing: The State of the Art in 2012,” 60% of the advisors said they outsourced more than half of their clients’ assets and 37% said they outsourced between 75% and 100% of their clients’ assets. These findings are consistent with the recent CEG study, which found that 51.6% of advisors surveyed outsourced at least half of their clients’ assets.

Despite this trend, many advisors still choose to manage some or all of their clients’ assets themselves. There are many reasons for this. The advisor may have great skill or special expertise in portfolio management. Certain clients may have investment management needs that are difficult to outsource and require the advisor’s special attention. Or the advisor may simply have a passion for investment management. Advisors may also have the perception that outsourcing is more expensive; according to “The Advisor’s Guide to Outsourced Portfolio Solutions,” however, fees may range from 85 to 280 basis points, depending on the assets classes and structure used for the account.

Many advisors strike a balance between building internal capabilities and outsourcing. This gives them the flexibility to respond to a wide variety of client needs. Finding new clients and building strong relationships with existing clients cannot be effectively outsourced, nor, given its importance to the success of an advisory practice, should it be. Beyond that, however, many firms approach the outsourcing decision by first identifying all activities that can be outsourced and then identifying those that should be outsourced. The answers will depend on the nature of the advisory practice and the strengths and preferences of the individuals within the firm.

Even advisors who choose to retain some or all portfolio management responsibilities have found that outsourcing can help them become more client-centric. Back office functions such as performance reporting, billing, trading and rebalancing can all be outsourced. So can research and due diligence functions. Certain administrative functions can be outsourced too. All of these outsourcing opportunities can help advisors become more client-centric.

**Heightening the Client Experience**

Philip Johnson of Johnson Financial Advisors sums up the problem: “There is never enough time in the day to meet with and service clients.” Johnson’s firm offers clients a broad menu of services that includes insurance and financial planning services, in addition to investment management services.

Johnson uses a platform that helps him provide an array of investment services to his clients and has built the staff and infrastructure necessary to provide insurance, planning and other services. The platform’s flexibility lets Johnson access third-party strategists for most client investment needs and manage client accounts himself in special situations.

He places the bulk of his assets with third-party strategists because using them frees up more of his time to spend working directly with his clients. The platform makes it easy to compare managers, view their combined results and combine them in portfolios
using a unified managed account (UMA) functionality. Opening new accounts and changing managers within a UMA account is easy, too.

Like Johnson, Jordan Dechtman of Jordan Dechtman Wealth Management places most of his clients’ assets with third-party strategists. Dechtman says using outside managers “helps me leverage my time and expertise and focus on what we are best at—managing client relationships.” He added that using outside managers allows him to “work with bigger clients and gather more assets.”

Chad Parmenter of Mirus Planning goes one step further. He says that using third-party managers “sends a powerful message to clients.” “They understand that using outside managers allows me to focus more of my attention on them.” Kathy Jones-Price of Synergy Financial Advisors agrees. She says her clients are reassured to know that “someone is watching their money every day while I focus on the client’s overall situation.”

Quality and Professionalism

Jones-Price identified another reason behind the outsourcing trend. “Being able to tap into best-of-class managers has been critical to the success of my practice. It sets me apart from those who manage their own portfolios.” Jordan Dechtman points out that the platform has elevated his practice to a new level of professionalism by allowing him “to focus more on process and strategy rather than on selling products.”

In today’s highly competitive world, being able to access top-quality investment talent can help you win new clients. Many clients are reassured to know that you can bring them a variety of choices to match those that might be offered by your competitors. You can also use the track records and credibility of the available firms to attract clients to your firm. And you can often gain access to the resources of these firms to provide support and marketing assistance.

Top-quality investment management firms can also help you keep existing clients satisfied. Through their expertise they can provide higher returns and reduce the volatility of client portfolios. They provide written materials and other resources to help you communicate effectively with your clients on a variety of investment-related topics.

Having a UMA capability allows advisors to combine multiple strategists and/or separate account managers in a single custodial account. Of course, this provides efficiencies for a client, but also has another advantage. It allows an advisor to easily diversify a client’s portfolio using multiple managers. By combining managers with varying styles and approaches to investing you can achieve what Chad Parmenter refers to as the “benefit of multiple philosophies.”

The Northern Trust study referred to above found that most advisors who do not outsource any of their investment management believed that “in-house management of client assets was central to their firms’ value proposition.” But outsourcing of investment management need not be an either/or proposition. All of the advisors interviewed for this paper who outsource investment management managed some assets directly for at least some of their clients.
Advisors who believe management of their clients’ assets is central to their value proposition often find that their clients are more than willing to utilize outside managers if the services of those managers are properly positioned. For example, Chad Parmenter positions outside managers as “trusted partners” who are brought into the relationship because of their specialized expertise. He finds that his clients are “fine with the shared responsibility” and glad to be “getting the benefits of the combined thought processes.”

Advisors who use outside managers can take on a truly consultative role with their clients. They can serve as the objective source of insight into the benefits of using the various managers. This represents another opportunity to add value to the client relationship.

Bringing outside managers into the picture provides the added benefit of insulating the advisor, to some extent, from negative fallout in the event of poor performance. It is very hard for an advisor to objectively deal with criticism of his or her own poor performance. It is much easier to terminate a manager who is underperforming and find a suitable replacement.

In addition, when advisors manage assets themselves, they become an integral part of the practice’s value. Should the advisor wish to sell the practice, the buyer may have more difficulty transitioning the client relationships, as his or her approach may be different from the original owner’s. Conversely, if the practice outsources the asset management, those arrangements can remain intact if the practice is sold, leaving the new advisor to focus entirely on the client relationships.

Some advisors who manage client assets themselves are concerned that by using outside managers they will lose touch with what is going on in their clients’ portfolios. This is a legitimate concern, but it is a manageable problem. Before selecting an outside manager, ask about the type and level of communication that the manager provides to advisors. Also ask about the level of access you will have to the manager’s portfolio management team.

Kathy Jones-Price dealt with this issue as she began incorporating outside managers into her practice. The solution she found was very straightforward. She limits the number of managers she uses to a relatively small core group and she learns a great deal about their investment process. By staying focused she says she can easily “keep up with what they are doing.”

Advisors who do not want to use outside managers can still improve efficiency with the right platform. Paula Dorion-Gray and her team at Dorion-Gray Retirement Planning manage their clients’ portfolios on a single integrated platform. The technology behind the platform provides trading capabilities, performance reporting and billing services that create significant economies of scale, she said. Using those capabilities, her team can make adjustments quickly and easily across multiple accounts, an important efficiency given the volatility of markets in recent years.

**Efficiency, Transparency and Ease of Use**

Jones-Price identified the availability of information about the managers on a platform and the platform’s analytical tools as important benefits to her firm. Through use of
these she is able to gain a high level of understanding about the managers without having to develop the internal research capabilities at her firm.

Jordan Dechtman noted the efficiencies his firm achieves using UMAs. He is able to combine multiple strategists in a single account and manage the account with a minimum of paperwork. His clients fill out one set of account-opening paperwork and receive statements for a single account, rather than separate statements for each manager. And he can utilize multiple managers without having to learn the account opening process for each one. Replacing managers is easy, too, and does not require a new set of paperwork.

Like Dechtman, Parmenter uses UMAs and concurs that it has helped him gain “scale and efficiency” in his practice so he can deliver financial planning and other comprehensive wealth management services to his clients.

Johnson found the flexibility of billing processes to be a benefit to both his clients and his firm. Being able to bill client accounts on a monthly basis smoothes out the payments for his clients and provides a more steady cash flow for his firm. Relying on a turnkey asset management program to handle billing allows him and his staff to focus on more high-value activities like servicing clients. Johnson still has the option to create custom fee schedules to offer discounts or exclude certain positions from fee calculations.

John Lindsey of Lindsey and Lindsey Wealth Management looks for online functionality, noting that it gives a high level of transparency for clients. Jones-Price agreed, stating that the ability of clients to view their accounts online, see what they own and see what the managers are doing takes their experience “to a higher professional level.”

**Filling the Role of Fiduciary**

Lindsey provided another insight into why the trend toward outsourcing among advisors has picked up steam in recent years. Lindsey noted that managed account platforms help advisors fulfill both their responsibilities as fiduciaries. For example, the platform Lindsey uses offers investment policy statement templates that can be adapted for each client.

He pointed out that the monitoring capabilities of a platform allow an advisor to easily monitor all of the holdings and transactions of a single client or household. This ability to take a quick snapshot of a client’s account improves an advisor’s ability to oversee each client’s situation and make any needed adjustments quickly and easily. He can even globally adjust portfolios based on changes in the markets or in the products themselves.

He also noted that due diligence and manager analytics allow him to identify the investment options that are most appropriate for his clients while providing an objective basis for decision making about the use of the managers. This documentation can also help advisors illustrate the basis for their recommendations to clients.

Information available through a platform may also be useful in fulfilling an advisor’s applicable recordkeeping responsibilities, if the information is well-organized, easily accessible and maintained in a manner consistent with regulatory requirements.
Developing the Solution

Securities America partnered with Envestnet Asset Management to create an outsourcing solution that would provide a scalable foundation for a broad range of advisor business models. The result was the Managed Opportunities platform.

The Managed Opportunities platform provides access to a large selection of outstanding investment managers. The platform includes 25 third-party mutual fund strategists who manage over 315 distinct portfolios. It also offers 56 separately managed account products. These portfolios give an advisor access to a broad arsenal of investment options. As more skilled strategists and managers are identified, they will be added to the platform. The Managed Opportunities platform facilitates this process by providing tools designed to help advisors assess the skills and characteristics of the managers.

All of the separate account managers on the platform have been screened and approved by the experienced due diligence team at Envestnet, the firm that provides the underlying chassis for the Managed Opportunities platform. Securities America screens and approves the mutual fund and ETF wrap managers.

The platform gives advisors a flexible way to outsource various aspects of their business so that they can spend more time attracting new clients and building deep relationships with them. It is also designed to improve both the quality and efficiency of the advisory firms that use it.

The Managed Opportunities platform is designed to offer maximum flexibility in helping financial advisors with varying business models better serve their clients. And increased client satisfaction is an important key to growing an advisory practice. As your practice grows, the Managed Opportunities platform can provide a scalable foundation to support that growth.

Abigail Vernon is a Senior Vice President with Envestnet Asset Management, the firm that provides much of the underlying technology and content for the Managed Opportunities platform. Over the years she has worked with many financial services organizations, helping them build programs to grow their businesses while better serving their clients. The UMA on Managed Opportunities has been particularly successful, becoming the fastest growing UMA among firms using the Envestnet platform, according to Vernon.

Managed Opportunities users have access to a wide variety of the best fund strategists available, a range of separate account options, a robust UMA capability and an “advisor as portfolio manager” option. This gives Securities America advisors a “great variety of both programs and products,” adds Vernon.

Vernon is quick to point out that it is not just the range of investment options that distinguishes the Managed Opportunities platform. It is the fact that the platform supports advisors in every phase of their practice: client acquisition, client servicing and business management.
Managed Opportunities helps advisors attract new clients by providing a high-quality proposal system, a comprehensive client questionnaire and a stable of investment options that makes an advisor competitive in any situation. Managed Opportunities NextPhase is a fully integrated solution for income distribution planning, portfolio management and reporting. Advisors can efficiently implement a time-segmented distribution strategy and then track and manage the investments over the client’s lifetime. The program combines marketing tools and the option to use one of two planning/proposal systems with proven implementation and monitoring. Reporting function ties back to proposal, helping clients visualize progress toward their retirement goals.

The platform also helps advisors on-board clients seamlessly and professionally. The account opening process is easy. Clients are provided with an investment policy statement tailored to the client’s individual situation. Setting up online access for a client is simple.

There are many other tools available to help advisors service clients in a highly professional manner and manage their businesses efficiently. The platform handles performance reporting and billing so advisors can focus on high-value activities. There are online tools to help advisors review accounts and generate reports to track what is happening with client accounts. Processing contributions, withdrawals and account changes is easy.

Managed Opportunities also supports advisors with news and information. Of course, much of the information is research related to the managers available through the platform. But the platform also offers market news and data, online user guides and tools to help advisors compare managers and design portfolios that include combinations of managers.

Advisors who want to manage portfolios directly for their clients have a wealth of support through the platform. There are tools for creating and managing model portfolios, as well as trading and rebalancing. Extensive online user guides aid in the use of the program. Advisors seeking ways to develop a solid foundation for growing their fee-based practices will want to consider Securities America and Managed Opportunities. The platform is perfectly tailored for advisors who want to focus on providing excellent client service and unexcelled investment solutions in an efficient and scalable manner.
Due Diligence Questions for Selecting an Asset Management Platform

**General**

• How long has your platform been around?
• How many advisors are currently using your platform?
• What are the total assets on your platform?
• Do you have business consultants to assist me in planning and growing my advisory business?
  » What kind of experience do your consultants have?
  » Will I have a dedicated consultant or will I be contacting a call center?
• Can I get help with running new proposals?
• Can I get help in analyzing whether I should manage assets myself or outsource?
• What flexibility do I have in advisory fee billing frequency (i.e. monthly, quarterly or annually, tiered, linear or flat schedules, Billing in advance or arrears, etc.)?
• How are fees calculated, i.e. average daily balance vs. period-end calculation?
• Are trading costs wrapped into the platform costs?
• What other costs are associated with the platform? Are there IRA maintenance fees?
• Do you have a conference where I can meet platform money managers in one location to hear their stories?
• Does your platform offer Unified Managed Accounts (UMA)?
• Can mutual fund strategists be included in the UMA?
• Can Separately Managed Accounts be included in the UMA?
• Can advisor managed sleeves be included in your UMA models?
• Is there any way to suppress the paperwork that may go to clients such as trade confirms, prospectuses, and proxies? If so, is there a cost to do so?
• How often are you making improvements or implementing enhancements into the system?
• Do you have any retirement income distribution illustration tools that are available through the platform?

**Advisor Asset Management Solutions**

• What tools do you have to help advisors build and manage their own models?
• Do you have a platform where I can create model portfolios?
• Do you have model trading tools that can support rebalancing across multiple accounts?
• When rebalancing models, can I stage trades, meaning place the sells before the buys?
• Can I use the platform to trade single accounts?
• Do you have research tools or support for building allocations and selecting mutual funds?
• How big is the list of available/approved mutual funds? How many of those are No Transaction Fee (NTF) funds?
• Do you have model portfolios with preset allocations of funds that can be used?
• Do you offer reduced pricing when using only NTF funds in models I build and manage?

**Third-Party Asset Management**
• Do you have multiple types of strategists available such as Separate Account Managers and Mutual Fund/ETF Managers?
• How many different Mutual Fund/ETF sub-advisors do you have available?
• How many different separately managed account sub-advisors do you have available?
• How many models do you have on your platform?
• What type of research material is available at the manager and model level?
• Do you have a diverse selection of strategists across investment styles such as Passive/Strategic, Active/Tactical, Dynamic, and Alternatives?
• What is your due diligence process for adding new managers/strategists?
• Can I get a new manager added to the platform if you don’t already have a relationship with them?
• Can I talk to some other advisors using the platform to find out from them who are the best companies to work with?
• Do you have an easy process for switching out managers on an account? What paperwork would be required?

**Proposal Generation and Performance Reporting**
• Does your platform allow me to create client proposals?
• Does your proposal process allow for the inclusion of multiple registrations per client?
• Does your proposal system have a process for scoring the risk tolerance of the client?
• If multiple programs and managers are used, does the proposal show the aggregate risk and performance history of all managers together?
• Does your system offer comprehensive performance reporting on the accounts invested on the platform?
• How many reports does your platform currently offer?
• Can I build a customized report template using any number of the available reports?
• Does your system automatically generate Quarterly Performance Reports?
• Does your system offer multiple methods of calculating performance, such as DTWR, IRR, etc…?
• Is the system dynamic, so that I can run reports with information updated up to the previous business close?
• What options do you offer for the delivery of performance reports? Print, electronic delivery from email, printable reports.
• Does the reporting functionality support sleeve level reporting within UMAs?
• Can I grant clients access to the system to run and view their own reports? If so, is there an additional cost?
• Do you allow for the use of my logo and branding on the platform website, the proposal, and performance reports?

Additional Notes
Your Business Growth Expert

Headquartered in La Vista, Neb., Securities America, Inc. is the nation’s eighth largest independent broker-dealer (as ranked by Financial Planning magazine, June 2012, based on 2011 total revenue). For more than 25 years, Securities America’s mission has been to foster the success of financial professionals so they can provide quality, objective counsel and services to their clients. Advisors benefit from the firm’s industry-leading programs in practice management, advisory services and retirement income distribution, supported by state-of-the-art technology. Founded in 1993, Securities America Advisors Inc. is an SEC-Registered Investment Advisory firm that offers investment management, financial advice and financial planning through a national network of independent financial advisors. Securities America received the inaugural Thought Leadership Award from the Retirement Income Industry Association in March 2011 and the 2013 Technology Innovation Award from the Bank Insurance & Securities Association. Additional information is available at www.securitiesamerica.com.

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