

# INSIDE INFORMATION

The newsletter for serious financial advisors. ([www.bobveres.com](http://www.bobveres.com))

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## EARLY WARNING

- When Schwab Institutional declared that its PortfolioCenter software would only be available to Schwab customers (the decision was reversed a few months later), the company also ended up with a parallel version of the Junxure CRM software package, which was licensed to the Performance Technologies subsidiary at the time. CRM Software, makers of Junxure, continued development and called its version

of the program "Junxure-i"--and with each new development, the gap between the programs grew.

Now Schwab is closing down its version of Junxure--called Relationship Manager--and offering a free migration to the CRM Software product--which it now describes as "the most comprehensive relationship management solution available." Advisors who qualify can reference a transition web site, and look at a features comparison, at: <http://www.schwabpt.com/rmtransition/>.

## THE THERAPY ALLIANCE

*We can now see where the evolution of life planning services is taking us--and how it may benefit you and your clients more than you realize.*

After years of close study of all my friends and relatives and my own unexplainable behavior at times, I've come to the conclusion that all of us (get ready for a professional diagnosis here) are pretty screwed up. Worse, none of us realize the extent of it.

A few weeks ago, I received unexpected confirmation of this unhappy theory from Rick Kahler, of Kahler Financial Group in Rapid City, SD. In working with his own clients, Kahler repeatedly finds examples of what an outside observer would describe as self-destructive behavior--not just not making progress toward their goals, but routine examples of actual self-sabotage in their financial lives.

Some of it, he says, can be defined by what therapist Ted Klontz calls the emotional equivalent of reversion to the mean. "We all operate in an area where we feel comfortable, with an invisible but very real,

to them, upper and lower limit," Kahler explains. "When you move through the top, your social structure and your beliefs bring you back into the realm of normality." This, he says, also applies to lottery winners and even people with significant stock option wealth.

Consider, for example, Kahler's clients who had a net worth of \$200,000 and inherited \$5 million unexpectedly. "They were depressed," he says. "Their belief was, we didn't earn this

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## The Therapy Alliance

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money, and we have no right to it. The average person blows through an inheritance in seven years, reverting right back to normal, and without intervention, these people would have followed the same course. They knew they shouldn't be depressed, but they didn't know why they were, or how to find out."

Another example is the woman who earned \$250,000 a year, who never had any money in the bank. "She bought homes, she bought other stuff, she never had money that she could put her hands on," says Kahler. "We worked with her for about half an hour, and discovered that one of her beliefs was, well, if you don't have any money, then it's easy to say no when members of your family call you asking for it. Not only that," Kahler continues; "whenever she saved as a kid, her parents would routinely rob her piggy bank. So she held this belief: why save? It never gets you anywhere."

The empty piggy bank and the relatives asking for bail money were directly related to--were, indeed, the CAUSE of--her inability to save. Who knew? How would you find that out in a traditional planning engagement?

Today's financial planning profession is evolving an entirely new client service model which--at its most refined--helps people articulate and then make progress on their most cherished goals and objectives. We have discovered that many of the obstacles to success (however that is defined by the client) are financial, and

financial planners are uniquely qualified to help people navigate through obstacles they never could on their own: the incredible complexities of the business and financial environment.

But now advisors are discovering a new set of obstacles in their real-world efforts to help clients move forward: obstacles that live--indeed, thrive--inside the minds of clients themselves. They may take the form of limiting beliefs or dysfunctional money habits; they may manifest as inexplicable efforts to sabotage their own progress or simply as an inability to move forward when the external obstacles seem to have been cleared away.

Everywhere around the planning profession, you are hearing advisors talk about unexpected difficulties in applying this new life planning service to the real world that their clients live in. The advice seems to be good, the service and planning work seem to be right, and the clients may outwardly seem to respond by identifying their cherished goals and buying into a plan to achieve them. But the results seem to be held up by an invisible net of restraints that planners are not trained to find or identify, much less clear away.

The solution? Kahler is one of a very small number of advisors who are collaborating with a psychologist as a matter of business routine, and he is finding it to be the missing ingredient in his life planning services.

"In the past, when a couple would start fighting about money

in my office, I would just as soon hide under my desk as deal with the issues they were bringing up," he says with a laugh. "My usual reaction would be to say: let's get back to this mutual fund chart. Which," he adds dryly, "didn't always resolve the issue."

Today, his typical client engagement always includes time where he and local therapist/money coach Laura Longville are in the room together, usually in the exploratory part of the engagement, sometimes later as obstacles arise. "I've seen people make progress toward their goals in weeks that would have taken my clients two or three years in the past," he says. "Working in conjunction with a therapist helps people make progress exponentially fast."

Kahler suggests that there are three ways you can work with a therapist in your practice, but he only recommends one of them. The first is to refer clients to a therapist. "The problem there is you don't know what went on, and you lose total control of the process," he says. "Plus, whenever you tell people that you want them to visit a psychologist's office, their first reaction is: you must really think I'm screwed up!"

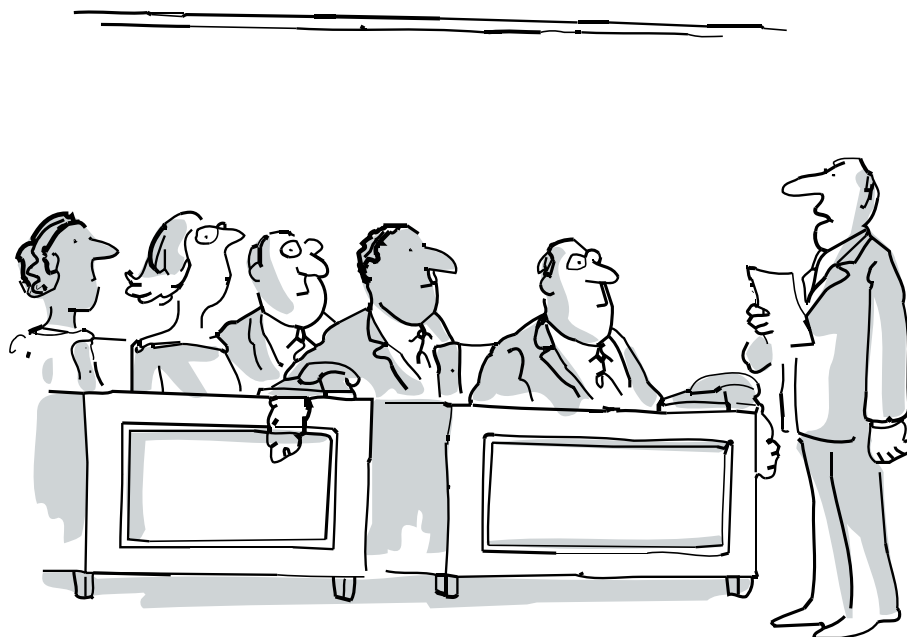
The second option is collaboration, where the therapist meets alone with the client, but the client and therapist sign disclosure agreements which make it legally permissible for the psychologist to share information about the client that is uncovered in the sessions. However, this is less-than-ideal because the client's time with the therapist may never really address

money issues. "I've seen statistics that 97% of all therapists have their own money issues, because they haven't done their own work in this area," says Kahler.

Finally, the two professions can work in partnership, where the advisor and therapist meet jointly with clients. "I have the numbers, and she has the relationship skills," says Kahler, "and we can go directly to whatever is blocking the client."

How does it work? Kahler will normally start his services with the presenting symptom. "Most clients don't come to us for life planning or financial therapy," he says; "they come to us because their 401(k) is rolling over, or they had an investment loss, or there is some financial hemorrhaging going on, so I'll move to that first."

After that, he offers a choice in the engagement. "I'll tell them that I can just do investments, or I can do traditional financial



*"Under the new company policy, you'll encourage all your brokerage clients to trade cheaply over the Internet and slowly put yourselves out of business."*

planning, or we can do integrated financial planning, which adds financial coaching and counseling to the planning service," says Kahler. "You choose, and you can change your mind at any time, add or subtract something."

Normally, Kahler will also introduce Longville to his planning clients early in the relationship, and he has found that they will become more interested in the coaching and counseling as their planning work is accomplished. "The important thing is to have Laura be viewed as a normal part of my team," says Kahler. "Here is Darla, my paraplanner; here is Lindsay, our admin. person, and here is Laura, our financial coach. So if I decide to bring Laura in on an issue, it is not considered unusual. And they don't have to leave and go to some

unknown office. It happens in my office, and I'm there."

Cicily Maton, founder of Aequus Wealth Management Resources in Chicago, IL, tends to take a more structured approach with the therapist who functions as a partner on her planning team. Her first meeting with clients focuses on an explanation of the services; the second one is conducted jointly with Marty Martin, a therapist in private practice in Chicago's western suburbs. "We call it the discovery meeting, which includes an evaluation of all their financial stuff, where they bring in all their documents," says Maton. "And Marty uses many of the tools that we were using before: George Kinder's three questions, some things developed by Ted Klontz on

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### **Inside formation**

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## Trendspotter

Here's a bomb waiting to go off: at the SEC's 12(b)-1 Forum, Barbara Roper of the Consumer Federation of America stated that her legal team believes that trail commissions on mutual funds (aka 12(b)-1 fees) are not being paid, in the real world, merely for "incidental advice" relating to the sale of the products.

Instead, the CFA's position is that these trail commission payments should be viewed as "special compensation," since they are technically fees, not commissions, and since they pay for ongoing (investment advice and financial planning) services that are largely unrelated to the initial transaction. In this way, they are fundamentally different from the up-front commission that the advisor or broker receives when the transaction is complete.

Why is that such a big deal? Because if this legal view is right, then trail commission compensation would fall outside the BD exemption in the Investment Advisers Act of 1940 as specifically interpreted by the Circuit Court. That, in turn, would mean that anybody receiving trail commissions would have to register as an RIA or be an IAR affiliated with an RIA firm. Most advisors affiliated with independent BDs would continue to do business as usual, but brokers and representatives of wirehouses might have to make a tough choice: either give up their trails or register. And in a relatively smaller number of cases, independent BD-affiliated advisors who are doing mostly commission business would face the same choice.

Ron Rhoades, who practices in Hernando, FL, has submitted comments to the SEC suggesting, in great detail, that everybody in the industry recognizes that C-share compensation pays for ongoing advisory services that are clearly not incidental to the actual fund sales transaction.

Supporting this position, interestingly enough, is the NASD comment letter to the SEC of April 19, 2007, asking the agency to recharacterize trail commissions as "relationship compensation" because "they are paid on an assets under management basis, rather than on a transactional basis." Even the ICI's fact book (page 52) states that "Virtually all 12b-1 fees are used to compensate financial advisors... for administrative and advice services provided to the shareholder after the initial purchase."

Rhoades cites confirming testimony from BD executives and others, and concludes that the SEC should require everybody who receives a fee for providing advisory services to investment consumers to be held to fiduciary standards--including, of course, brokers. Given the recent court ruling that defines all advisory-related fees as special compensation, it's hard to argue with this position.

## The Therapy Alliance

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change, some of Carol Anderson's [Money Quotient] materials on money memories and what money means to them."

If the questions are basically the same, then why do you need a psychologist in the room? Maton says that therapists are trained to spot opportunities for followup questions. "If Michelle [Maton's daughter and business partner] or I were to ask a question about something in their financial makeup, they would give us an answer and we might say, 'oh, that's interesting,' and write it down," Maton explains. "Marty says, well, tell me a little bit more about that. How does that impact you? And he knows WHEN to say that. It's a different level of exploration."

Martin also helps Maton compile the basic profile of the client, which is presented in the confirmation meeting that follows--the meeting where Maton used to go over all the numbers and make sure she has them all correct. She still does that, but now Martin will check the softer side issues as well. "While I'm checking the financial facts, he's asking, have we gotten to all the things you want to tell us about?" says Maton. "When we identified those goals, are they really heartfelt goals that will make your life more meaningful? Richer? Deeper? He makes sure that our summary of what these people believe, what they feel, how they want to be in life, is on track."

Prior to the fourth meeting, Martin writes up the goals, visions

and dreams part of the financial plan, and Maton puts a price on them and creates a procedural roadmap from where the client is now to this place that has been identified and confirmed.

Maton's therapist partnership has only been active since January, so she hasn't yet seen the client progress benefits that Kahler describes. But she does see a big difference right off the bat. "I think the level of trust with us gets deeper quicker," she says. "And it seems like we discover barriers for people that would keep them from implementing, right in those first few meetings."

How are clients billed for the therapist services? Kahler contracts with Longville for an estimated number of hours in the first year--which may be different for each coaching and counseling-level client--at a discounted rate of \$100 an hour. The charge is built into this first year's retainer, and new estimates are arrived at each year. "My lowest tier is zero hours of her time," Kahler explains. "Those are my clients who are under my minimum, that I just haven't let go of. In my first tier, it is 3 hours a year. My second tier, six hours a year. My third tier is 12 hours, and my upper tier is unlimited. If you exceed what we estimated," he adds, "this is the only thing under our agreement that you will pay for in addition. You will pay for Laura's additional time. She bills out at \$150 an hour."

Martin, meanwhile, bills through Maton at his regular \$160 an hour, and she includes it in her new planning fee, which typically

ranges from \$4,500 to \$8,000.

Other procedural issues are more easily dealt with. For example, do clients have to sign extra documents in order to let the therapist share information? Both Kahler and Martin (and their therapist partners) take the position that this isn't necessary, for two reasons. First, because both are in the room when the clients are discussing their goals and dreams. And second, because what takes place in the planner's office is not therapy.

"The client may already have a therapist," says Maton. "In our meetings, Marty isn't about long-term therapy. He isn't going to displace the person who is already in their lives as a therapist. His focus is totally on dysfunctions they may have around money, or obstacles."

This addresses a question that has swirled around life planning services since the beginning, and which is certain to haunt the planner/therapist partnership arrangements: where does coaching end and therapy begin? Kahler quotes Klontz in addressing the issue. "People keep asking how you know when you have crossed the line?" he says. "Ted says, you can never harm a client by listening to them and feeding back what you just heard them say. And you know you've gone too far when you feel uncomfortable. When you feel uncomfortable, it is time to stop. And, he says, get a therapist. And probably the therapist should be for you, the planner, as well as for the client."

One more procedural

question: where do you find the therapist to bring in to help your clients? This may be a problem for many advisors, given Klontz's estimates that very few psychological therapists have done their own work around money. Maton found Martin through a mention on the Nazrudin discussion boards. "Carol Anderson at Money Quotient was talking about a therapist in Chicago who was using her materials, and I almost jumped out of my seat," she says. "It turns out that in 2001 and 2002, when he was practicing in New Orleans, he started having an influx of planners and brokers who were depressed as a result of the bear market. He didn't know how to talk to them, or make a judgment about whether their depression and anxiety was real, imagined, typical or whatever."

As a result, Martin decided to take some CFP coursework and Money Quotient training, which makes him uniquely cross-qualified to help clients with money issues.

Kahler has a little easier time of it, in part because he is pioneering a whole new kind of planner-therapist partnership, a financial therapy he and Klontz offer over the course of a week, called OnSite. "We've trained a lot of therapists, even though it's open to the general public," he says. The two now have a list of planners and therapists who have been through the program on their web site (<http://www.consciousfinance.com/>) under a tab called "endorsed professional." "We have people in a lot of locations around the

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## The Therapy Alliance

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country,” says Kahler, “so it isn’t quite as hard to find dually-qualified people as it once was.”

Meanwhile, the planner-therapist symbiosis has opened up new professional opportunities for Kahler. “I have a new niche that I never, ever thought I would be servicing: high-income overspenders,” he says. “In the past, our position, which I think was normal, was: if you cannot save money, please don’t come here. I can’t help you. But we have worked with people where Laura and I have charged them \$20,000, and we have reduced their spending \$80,000 in the first year.”

Interestingly, Kahler encountered some of his own limiting beliefs around money when working with this group of clients. “I recently had a client couple approach me, didn’t have any money, and my minimum is \$5,000, and they are going to need a lot of Laura time, and a lot of my time,” he says. “They were spending \$130,000 a year and made \$50,000 the year before, and I turned them down several times. Laura is telling me, Rick, let’s explore your money scripts.”

The conversation, he says, went something like this:

-Didn’t you just have an operation on your shoulder?

-Yes.

-Did the doctor tell you how much it was going to be?

-No.

-Was he concerned about how you would pay it?

-No.

-How much did it cost?  
-\$15,000.  
-Was that much of a consideration for you?

-Not really.  
-Well, Rick, do you think it’s possible that working with you, they will actually reduce their spending?

-Probably.  
-Is that a good investment?  
“So I priced them at \$7,500, with 20 hours with Laura,” says Kahler. “They’re having to borrow to pay my fee.”

Maton is starting to address the same clients, but in those cases, she prefers to have Martin handle the therapy work without her. Meanwhile, she marvels at his creativity.

“He’ll go shopping with them,” she says. “And he will ask questions like: what are you feeling as you’re interacting with this salesperson? What is the emotion that is welling up? When have you felt it before? What is it doing for you? Are there other times you’ve felt this same emotion? Is there something else we can substitute for that? A couple of clients of mine, who have been overspenders for years, have recently called me up and said, can I meet with Marty?” adds Maton, noting that the result will be more cash flow and a greater likelihood of meeting their financial goals.

It seems clear that the key to making a planner-therapist relationship work effectively for the client is to have an ongoing close relationship with the

psychologist, and to introduce him or her as a normal part of the planning process. It cannot, Maton says, be somebody you bring in occasionally ad hoc, and it cannot, Kahler says, be somebody whose skills you haven’t evaluated first. The partnership may not make you planner at running the numbers, but it does seem to help clients become better at making the changes they need to make based on your recommendations.

My instincts tell me that this planner-therapist alliance may be the endgame for where the life planning service is going. Financial planning is becoming increasingly personal, increasingly about the client’s goals and ability to achieve the goals, and the service has become more and more involved with figuring out how to handle complex personal issues and questions that the planning profession is not--and never will be--trained to do.

So far, the state of the art seems to be, here are some great tools that you can use awkwardly. The planner-therapist alliance adds somebody who is skilled at using these tools and can bring others to the table, and who can address those invisible barriers that clients have somewhere in their minds and their backgrounds, the limiting beliefs, bad habits and instinctive reversion back to the comfortable mean of their lives before the planning engagement set them on a higher path. If clients can make more progress more quickly with the help of a therapist, the cost--based on these two examples, at least--

## Management for the Masses

*Instead of turning away unwealthy clients, a Seattle-area firm decided to create a middle-market portfolio solution.*

seems to be quite reasonable.

And there may be other benefits as well. Kahler says that the partnerships with Klontz and Longville have greatly--and unexpectedly--improved his ability to relate to clients; in other words, the magic has rubbed off a bit.

"Ted suggested that part of what I could do with clients is just shut up, put my agenda on the shelf, and let the client talk," he says. "But I kept pushing back against it. They're coming to me for solutions, aren't they? Having me listen is just a waste of time."

Then he had a meeting with a client who Kahler describes as "the one we would all like to vote off the island," who constantly nit-picks returns, questions his fees and generally doesn't seem to put a high value on the planning service. "This time, I asked him, what's new since the last time we met? What's on the top of your agenda, that you want to make sure we cover today? He started to talk about his farm," says Kahler. "He had traveled seven hours to see me, we had a two-hour meeting, he talked for an hour and fifty minutes, how he decided not to sell it, how it makes him feel grounded, we buzzed over my agenda in the last ten minutes, and I'm thinking, Gosh, what a waste!

"Then," Kahler adds, "he gets up and says, this was the best meeting we've ever had. We got so much done today, I can't believe it. It turns out he didn't want a fancy analysis; all he needed from me was to reaffirm his decision."

Who knew? ■

**T**wo years ago, Karen Ramsey, of Ramsey & Associates in Seattle, WA, author of *Caring for Your Soul in Matters of Money*, faced a moral dilemma that many readers of this publication will recognize in your own life. "We kept getting more and more successful," she says. "At the same time, I'm committed to a nice work/life balance for myself and my staff. When I noticed that my staff was about to croak, I decided that we had to raise our minimums, because we just had too much business."

Ramsey raised her planning office's minimum from \$750,000 in investment assets to \$1 million, and, she says, everybody's workload got manageable again. There was only one problem. "I felt guilty," says Ramsey. "I grew up very poor on a farm in Colorado. I said to myself, I have to do something for people like my parents, who would never have gotten into my office."

She also had clients on the books who were not appropriate for her current service model. "A client would come in and say, my sister, who lives in Montana, has \$200,000," says Ramsey. "Will you tell her what to do with it? And of course we, as planners,

look at our Number Two client and say to ourselves, I'm going to take care of anybody this person wants me to. But what am I going to do with the sister who I am never going to see, who lives in a place where there is no suitable planner to refer her to? I realized that I had no way of taking care of my clients' next door neighbors, their sister or their mom."

To make matters worse, when Ramsey looked around for somebody local that she could refer unwealthy clients to, she found that there weren't any. "In the city of Seattle, nobody will take on a new client if they don't have \$1 million to invest," she says. "It's a tragedy for the community."

In order to ease the guilt a little bit, and address the tragedy in her community, Ramsey began looking at alternatives. "The first thing I realized was that it wasn't necessarily about having people come into the office," she says. "It could be about a different service model using the telephone and the web."

After a year in the planning, this new service model went live on January 1, at <http://www.RamseyInvesting.com/>.

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## Management for the Masses

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Today it may represent the most advisor-friendly way to offer portfolio management services to clients with less wealth--a combination of telephone consultations, investment recommendations in a variety of flavors to suit client preferences, online performance statements and automated account transfer options. Ramsey Investing's minimum account size is \$50,000 in one account--which, Ramsay says, will receive the same investment advice that she would give a client who came into her office with \$1 million or more.

It works like this: A client is sent to the site, and has an opportunity to create a profile--basically input his/her name, address, user name and password, and fill out a risk tolerance questionnaire. "The answers come back to us," says Ramsey, "and we create their asset allocation based on their risk tolerance. Then we put that back up on the web site--a target asset allocation."

It will be one of four standard allocations: equity (no bonds, and international funds are included); equity tilted (roughly an 80/20 mix, with international funds included, and also commodities); active balanced (similar to equity tilted, but more of a 70/30 split); and active conservative (half equities, half fixed-income). The client can also choose a management "flavor:" whether he/she wants the portfolio invested in passive index funds, active funds or socially-responsible funds. "I don't want to tell them that one

is better than the other," says Ramsey, adding that she expects to work with advisors who prefer one of the three over the other two.

Once the model has been posted, Ramsey Investing will schedule its first telephone interview with the client. "We want to get clear that the target allocation is consistent with their risk tolerance and what they've been doing before they came to us," says Ramsey. "So if it is 80/20, this is their chance to say, that's too scary. Then we change the allocation based on the phone call."

In this call, the client is also told how to enter their current portfolio onto the web site. The site lets clients type in, for each investment, what it is (Turner Midcap, Fidelity Contrafund or QQQ), what asset type it is (stock, mutual fund etc.) and where it is currently custodied. (There is an "other" field for assets that Ramsey Investing will have to go out and find on behalf of the client, and a place to input assets that the client does NOT want managed by the site.) Then they select active, passive or socially-responsible, and hit a button.

This triggers what may be the most creative part of the site; it will automatically search through the contents of the selected Ramsey Investing portfolio, compare it to the client portfolio, and match assets that do not have to be liquidated, but which can simply be transferred from one custodian to the other as is. And, of course, it flags the others. "If you have mutual funds or ETFs

that are not in our model, we're going to sell that fund," Ramsay explains. "It generates a list of things that need to be liquidated, and a list of things that we're going to keep."

Then the site executes a fund share transfer process, and uploads the paperwork necessary to have the various assets liquidated and/or transferred to the Ramsey Investing custodian--Schwab Institutional. This automation alone saves a huge amount of cost and inefficiency. The client downloads and prints out the transfer instructions and new client applications, and then participates in another phone call which talks him/her through the process of getting them filled out correctly. The Ramsey Investing person on the other end of the call also makes sure, once more, that the client still wants that asset allocation and is still comfortable with that investment style.

Finally, the client signs the forms (this cannot yet be done via electronic signature) and sends them to Ramsey's Seattle offices. "We shepherd all the paperwork to Schwab, make sure all the transfers happen, and then we do the trading to have the portfolio match their target allocation that matches their investment style and risk tolerance," says Ramsay. "After we place the trades, we call them back again."

The process takes almost no time at Ramsey's Seattle office, but it is not unusual for the custodians of the client's prior portfolio to take two to four weeks to move the assets over--which, of course, her service team has no

control over.

The last phone call in the process takes one more tour of the portfolio, now custodied at Schwab, and walks the client through the performance reporting part of the site, which is maintained (downloads, reconciliation and posting) by Etelligent Consulting in Overland Park, KS. The client's password-protected site is linked to Schwab PortfolioCenter reports, which can show returns since inception and for any time period, available 24/7 online—although, Ramsay is quick to add, she doesn't recommend that these clients spend hours a day checking the daily movements of their portfolios.

"In that phone call, we show them how to access the performance reports, and also talk about the fact that we can make tactical reallocations and do rebalancing throughout the year," says Ramsey. "The following year, we'll call them again to make sure their investment objectives are still the same, that the asset allocation still feels comfortable, making sure we have that connection and that we're continuing to invest per their needs."

Notice that there is no retirement sufficiency analysis—or, for that matter, any real financial planning included in the service. "It is very narrow," Ramsey acknowledges. "Purely investment management, and we will decline to answer any phone calls about, should I do a 529 plan, or should I be doing a gifting program."

If the client comes from another advisor, then that other



*"Do you want the 'independent' audit, or the slightly more costly 'friendly' audit?"*

advisor may prefer to handle those calls. If not, then those questions are referred to somebody in the Garrett Network who is willing to answer them over the phone. "I wanted to make this available to everybody, whoever they are," says Ramsey. "And remember, we DO touch them three times in the process, and once a year after that. This is not just some Internet site; we wanted to have some kind of connection. We aren't going to give you a financial plan, but we do want to have a relationship with you."

To add to the service, Ramsey and staff have been posting a growing list of pieces, currently on "What is socially responsible?" "What does it mean when the Fed raises rates?" "What is a contingency fund and how much should you have?" "It's designed to provide the basic education that I would suspect people who invest

at lower levels would need to have," says Ramsay, "and we plan to build on that."

Cost? 1% of any assets under \$1 million; 80 basis points if the client chooses a passive portfolio. "We don't think anybody is going to give us \$1 million," says Ramsey. "This is an investment solution for people who have less than \$500,000." The system currently has \$1.4 million in assets after essentially zero marketing. "We've kept it very quiet, with just a couple of clients who we put in there, just to make everything worked, and to get their feedback," says Ramsey. "We tweaked a few things, and now I think we can say with confidence that it's ready and reliable."

This is, in part, a solution to Ramsey's own business challenges (and guilt), but it's being offered to

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the planning profession as a more general solution to the problem of deciding how to handle less wealthy clients who knock on your door or come attached to a significant client. "Another advisor could say, we don't have a way to work with you and get paid our minimums," says Ramsey, "but here's something called RamseyInvesting.com, which will take care of you, where you'll be able to get good portfolio advice and management at a reasonable cost."

This, of course, is one of the services I alluded to in my latest E-column. Based on the responses, there will be advisors who never want to segment their client base or refer out the unwealthy, while others will see this as a chance to take care of people who aren't currently getting a lot of attention at their firm.

Yes, you can send these clients to Vanguard and have them receive an all-Vanguard portfolio, or to the local Schwab office and have the portfolio populated with Schwab funds. Ramsey Investing is an alternative that manages portfolios the way that planners do, for what seems to me to be a reasonable cost.

For less-wealthy clients, particularly in places like Seattle, this is a chance to get big-league fiduciary investment advice without the minimums. For advisors who want to get their focus back on their ideal client profile, this is a chance to avoid the gut-level feelings of guilt. ■

## The Far Side of the Balance Sheet

*Here's a way to add more money to client retirement portfolios, with more certainty, than anything you could do with their investments.*

Every advisor has clients who aren't on track to retire comfortably, who need to find a few thousand more dollars in the monthly budget to set aside in an investment account. Don St. Clair, who practices in Roseville, CA suggests that advisors could help their clients most by looking at the forgotten side of the balance sheet: their debt structure. In fact, he thinks that in many cases, clients are carrying the wrong kind of debt, and too little of it.

Come again? St. Clair proposes that we look at the debt structure of a fairly typical California family, whose various loans are listed at the top of the opposite page, along with the current interest rates, monthly payments and number of years until the loans are paid off at the current payment rates. At the bottom, he also calculates the total payments for each debt and the total payments, along with the total amount of debt and the total monthly payments. As you can see, the current payments for the home mortgage, equity line of credit, the loan on the family car and credit cards, plus college

expenses for their son who has three years remaining, amount to \$5,491 a month.

Let's further propose that you've done a retirement sufficiency analysis for this family, and have discovered that in order to retire 22 years from now, they will need to save an additional \$2,000 a month, even though they are already investing 10% of their income. Because they live a relatively frugal lifestyle, the money probably isn't going to come from tighter budgeting.

What do you do? St. Clair begins by showing some of the ways that debt can be adjusted to the advantage of the client. His first (and simplest) proposal is that this family take out a new 15-year mortgage at 6.375%--essentially putting the family's entire debt, plus college expenses, into a new mortgage. This has the effect of stretching out the terms of the equity line, the car loan, the credit cards and the college expenses, and reducing the term of the mortgage loan. He assumes that the couple will pay \$3,200 worth of closing costs,

| <b>Liability</b>     | <b>Loan Balance</b> | <b>Interest Rate</b> | <b>Term (Years)</b> | <b>Monthly Payment</b> | <b>Total Payments</b> |
|----------------------|---------------------|----------------------|---------------------|------------------------|-----------------------|
| <b>Home Mortgage</b> | <b>\$405,000</b>    | <b>5.625%</b>        | <b>22</b>           | \$2,677                | \$706,842             |
| <b>Equity Line</b>   | <b>\$25,000</b>     | <b>8.250%</b>        | <b>5</b>            | \$510                  | \$30,594              |
| <b>Car Loan</b>      | <b>\$19,000</b>     | <b>3.990%</b>        | <b>4</b>            | \$429                  | \$20,588              |
| <b>Credit Cards</b>  | <b>\$7,100</b>      | <b>10.250%</b>       | <b>1</b>            | \$625                  | \$7,500               |
| <b>College</b>       | <b>\$45,000</b>     | <b>0.000%</b>        | <b>3</b>            | \$1,250                | \$45,000              |
| Other                | \$0                 | 0.000%               | 0                   | \$0                    | \$0                   |
| Other                | \$0                 | 0.000%               | 0                   | \$0                    | \$0                   |
| Other                | \$0                 | 0.000%               | 0                   | \$0                    | \$0                   |
| Other                | \$0                 | 0.000%               | 0                   | \$0                    | \$0                   |
| Other                | \$0                 | 0.000%               | 0                   | \$0                    | \$0                   |
|                      | <b>\$501,100</b>    | 5.25%                |                     | <b>\$5,491</b>         | <b>\$810,525</b>      |

and will continue to make the same monthly payments they are making now, effectively paying off the total debt in 10.5 years.

“You’re paying a little higher interest rate,” says St. Clair. “But the amount you save by paying this 22-year loan off in 11 years is worth more than what you are losing in interest,” says St. Clair. After running the new debt structure through a spreadsheet, you come up with a net savings over the life of the loans of almost exactly \$117,000. More to the point, the clients become debt-free a decade earlier than their previous schedule, and can begin applying the amount they were paying in debt to their retirement accounts without any diminution in their accustomed lifestyle.

“Anybody who has refinanced once in their lives

knows that paying off their debt sooner saves them hundreds of thousands of dollars in interest over the life of the loan,” says St. Clair. “Most people recognize the advantage of this approach, and that gives us a chance to show them something that is more powerful.”

More powerful? St. Clair then unveils a brain-numbing spreadsheet which is fairly simple in design, but so filled with numbers that it takes a second to realize where he’s going. The spreadsheet compares the consolidated mortgage that he just illustrated, year by year, with a second alternative: taking out a 30 year mortgage at a slightly higher 6.625% rate, making the payments on that note and investing the difference (\$2,262) plus the tax benefits (an amount that varies each year, but starts

off at \$720 a year and climbs to a high of more than \$9,500 in year 11 before falling back again) in a retirement account.

In the initial spreadsheet, he assumes a 10% rate of return on the investment portfolio, and because of the tax savings and the spread between the investment return and the interest rate on the loan, both of them compounding every year, he arrives at a bottom line that will startle you. At the end of 30 years, the loans are paid off--and, yes, this strategy did incur an additional \$469,000 in interest--and the client has accumulated an investment balance of just over \$5.2 million, compared with \$3.3 million that would have been accumulated if the client had paid off the loan in 10.4 years and invested the loan amount thereafter.

*Continued on page 12*

## The Far Side...

*Continued from page 11*

Indeed, the longer you look at the year-by-year growth of the portfolio, the tax savings, the differences in monthly payments and interest amounts, the fact that more money is invested earlier in the 30-year-loan scenario, the more it looks as if somehow, simply by rearranging the client's debt structure, St. Clair has managed to make \$2 million appear out of thin air.

"The traditional thinking, in the financial planning world and with consumers," says St. Clair, "is: if I could get get out of my mortgage debt, then I could really start to salt it away. But this analysis tells a different story. Maybe we should be consolidating the debt, and instead of paying it off early, we should be stretching it out."

As a bulldog reporter, my job is to poke holes in this magic act, so I start to ask some questions. First of all: What about that 10% rate of return? Isn't that a bit aggressive? St. Clair runs the numbers again at a 6.5% annual rate of return. At that level, the 30-year-mortgage comes out less than \$400,000 ahead when the debt is finally paid off, which means this is probably a break-even number. If you think a client's investments are going to average more than that, then the stretch-out-the-debt recommendation looks like a winner.

Okay, but not every client has 30 years until retirement. What if you decide to retire in

15 years? St. Clair returns to the spreadsheet, using the 6.5% rate of return assumption, and points out that your choices are to owe nothing and have \$324,000 in the investment account, or owe \$300,000 and have \$900,000 in the investment account. "You can take the money and pay off the loan and still have money left over," he points out.

From there, St. Clair is taking off his debt specialist hat and putting on his financial planning hat, and noting that many clients could be putting more money aside in their retirement accounts, either at work or in some kind of defined contribution or, if they're older, defined benefit plan. Some of the cash flow could be compounding tax-deferred, which makes it more valuable because it gives the client a double tax benefit--the mortgage interest deduction and the tax-free accrual. "We have client who have raised their retirement plan contributions three-fold," says St. Clair. He also talks about Roth IRAs (and the 2010 conversion), annuities and life insurance as additional tax-compounding investment possibilities.

But the real insight here is that there may be real money to be found on the liability side of a client's balance sheet, and hardly anybody is taking a creative look at it. "There are many that we don't reach in our profession," says St. Clair, "and for many of them, the liability side of their balance sheet represents a much bigger lever than the investments.

If we could add 100 basis points of alpha to our portfolios, we would all be heros. And yet what we can add to the bottom line by planning around the liability side is the equivalent of hundreds of basis points."

Indeed, St. Clair has created net present value calculations, and is astonished at some of the numbers he has seen in actual client cases. "Originally, I thought maybe I would charge some percentage of whatever benefit I brought to clients," he said. "But the numbers were bigger than I expected. The added returns tended to be in the 18% to 22% range, and the present values tended to be in the \$200,000 to \$400,000 range--just the difference between taking my advice on debt restructuring or not."

The bottom line here, says St. Clair, is that a dollar investment, especially invested EARLIER, may be worth more to a client, long-term, than the same dollar used to pay down tax-deductible debt. If you recognize that, then the process is finding ways to stretch out the debt and freeing up money, as much as possible, to put into an investment account.

This, of course, flies in the face of everything that I believe about the morality of having debt, the riskiness of it, the grind of paying interest when you don't have to, and so I have a tough question in reserve. But St. Clair preempted me on it. "There is one caveat to everything I've said here," he says. "For everything

here to work, the debt must be in, and remain, under control.” In other words, he always looks at the client’s cash flow to make sure that the payments are reasonable in comparison to the money coming in and going out.

But... St. Clair points out that in the case of stretching out the loans, the actual loan payments are *lower* than they were before the clients walked in the door--which means, presumably, they are more under control than they were before.

What if the family encounters a nasty bear market which sets back the investment accounts for a year or two or three? St. Clair notes that this shouldn’t make a difference in its ability to make the payments. Yes, the strategy would be under water for a few years, but St. Clair notes that this is always proposed as a long-term strategy, and the 30-year note kind of makes that point by itself. “Often I will take clients back to year one, and you can pick a slide,” he says. “In year one, would you rather owe \$469,000 and have nothing in the investment account or owe \$498,000 and have \$28,000 in investments? Who cares?” he says, drawing his own conclusion. “This isn’t a short-term strategy, because the benefits don’t show up immediately.”

I point out that you have to have decent investment returns for the strategy to pay off, but St. Clair counters with: “I think that’s true of anything you invest in. How many times to clients call after a bear market year and



*“If you’ll just have a seat, I’ll be happy to explain how we intend to phase out our commission revenues.”*

say, I would have been better off in the bank? They miss the point about long-term returns.”

“I don’t advise people to pull money out of their homes to invest in securities,” St. Clair adds, perhaps thinking that I have one more tough question in reserve.

To my eye, creative planning work on the debt side of a client’s balance sheet is an idea that is far outside the box--and interesting enough that most planners ought to be looking at it as they go forward. Even if you only settle for the first example, and pay off the loans through a consolidation and magically put a few extra

millions of dollars on a client’s balance sheet, you’re offering a significant added service. The 30-year consolidation is more controversial, but properly monitored, seems to increase the magic potential.

“I believe the career asset is a client’s most valuable resource,” says St. Clair, “and I believe that the advisor can add more value to the debt structure than to the investments. In light of that, it’s interesting that the planning profession focuses most of its attention on the money in the investment accounts, which may be the least valuable of the three.”■

## THE PRACTITIONER FORUM

### *A COMPENDIUM OF THOUGHTS, IDEAS AND PRACTICE ISSUES FROM AROUND THE PROFESSION.*

#### *Right Brain Drain*

In a recent e-column, I profiled Ross Levin's presentation at the Northern California Regional Conference. But one thing he said that was not reported suggests that the profession has an interesting transitional hurdle coming up.

Levin said that after hiring a strong second generation of employees, for skills that the founders don't have, he is discovering that they don't have some of the skills that the founders DO have. If this is true for other practices, and I suspect it is, then it could be difficult for many founding advisors to effect an internal transfer to their employees without leaving it crippled in critical areas.

Such as? Larry Ginsburg, who practices in Oakland, CA, suggests that many advisors like Levin started their firms with strong people skills, and brought into the firm too many "left brain" employees who may lack the sensitivity to communicate or work effectively with clients--and may not be suited to bringing in new clients either. In his mind, this raises basic questions even for an outside buyer. "What will the service be with the new owners?" he asks. "How much 'glue' will there be between the client and the new owners? I met with someone who is entering the business after years of corporate management, and he will be buying a retail practice," Ginsburg adds. "These questions will be paramount in his concern about his proposed acquisition."

Is there a solution? The team of support employees should include at least one person with communication skills comparable to the founder, which, Ginsburg suggests, may be more common with older hires. "When we hire," he says, "we really value experience and personal maturity. I prefer to get people with life experience who may better appreciate what we think is important in developing the client relationship: that it is all about the clients, and their lives, and how we can enhance the quality of their lives."

#### *Minimum Discrimination?*

Peter Mangan, of Shareholders Service Group in San Diego, has managed to keep his company's doors open to newer fee-compensated advisors who haven't yet brought in \$25 million--or any million--under management. This, of course, is in direct contrast to some of SSG's larger competitors, and in a recent interview, he wondered aloud why those minimums exist at all. "If you look at the retail advertising of one of the largest firms," he says, "you'll see billboards saying: 'Large Accounts. Small Accounts. They All Count.'" So why would they welcome \$100 retail accounts, but tell advisors they need 25,000 of those accounts before they'll work with them?"

The answer seems to be that the company wants to generate a certain amount of profit per relationship, regardless of the source, and because advisors can negotiate discounts, and receive software that is slightly more sophisticated than what retail consumers have access to, there is a lower profit margin on smaller AUM figures. Even so, when you recognize how little a retail customer may be paying on that \$100 account, the refusal to service smaller advisors is a bit perplexing.

SSG, meanwhile, continues to pioneer new services for advisors. Recently, it introduced a service where the company creates and mails out quarterly performance reports to clients on behalf of advisors, and a separate service that handles the fee calculations and automates the deduction from client accounts and payments to advisors. "We do the calculations, submit it to the advisor for approval," says Mangan, "and then collect the fee on their behalf."

#### *Excellence Made Personal*

Bill Carter, of Carter Financial Management in Dallas, says that too many advisors take it for granted that their employees understand the importance of excellent client service. In his view, reinforcing

## The Right Direction

this basic message is one of the most important challenges for the company's principals.

How do you accomplish this? CFM schedules an off-site company planning day each year, where the employees participate in asking--and answering--some very basic questions: Where are we? What do we do well? Where do we need to improve?

In addition, each staff member is budgeted \$1,000 a year for tuition at conferences or educational programs, and when they come back from these, each is required to write a report on what they learned and how it will help CFM become a better company. Each person also sets personal and business goals at the beginning of each year, and share them with the group, and report when a goal is achieved.

Finally, Carter will lead group discussions where he asks members of the staff if they've recently had a bad service experience. Of course, there is never a shortage of examples, and when the awful story is told, Carter will ask them: how did it make you feel about their company? The answer, inevitably, is: I would never do business with them again.

Finally, Carter will draw out the point with his last question: How do you think our clients feel if we offer bad service? "This really gets their attention, because it personalizes it, and makes it real to them," he says. "I'll ask them, how do you want our clients to think about you?" This time, it's a rhetorical question. ■

A couple of weeks ago, the CFP Board issued the final version of its new Rules of Conduct--which will replace the CFP Code of Ethics and Professional Responsibility on July 1, 2008. How you feel about the latest revisions depends on where you sit on the fiduciary fence, but I see a couple of subtle changes which, I think, have effectively closed the loophole in the earlier versions. My read on it, now, is that by this time next year, if you have the CFP logo on your business card, you will pretty much have to act as a fiduciary with your clients.

What I find even more interesting is the route the Board took to get to this place. The first comprehensive rewrite of the Code came out in July 2006, and created a default fiduciary standard for all CFP planners. But, to the consternation of many, the language would have allowed CFP planners to opt out of these requirements simply by getting their clients to sign a document which included legalese which stated that the planner/broker/agent was not acting in a fiduciary capacity. Since most brokerage firms and not a few independent broker-dealers routinely had clauses like this in their new account contracts anyway, a lot of CFP holders would have been exempt from the fiduciary standards as a matter of administrative routine.

In the past, the hue and cry which followed would have been ignored, on the theory that the Board doesn't work for (or answer to) the CFP community--even when the CFP community is asking for TOUGHER standards than those proposed. But, in an enormously hopeful sign, this time the Board decided to put everything on hold while it asked for feedback.

Last March, after a lot of input and discussion, the Board offered an update which again made the fiduciary concept a default standard--but only when the CFP planner was offering "material elements of financial planning." This tightened the standards a bit--and some on the Board's committee argued persuasively that in the real world, when cases were brought in front of the CFP's Board of Professional Review, the de facto assumption would be that any investment advice would probably include some discernible financial planning activities. The Board further argued that many holders of the CFP designation are employed to do work that doesn't involve giving advice to consumers. Some happen to be mutual fund wholesalers. Others are executives with independent BDs, and at least one is a dentist.

If they aren't doing financial planning, so the argument went, we can't force them to be fiduciaries, and we certainly don't want to be trying to fit dentistry into the Rules of Conduct.

During the second comment period, many of us argued that the most potentially-troublesome group of CFP licensees are not dentists but insurance agents and wirehouse brokers, professionals whose client work involves convincing people to buy investment or insurance products with a

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## Parting Thoughts

*Continued from page 15*

peculiar combination of commissions, corporate profits and meagre client benefits that would probably not meet even the broadest fiduciary standards. The daily activities of these brokers and agents might involve POSING as financial planners, perhaps slyly flashing the CFP logo on their business card to relax the client before the kill. But what they actually do is more like the activities of a car salesman than a trust officer.

To make things worse, after the SEC's BD exemption was published, before it was struck down by the courts, wirehouse organizations were already busily dismantling their brokers' analytical software so that nothing their brokers did could be defined as "financial planning" to the SEC examiners. The CFP language seemed custom-tailored to allow broker CFPs to fit their sales activities into this new avoidance scheme.

Once again, the Board asked for feedback.

Having not one but TWO comment periods is so unlike how the Board acted in the past that this, alone, sent an encouraging signal that the CFP regulatory body was willing to listen and adjust when necessary. More encouraging still, it actually acted on the suggestions it received. The rules still say that you're a fiduciary only if you provide material elements of financial planning, but the definition of those material elements has been made much tighter and more comprehensive with one simple tweak.

You can find the tweak, not in the Rules themselves, but in the terminology section, where (among other things) the term "Personal Financial Planning Process" is defined. This definition is highly significant because it describes the criteria by which the Board will determine (in legal or administrative proceedings) whether the CFP planner is "providing financial planning or material elements of the financial planning process." Before, the definition was mainly procedural. Did the advisor gather client data and analyze it? Did he or she develop a plan?--And so forth. But in the final version, the Board added one more criteria: "The client's understanding and intent in engaging the certificant."

In other words, if the client believes that he or she is receiving financial planning, if the client has been slyly shown the agent's business card with the words "Certified Financial Planner" on it, even if nobody performed a retirement sufficiency analysis before the

client was sold an equity-indexed annuity with a 15-year surrender charge, for the purposes of the Rules of Conduct, this is a financial planning engagement and subject to fiduciary standards. The new definition goes on to state that even if different elements of planning are addressed over a long time period (retirement plan this year, estate plan the following year, etc.), this is still a planning engagement. That appears to directly address the wirehouse dodge of offering some parts of a financial plan this year, and others later.

Meanwhile, CFP holders are required to "at all times place the interest of the client ahead of his or her own" (Section 1.4); disclose their compensation in detail, up-front and during the life of the engagement (2.2a); identify potential conflicts of interest (2.2b); always provide services with integrity and objectivity (4.1); and only make and/or implement recommendations that are suitable for the client (4.5).

When I compare this version of the Rules to what was proposed last year, and the open process to the secrecy and (often) sneakiness that characterized the Board's decision-making in the past, I see a lot to be encouraged about. I don't see how a broker is going to make a self-serving recommendation without having to face some fairly severe questions by the CFP Board's Board of Professional Review. After that, I can envision the plaintiff's attorney asking the broker if he or she has read the Rules of Conduct and agreed to abide by them before laying out the predatory nature of the investment recommendation before an arbitration panel or jury.

I'm cheering not because I want to see a lot of brokers and agents get sued, but because I want to be able to say, in writing and to my friends and neighbors, that if they seek out the services of a CFP planner, they won't have to worry about getting sold a bunch of junk that will sit in their portfolio and gradually stink to high heaven. I want to be able to say that the CFP planner is required, stringently, to sit on their side of the table--which, I think, is where we want the profession as a whole to be at some point in the (hopefully) near future. The CFP Board has taken a step in the direction of that future, through an open, transparent and responsive process that actually strengthened the consumer safeguards from what was initially proposed. I used to say that I hope this behavior continues; now I'm ready to say that I *believe* it will--and maybe that's the most encouraging step of all. ■