

Click on the article title to read it.

Behavioral Finance

Rumpelstiltskin and Financial Planning

By Diane C. Savage, CFP®, CRC®

Reaching Out to the Next Generation:

Educating Your Clients' Children
by Nancy Opiela

Practice Management

Standing Out from the Competition

by Ed McCarthy, CFP®

Professional Development An Article Trilogy:

A Planner's Pyramid of Success

by Vern C. Hayden, CFP®

A Planner's Pyramid of Success: Logistics

by Vern C. Hayden, CFP®,

Pyramid of Success: The Final Chapter

by Vern C. Hayden, CFP®,

Rumpelstiltskin and Financial Planning

by Diane C. Savage, CFP®, CRC®

Diane C. Savage, CFP®, CRC®, based in Westlake, Ohio, consults with individuals and organizations interested in planning for the new retirement.

Reprinted with permission by the Financial Planning Association, Journal of Financial Planning, March 2008

What will retirement be like for the nearly 35 million women who will be 65 years of age or older in the year 2025? The youngest of these future retirees is currently 48 years old. In the year 2025, today's 50-year-old woman will be 67 years old, while today's 60-year-old woman will be 77. Put these facts together with some of the most commonly agreed-upon demographic markers and we can foresee a troubling picture of the future lifestyle that results from women's inadequate retirement planning.

Financial planners are fond of reminding women that

- Statistically, married women will outlive their husbands.
- The probability of a 65-year-old female living to age 70 is 94 percent compared with a male whose chance of living to age 70 is 92 percent.
- For a couple, the odds are almost 100 percent that one of them will live to age 70; the probability is nearly 20 percent that one of the two members of a couple will live to age 95 and that survivor will probably be the wife.
- In 2007, nearly 60 percent of older women in America were single, with nearly 45 percent of that number being widows—the remainder were divorced or never married.
- The Census Bureau indicates that whether widowed, divorced, or never married, single women face higher rates of poverty than men.
- Approximately one in five unmarried elderly women is poor by government standards.

The retirement planning implications for women, as individuals or as a member of a couple, are tremendous. In general, the financial challenges are great but become especially significant in terms of the health care, lifestyle, and social choices that will be available to women as they age. The lack of retirement preparation has implications not only for their lives as individuals but also for the inevitable consequences of social and governmental institutions and their policies.

Women represent one of the largest potential markets for financial planners; yet women also represent some of the greatest challenges to planners. With their statistically lower earnings levels combined with sporadic work careers, it would seem that for women the money is not there to invest. Or perhaps women don't seem to take much interest in the topic of future security because they are focused so much on the present. With women making up one of the potentially largest market segments in financial planning, the opportunities for financial services professionals are great. But can planners afford to work in this market? As socially responsible professionals, how can we afford not to? But where do planners begin?

Changing Beliefs and Attitudes

Hammering on the facts and statistics would seem a logical starting point and, in fact, that has been the traditional retirement planning model for both men and women. This approach would have planners put forward the statistics and let the numbers do the talking. The assumption is that the strength of the logical argument will persuade people to plan for retirement. Another approach tries to scare the retirement non-planner into action.



Published by the Financial Planning Association/United States. The Financial Planning Association® (FPA®) is the leadership and advocacy organization in the United States connecting those who provide, support and benefit from professional financial planning. Financial Planning Connections is published as a forum for the free exchange of ideas, facts and information relevant to the financial planning profession. The opinions and positions in the editorial copy are those of the authors and do not necessarily reflect those of the Financial Planning Association® (US). Material published in Connections which has been provided by FPA (US) is property of the Financial Planning Association (US). Article reprints are available for purchase upon request by calling +1.303.759.4900 X 7169. Copyright 2007 by the Financial Planning Association, United States of America: all rights reserved. For more information about FPA, visit www.FPAnet.org



Planners create black-and-white marketing materials that show an old couple with sad and pained expressions; they are the ones who didn't plan for retirement. But the couple who planned for retirement is pictured sitting on a shady veranda overlooking their newly purchased vineyard, toasting their just rewards.

Most financial planners would probably agree that statistics and strong visual marketing pieces will have an impact on some clients. But what about the majority of women for whom the reality of statistics or the power of advertising has little or no impact? "Ignorance is bliss" until a person arrives at the "pay the piper" stage. While many people may need to learn from their own mistakes, how can financial planners help improve the situation for women planning for or living in retirement? A possible approach focuses on changing behaviors around planning for retirement. One way to influence behavior is to change the beliefs that motivate the behavior. This is by no means an easy task. Changes that are motivated by beliefs and attitudes are generally more long lasting because external "reasons" to do things are replaced with internal "motivation." Real change occurs internally when beliefs and attitudes change. Changing beliefs usually results in deeper, sustained, ongoing behavioral changes. When it comes to helping women plan for retirement, this may be the best place to start.

Assertive Decision-Making

Women need to become assertive financial decision-makers regardless of how little or how much money they earn, their marital status, their work patterns, their social status, or their net worth. It is important that women do something for their own retirement with whatever resources they have available to them. Is it better to arrive at retirement with regrets and no nest egg or to have some regrets and a little nest egg? Arriving at the life stage of retirement may be one of those times when something is better than nothing.

As Stanlee Phelps and Nancy Austin write in their book, *The Assertive Woman*, "Acquiring new assertive behaviors involves becoming aware of your own attitudes, actions and reactions, and knowing which will promote your assertion and which will delay it" (2002, p. 25). If you think this is closer to a life mission than surface behavioral changes, you are right. But isn't retirement planning really a life mission since it begins with good savings habits that are easier to develop in childhood rather than at the age of 50? If planners are brave enough to approach this vast market, even women with modest means and limited savings potential can achieve greater security in retirement. There are some approaches planners can use to assist clients in becoming financially assertive women who care about themselves enough to plan for their future in a meaningful fashion.

Assertive financial behavior enables a woman to make many financial decisions that are in her best interest because she values herself enough to take care of her retirement needs. Because assertive behaviors are rooted in a belief system that is internal, the beliefs that motivate a woman to take care of herself financially will probably result in assertive behavior in other areas of

her life—professional, and personal. This assertive belief system may motivate women to make better choices about their education, career choice, spending patterns, as well as other significant life areas.

Helping Your Female Clients

What can the financial services professional do to help female clients understand the importance of planning for their future?

Help your client identify her beliefs about her responsibility to take care of herself financially.

Some women have been encouraged to hand off financial responsibility to a spouse or another family member. This relieves them of making decisions and frees them from taking responsibility for decisions that are made. Talking with a financial advisor indicates some level of awareness that choices may need to be different or that there is concern about the future. The advisor can provide guidance to assist the client in identifying those specific areas of her financial life that require attention and better financial decision making.

Work with your female client to develop specific new financial behaviors that she can adopt.

Phelps and Austin provide a model for creating new behaviors: (1) describe the new behavior, (2) practice the behavior, (3) reinforce the behavior, and (4) get rapid, accurate feedback.

Translating this into the retirement planning context is relatively easy.

For example, a client who has never used an employer-sponsored retirement plan such as a 401(k) or a 403(b) decides to participate in her company plan (new behavior). Money from each paycheck is deposited in the plan (practice the behavior). As a new investor, an account opened in a guaranteed option, for example, will grow over time (reinforce the behavior). She receives quarterly statements that demonstrate to her a growing account as well as saving for the future (rapid, accurate feedback).

Adopt a coaching style with your female client.

In the initial interview, the planner may need to be more aware of practicing both good listening and questioning skills. The client may require additional support and motivation. As the client moves through the planning process, the planner should provide regular, positive reinforcement for financial decisions, and encourage the client to identify the ways she feels more in control of her financial decisions. This will foster continued growth in financially assertive behaviors.

Seek opportunities to address women's groups and raise their awareness about the importance of being effective financial decision-makers.

The increased attention to financial literacy in schools provides a tremendous opportunity to introduce this message to young girls as well as high school or college students. As women make career choices, it is critical they understand how employer benefits or lack of them will affect not only their present life but also their chance of future economic security. Women need to understand the importance of creating and managing their own wealth and understand that their financial choices in the present will greatly influence their retirement security in



the future.

In the final analysis, assertive behavior develops a sense of personal power. Financial assertiveness is the process of discovering and owning financial responsibility for one's life. It does not mean a woman can control all factors that influence financial success. It does mean, though, that a woman can be empowered to make personal decisions about her well-being throughout her life. This is not an easy task because it involves facing the internal beliefs as well as the expectations of others as to how women should behave and the choices they should make.

When working with women in planning their retirement, keep in mind the tale of Rumpelstiltskin the young woman was given many tasks but the hardest was spinning straw into gold. Faced with lower pay, uneven work careers, competing demands to take care of the present at the expense of the future, women need to become financially assertive in order to make the most out of what they have.

Reaching Out to the Next Generation: Educating Your Clients' Children

by Nancy Opiela

Nancy Opiela, based in Medfield, Massachusetts, is a contributing writer for the *Journal of Financial Planning*.

Reprinted with permission by the Financial Planning Association, Journal of Financial Planning, July 2008

What do your clients really want your help with? *The New Retirement Mindscape* (January 2006), a comprehensive study of retirement attitudes by Ameriprise Financial, in conjunction with Age Wave and Ken Dychtwald and Harris Interactive, illuminates a retirement planning need: educating children about money. Amazingly, for 52 percent of the survey respondents, the top priority is not investment management plans or estate planning strategies, but simple instruction and advice to help their children become more financially savvy. And that percentage jumps for parents with children living at home: 61 percent of respondents with financially dependent children identify financial education for their children as their top financial priority.

The study's authors posit that these findings reflect the recent growth in households with children over the age of 18 living at home, up an incredible 69 percent between 2000 and 2004. Of course, in today's uncertain economy, the trend of teens and young adults taking longer to assert their financial independence is likely to continue—and increase parents' desire for help educating their children about financial matters. That spells opportunity for financial planners. Reaching out to educate your clients' children not only satisfies your clients, but presents a way for you to establish relationships with the next generation.

Teach Basics While Kids Are at Home

When it comes to educating clients' children about money management, Patrick Dougherty, CFP®, of Dougherty Financial Services in Dallas, Texas, says many of his clients miss a golden opportunity because they don't encourage their children to get a job. "Nowadays parents are more inclined to provide the money for what their children need," he says. "Therefore, the children have no idea how hard they have to work to make a few dollars and don't understand the value of a dollar."



"When they go off to college at age 18, they don't need your signature—you may not even know they have credit card debt until they tell you about a problem."

—Jon Gallo, J.D.

Accordingly, Dougherty begins his financial

education for high school students not with definitions of stocks and bonds, but with a general discussion about the lifestyle they enjoy with their parents and what it takes to maintain that lifestyle. "What their parents have to earn to support them comes as a shock to many students because parents don't share that level of detail," he says.

Dougherty then moves on to chat about the student's long-term goals. "If they want to be a doctor, we'll look at an average salary, but I'll subtract Social Security and taxes, and factor in other living expenses and savings so the kids get a realistic sense of what they'll have to live on," he notes.

With the long-term, big picture as a foundation, Dougherty uses the college planning process as a vehicle for financial education. "We talk about why they are choosing to attend college and how a college education will enable them to support themselves," he says. "Our discussion of where to go to college is an ideal time to highlight how the kids might contribute to college costs. Those who do work can direct some savings to fund their education, but I also explain to the kids that studying and making good grades can win them scholarships."

Central to Dougherty's Finance 101 is the recommendation that the parents cosign for a credit card so their children can learn to use it under parental supervision during their senior year, before they leave home. "I generally recommend a dollar limit and want the kids to get used to seeing the bill come and paying the balance in full," Dougherty says. "It's our responsibility to set a good example and prepare them for the multiple credit card offers they will get the minute they set foot on campus in the fall."

Jon and Eileen Gallo, of Los Angeles, California, founded the Gallo Institute with a focus on working with parents to raise financially literate kids (and be



“financially intelligent” themselves), and have written two books on the subject: *The Financially Intelligent Parent* (Penguin USA/New American Library, 2005) and *Silver Spoon Kids* (McGraw Hill/Contemporary, 2001). Jon Gallo, J.D., head of the Family Wealth Practice Group of Greenberg Glusker Fields Claman & Machtinger and a columnist for this journal, agrees with Dougherty that credit cardproofing clients’ children is crucial. When they go off to college at age 18, they don’t need your signature—you may not even know they have credit card debt until they tell you about a problem,” Gallo says. “Kids just don’t understand how compound

to work with high school students to create budgets so they “learn to think reflectively about money in terms of choices, alternatives, and consequences.”

Eileen Gallo says a clothing budget is ideal in that regard. She advises that planners encourage their clients to give their children a clothing allowance, permit them to make some initial decisions, and then shop with them to discuss topics ranging from quality of manufacturing to the price increase for designer brands. “Clients tell me wonderful stories of the clothes horses realizing that if they don’t buy the

designer brand jeans, they could have three to four other items,” she says. “Vacations also offer a great teaching opportunity for parents to give children a certain amount of money for the stay and when it’s gone, it’s gone.”

Ultimately, of course, the budgeting needs to move from vacation into real high school life. Accordingly, the Gallos advocate that parents slowly shift some line item expenses, such as lunches at school or gas money, over to their kids. “You structure their allowance in those terms and put it in writing,” says Eileen Gallo. “Sometimes kids can’t manage a month at a time, so we’ll start on a weekly basis.”

Financial Literacy Still Declining Among High School Seniors, Jump\$tart Coalition’s 2008 Survey Shows

While the financial literacy scores of the 2008 high school senior class rank lower than their 2006 peers measured in a national survey, financial literacy scores are higher among college students, according to the Jump\$tart Coalition® for Personal Financial Literacy. In the Jump\$tart Coalition’s biennial survey, funded by the Merrill Lynch Foundation, high school seniors correctly answered only 48.3 percent of the questions. This mean score is a decrease from those posted by the senior class of 2006, which correctly answered 52.4 percent of the questions.

Among high school students, those who scored 27 and above on their ACT college entrance exam correctly answered 59 percent of the questions, while seniors with ACT scores 20 or lower answered just 43 percent of the survey questions correctly.

Among the findings in the survey:

- Forty-eight percent correctly said that a credit card holder who only pays

the minimum amount on monthly card balances will pay more in annual finance charges than a card holder who pays their balance in full.

- Only 17 percent correctly answered that stocks are likely to yield higher returns than savings bonds, savings accounts, and checking accounts over the next 18 years (even though there has never been an 18-year period when this wasn’t true).
- Forty percent correctly answered that they could lose their health insurance if their parents become unemployed.
- Thirty-six percent think a house financed with a fixed-rate mortgage is a good hedge against a sudden increase in inflation, compared with 45 percent giving this response in 2006. Copies of both the 2008 high school and college survey questionnaires, showing detailed responses, are posted on the Jump\$tartWeb site at www.jumpstart.org in the “Downloads” section.

interest works and, amazingly, 70 percent of students with credit cards have no idea what interest rate they are paying.”

Eileen Gallo, Ph.D., also a regular columnist for this journal, is a licensed psychotherapist in private practice who helps individuals and families with wealth related emotional issues. In her experience, it’s important for parents who give their children credit cards “for emergency use only” to clearly define what an emergency is. “Parents need to specify that a ski trip with a boyfriend isn’t an emergency,” she notes. “Sometimes a planner, as a neutral third party, may have more success delivering that message.”

Teaching Kids to Budget

In addition to ensuring that children understand how credit works, Jon Gallo says it’s important for planners

Speaking engagements at financial firms and professional groups make up part of the Gallos’ outreach. Jon Gallo notes that while their presentations often suggest helping kids learn how to budget and make decisions by using a debit card, there are some kids for whom a debit card just won’t work.

“Plastic, whether it’s a debit or credit card, can be too abstract for some high school students to get their hands around,” he notes. “In those cases, we put away the plastic and move to a cash economy, meeting once a week with the young adult to provide the cash needed for the week and talk about how it will be spent. We find that feeling the cash leaving your fingers registers to a greater degree. When you see the cash in your wallet depleting, you know you have less cash to spend and slow down and think about whether you really need that next latte.”

Peg Eddy, CFP®, president of Creative Capital



Management in San Diego, California, has developed a financial education program to offer to clients' children that is based on the experience she and her husband and business partner Bob had raising their two boys. "We've had this program for 20 years, long before the articles in the Wall Street Journal about the importance of establishing relationships with the next generation," she notes.

Like Patrick Dougherty, Peg Eddy uses college planning and funding as a springboard into her firm's Financial Literacy Primer. "Long before the kids are applying to college we suggest to their parents that we meet with the students to talk about college and what they are expecting in terms of funding. For our sons, we agreed to underwrite four consecutive years anywhere in the world, but they agreed they would try to contribute 10 percent of whatever the annual bill was. They both worked full-time in the summer, not during the school year, and the fact that they were contributing made them feel good," she says.

And, as the Gallos advocate, Eddy is big on transferring routine expenses to the children. "Parents might provide an allowance, but can specify what it covers," she says. "For clothing in our family, we did underwear, shoes, and jackets, and gave our boys a seasonal allowance for the rest. Our message was, 'We are not an ATM.' They did an excellent job with the responsibility and it really taught them to be good shoppers."

Car buying presents another entrée for financial lessons. Eddy says it can be a stress-free exercise, provided expectations are set well in advance. She explains, "When our sons were nine and seven years old, we told them that when it came time to buy a car, we'd match what they had saved. We also listed three conditions to driving—a B average, one extracurricular activity, and no drugs, including tobacco. They signed a contract and followed through and on graduation day, we signed the car over to them. For car insurance, they paid the difference between what we would have paid to insure the car for ourselves and what it cost to list them as the driver—and they always paid for their own gas."

Investing and Surfboards

Eddy's program also includes a segment on the difference between saving and investing. "Kids need to understand we save for short-term goals and invest for long-term goals," she says. "Planners might introduce the Roth IRA to the families they work with. Often, if parents offer to match the kids' contributions, they will be more likely to save."

Eddy also encourages parents to seed an investment account, perhaps with \$5,000, and give their children full control. "Using small amounts of money is like riding with training wheels. It's better to lose \$5,000 than \$50,000 or \$5 million," she says. "The deal we made with our boys was that they could take money out of the account for a bigger purchase like a surfboard, but that they couldn't put money back in. Then, whatever the value of the account was in five years, we matched it. The son who took out money for a surfboard quickly figured out that his purchase didn't cost him \$200, but

\$400. When we saw mistakes like that, or with investment choices, it was difficult not to say, 'Do you really want to do that?' but it's important to let your children make mistakes with smaller amounts of money."

To provide some sort of an investing foundation, Eddy recommends that her clients' children first read *The Everything Investing Book* (2005 edition) by Michele Cagan and Brian O'Connell. Eddy explains, "It's easy to read, has a good layout that is easy on the eyes, and has a good appendix. It provides the basics, but it's not written in a condescending way that would alienate high school students. Parents can insist that the kids read the book before the investment account is funded. We tell the kids that just as they can't drive a car without some instruction, they need some level of financial education before they make investment decisions."

Following the firm's Financial Literacy Primer, young adults can take advantage of Eddy's First Step



"Parents need to specify that a ski trip with a boyfriend isn't an emergency. Sometimes a planner, as a neutral third party, may have more success delivering that message."

—Eileen Gallo, Ph.D.

Financial Plan™, which offers practical, tactical planning advice and direction. Topics include getting out of debt, first time home-buying, steps to take to stop living paycheck to paycheck, planning for the costs of raising a family, making the right investment decisions for an employer-sponsored retirement plan, and looking down the road to financial independence.

As Eddy explains, "After clients enter their financial data into our system, the process offers them the chance to view alternate scenarios and a variety of options during the review meeting with one of our financial planners. Simply put, a First Step Financial Plan can help address what-if questions so that we're able to find practical, applicable solutions to young clients' financial challenges."

Family Partnerships, Philanthropy, and Retreats

Of course, a financial education doesn't always have to begin with budgets and college funding, or stocks and bonds. For Jon Persson, CFP®, of the family office Geller & Company in New York, New York, the best way to educate clients' kids is to engage adult children in an exploration of the dynamics of a family partnership. He also has been successful in teaching financial principles by involving children in their family's charitable giving. While a family foundation is an ideal mechanism for involving the children in the parent's charitable work and teaching them about the importance of helping others, foundation work is also a chance for children to learn about money management. Says Persson: "One family foundation we work with gives the children \$10,000 to give away, and they have to explain to Mom and Dad



why they made the choices they did. That exercise also would work with \$250 and still provide both an education about the values of the family. The research skills certainly apply to evaluating investments later in life.”

Explaining the mechanics of a family partnership also opens the way for Persson to reach out and teach his clients’ children. “We might discuss a multi-generational real estate deal that they are part of, how the partnership operates, who gets to vote, and what the tax implications are,” he explains. “In addition to learning about family governance, our discussion also provides a place for children to ask questions that they may be reluctant to ask their parents.”



“Our message was, ‘We are not an ATM.’ They did an excellent job with the responsibility and it really taught them to be good shoppers.”

—Peg Eddy, CFP®

Persson notes that another effective teaching strategy is to brief one child on how partnerships or trusts work and ask that child to educate his or her siblings. Persson conducts these instructional conversations one-on-one. “I can’t imagine gathering a group of 18 to 25 year-olds in a room and telling them that I’m going to teach them about finance. Not only are people reluctant to ask questions in a big group, but I anticipate many of these young adults would worry that their question might share details of their family’s finances that shouldn’t be made public,” he says. “My goal with all my educational outreach is to arm the next generation with the right questions to ask and establish myself as a trusted resource.”

While office meetings work just fine for many planners, others schedule family meetings, even retreats, to provide financial education for clients’ children. For example, after the clients of Johnne D. Syverson, CFP®, AEP, of Syverson Stregé & Company in West Des Moines, Iowa, develop the mission statement that addresses the family’s values, vision, and goals, he suggests a formal family meeting as an ideal way to introduce philanthropy and educate family members. “In a half-day to a two-day session, an outside moderator or wealth coach comes in to take the entire family through various exercises to help the second and third generations explore in detail how the mission statement applies to the entire family,” he explains.

Responding to private banking clients’ desire to better prepare their children for the transfer of wealth, Merrill Lynch introduced a Financial Boot Camp in 2006 focused on clients with \$50 million in net worth. Originally partnering with Wharton Business School, the four-day program that’s designed for young adults ages 21 to 35 includes more than 20 hours of classroom work. Explains Karen Klein, director of Merrill Lynch’s Family Wealth Services, “Business school professors present financial topics such as budgeting, credit management, cash flow, and portfolio management, in addition to the softer estate planning issues of how to own and share

assets. Also, this year we’ve introduced investing in a volatile market.”

Klein says another valuable part of the program is the focus on the psychology of money and estate planning. “We cover how to talk with your friends and family and about the impact of wealth, including big picture estate planning issues and prenuptial agreements, to something as simple as how to tell your friends you don’t want to be the one to pick up the tab every time you go out to dinner. In addition to receiving valuable information, our attendees appreciate the chance to network with other young people who have the same opportunities and challenges,” she explains.

Klein says the program has been so successful that boot camps are now offered at UCLA and the University of Chicago. This year there will be six sessions, and a mother/daughter session is in the works. After the boot camp, Klein encourages advisors to follow up with attendees who may have questions about what they learned. “In four days we are not going to turn an art history major into a portfolio manager. However, we can give them a comfort level so they are confident enough to ask questions,” she notes.



“You can’t start with ‘What is a bond?’ You need to do something else first to establish a relationship.”

—Elisabeth Donati

Advice for Taking Action

For planners interested in offering their own financial boot camp, the planners who already do so have plenty of advice. First, be positive. Says Patrick Dougherty, “Parents are concerned with the recent economic volatility and the lack of job security that their children now face, but they need to stay away from lamenting ‘How are they going to do it?’ Here’s how I think about it: When I was a teenager, gas was a dollar a gallon, but I made three dollars an hour. Today, gas is more than three dollars, but kids are making ten dollars an hour, so gas is still one-third of hourly earnings. To concentrate on how bad it is takes away from a kid’s ability to work and do something for themselves. I tell people their children’s situation is not as bad as the media makes it out to be.”

Additionally, Dougherty says parents and planners need to give children some financial control in addition to imparting information. “Most clients’ children already have some kind of college account with me and upon graduation from high school many parents choose to give them control over that account and I become the children’s advisor,” he says.

The Gallos advise planners to ask for periodic feedback from their young adult audiences. “It’s important to check that what you are talking about is getting through,” says Jon Gallo. “We all recognize that glazed stare that means the child has tuned out. Planners need to be looking for that.”



He adds that nothing turns young adults off faster than information that is simply over their heads. “Planners may think they have really brought the information down to the level of a teenage audience, but they are still at 20,000 feet and they need to fly at 50 feet in order to connect. Many times, a young adult will tune out, even though they may truly want to learn, because the information is just too sophisticated. You can’t start by saying, ‘Now, bonds are debt instruments,’” Gallo notes.

That said, it’s still important, according to planners, to treat the young audience with the same respect you’d give adults. That is, they suggest parents not say to their teenager, “You don’t know anything about money and I need to get you some help.” They should instead put the educational session in a positive light. For example, a parent might say, “I’d like you to meet with our planner who may be able to offer some helpful financial advice as you cross the bridge between high school and college.”

Elisabeth Donati, founder and executive director of Creative Wealth International in Santa Barbara, California, says more planners are showing up at her financial education sessions to learn how to teach children and young adults about money in a fun and engaging way. (Editor’s note: See our “10 Questions” interview with Donati in the June 2008 issue.) “Planners often begin their presentation with a PowerPoint slide, perhaps on asset allocation diversification. Of course that has great value, but the terms themselves are alienating, and planning is first and foremost about relationships,” she explains. “You can’t start with ‘What is a bond?’ You need to do something else first to establish a relationship.”

Donati also advises planners to dispense with the traditional lecture delivered from the front of the room. “It’s more effective literally to get on the same level with kids. I tell planners to try sitting around a circle on the floor on pillows,” she notes. “Also, it’s important for planners to refrain from any kind of selling while they are educating. Educating and sales go hand in hand, but not at the same time.”

Above all, Peg Eddy says her clients and the teenagers and young adults she works with agree on one thing: “Hearing financial facts from either Bob or me gets better reception by teens and 20-somethings than from their parents,” she concludes. “And we’re happy to help our clients in their efforts as parents to raise financially literate and responsible children.”

Standing Out from the Competition

by Ed McCarthy, CFP®

Ed McCarthy, CFP®, is a financial writer in Pascoag, Rhode Island.

Reprinted with permission by the Financial Planning Association, Journal of Financial Planning, April 2008

A basic tenet of marketing is to avoid “me-too” products and services. Research shows that top-performing businesses gain a competitive advantage by clearly differentiating themselves in a way that their customers

value. Firms that lack differentiation are less successful as measured by a variety of metrics.

During a typical year, I speak with several hundred financial advisors who serve as sources for articles. Many are independent registered investment advisors (RIAs); others are affiliated with broker/dealers, large brokerage firms, or insurance companies. I often start those interviews by asking the advisor to tell me about his or her firm: business model, services provided, clients served, and so on.

At the risk of offending past and prospective sources, many of these advisory firms have no immediately apparent unique features or competitive advantages. Almost without exception, what they do, how they do it, and whom they do it for appear to be the same as numerous other firms in their areas. That statement isn’t meant to imply anything about expertise, integrity, or service to clients. The overwhelming majority of the advisors and their staff appear to be expert financial advisors. They care about their clients, have excellent relationships with them, and do a good job advising them. From an outsider’s perspective, however - which is often a prospect’s perspective before a relationship develops - it can be difficult to see how advisory firms differ from each other.

Nonetheless, advisory firms across the size spectrum and with a range of business models and markets are finding ways to stand out from the competition. Some are achieving their success in smaller, less competitive markets, but others operate in major urban areas. Their approaches vary, but the advisors managing these firms believe they have found their sustainable advantage and are working to exploit it.

The Problem of Similar Services

When I ask advisors about their businesses, the responses take on a familiar litany. We (pick one)...

- Work with pre-retirees and retirees
- Provide objective advice
- Provide comprehensive wealth management services
- Work in the clients’ best interests
- Help clients achieve their dreams

...and so on. Some descriptions are delivered with the fervor of a Sunday sermon while others are a bit more casual. One of the most refreshing responses came from a planner in the Midwest: “We do financial planning and investment management for rich, older people we’re just another garden-variety wealth management business.” The responses are similar across business models, as well: unless you’re asking about compensation, the elevator speech of an insurance agent with a securities license often sounds very much like the speech from a stockbroker or an independent planner or a private banker. Everyone seems to be reading from the same page.

Drill down behind the glossy overview into the details of a firm’s service offering and you find numerous similarities, though with some modifications for the business model and clientele. The planning process,



usually some variation of the six-step process, is ubiquitous. Small firms use mutual funds and perhaps exchange-traded funds for clients' portfolios. Smaller advisors with securities licenses also rely heavily on funds and often add variable life insurance or annuities and separate accounts to the mix. Some mid-size firms manage investments in-house, but many outsource the portfolio management function and act as a manager-of-managers. Some large independent firms defined here as those with \$3 billion-plus of assets under management develop unique services and products, at least in comparison with smaller independents. But when you compare these large, independent firms with private banks and wealth management teams at the brokerage firms, the distinction becomes much less clear.

Taking a Broad Perspective

The similarity among comparable firms doesn't mean those businesses and their owners can't prosper, of course. John Bowen, Jr., CEO of the research and consulting firm CEG Worldwide LLC, says that his firm did a study last year of 2,094 financial advisors. Survey participants had at least five years' experience and \$50 million in assets under management and included brokerage firms, independent broker/dealer representatives, and RIAs. The survey found that the average pre-tax income of advisors whose firms focused on investments was \$279,000. Among those who offered more comprehensive wealth management, the average was \$881,000, although those respondents made up only 6.6 percent of the survey sample. These income levels show that many advisors are benefitting from high demand for their services, and anecdotal evidence indicates that many are operating at or near full capacity. This success raises two questions.

First, is it necessary to have a clearly differentiated service and product offering to attract and retain clients? The strong demand for advisory services implies that the need to differentiate might not apply to many firms, at least not yet. That demand springs from several sources, including the baby boomers' need for retirement planning and the increasing level of wealth in the United States.

Bowen recalls a study he completed as an undergraduate: "In 1976, we had 90,000 families with a networth greater than a million dollars and that was all-inclusive, including home and personal property. Today, we have 2.9 million households with over a million in financial assets. There's been a huge explosion of wealth and complexity."

At some point, however, baby boomers will have selected their advisors so there will be fewer new clients from that cohort to fuel growth. Additionally, as retirees begin to deplete their assets through spending or gifts, that asset base will stabilize or start to shrink. There's also the factor of growth in the advisor ranks. Incomes like those reported in the CEG survey attract people to the industry, even if most of them have to start out in the sales trenches to establish themselves. Consider the number of CFP® certificates in the United States: 56,511 at year-end 2007, a 32 percent increase over the November 2003 figure of 42,875.

Large financial services firms also are striving to capture the same wealthy clients that RIAs desire. As one example, Wachovia announced plans in June to more than double the number of its private-banking relationship managers over the next three years. The bank is targeting high-growth markets throughout the United States, including Florida, Texas, California, and New York.

The Small-Firm Challenge

A second question is potentially more problematic: Assuming an advisory firm wants to differentiate itself, how can it achieve that goal? There are numerous options for creating differentiation, but apart from the intangible qualities of personal relationships with clients, it's hard for small and mid-size firms to create sustainable competitive advantages. Developing superior advisory expertise is one possibility, but that assumes the firm can maintain that edge over time. Additionally, most firms lack the resources to develop innovative and profitable products and services. Even if they do, however, competitors are likely to duplicate successful innovations once they learn of them. Dennis Bacon, CFP®, CPA, owns Bacon Financial Advisors Inc. in Lee's Summit, Missouri. He works with approximately 250 clients and has about \$75 million in assets under management. He is a branch manager with Raymond James Financial Services Inc. and estimates that 85 percent of his business is fee-based, with the remainder coming from annuities and insurance sales. Roughly 80 percent of his clients are retirees or near-retirees; the balance is business owners.

The products and services Bacon offers are readily available from nearby competitors in both the Kansas City metropolitan area and his area of Missouri, he admits. He jokes that there are so many advisors that if you stacked every person in the area who calls himself or herself a financial planner along a six-lane road, the pile would be two miles long and ten feet deep. "I don't know that they're all really financial planners, but they do call themselves that," Bacon says. "There are plenty of competitors."

We pressed Bacon on how he attracts clients in a crowded market because on the surface, at least, there is little to make his firm stand out. In response, he cites his expertise, experience, and the low turnover among his staff. Bacon has been a CPA for 26 years and in financial services for 14 years. His chief administrative staff member has over 20 years' experience, including 11 with Bacon, and another staff member has a master's degree in taxation. In his experience with prospects, these factors give his firm an advantage over less technically qualified or experienced competitors. His approach to dealing with clients works: he estimates that he has lost less than 2 percent of the clients he's had since 2001.

Lisa A. K. Kirchenbauer, CFP®, owner of Kirchenbauer Financial Management & Consulting in Arlington, Virginia, has both specialized training and a well-defined market niche. She works primarily with newly affluent clients - namely first-generation wealth. Kirchenbauer's firm has approximately \$50 million in



assets under management and she believes her specialized training gives her a competitive advantage with those clients. She is a Registered Life Planner with the Kinder Institute of Life Planning and is an advisor with the Sudden Money Institute; there are no other advisors with that unique set of credentials in her area. Her firm's compensation model differs from the traditional AUM model, as well. She charges a base annual advisory fee that begins at \$7,500. Annual asset management fees start at 50 basis points and decline to 35 points for larger accounts.

Kirchenbauer also believes her experience during the dot-com boom helped her develop the expertise needed for the newly affluent, who make up 60 to 70 percent of her clientele. Her firm held seminars in 1999 and 2000 for AOL employees, many of whom had accumulated substantial stock-option profits.

"We had the opportunity to work with a group of people and they weren't the executives," she says. "These were middle management people who happened to have a bunch of money - millions of dollars at the time in stock options - but had never had this kind of wealth, and so we learned as we went along."

Wealth generated from dot-com success and stock options has proved to be fickle, which could put Kirchenbauer's niche at risk. Asked if her market is sustainable, she points to the projected wealth transfer to boomers from their parents. Many of those inheriting money lack the knowledge and skills to manage it, she says, and that will create opportunity. But Kirchenbauer stresses that she is not looking to have a large number of clients, and her desire to work with a smaller number of wealthier clients means she can focus on a narrow niche more successfully.

"My goal is to have fewer and fewer clients, but obviously of a higher and higher net worth level," she says. "That's what we have been working toward. In fact, it's really more based on our average fee per client. That's what we've focused on."

Mid-Market in the Big Apple

Advisory firms with \$1 billion to \$3 billion in assets under management would dominate the local scene in many parts of the country. That's not the case in New York City and its neighboring communities. There are numerous wealthy investors in the area and many firms compete for them, including all of the large financial services firms. Not only is Lenox Advisors Inc. located in Manhattan; the firm also works almost exclusively with Wall Street executives and hedge fund managers.

Lenox's decision to specialize in these clients was an easy one, says Thomas Henske, CFP®, a partner with the firm. "Number one, we're in New York City so it's tough to avoid those folks," he says. "Number two, that's where the money is, so when you're prospecting for new clients, it always helps that they're earning a good living and they have money to invest. And third, we just saw an absence of talented financial advisors in that space."

Henske says most clients hire Lenox Advisors to act as their personal chief financial officer, a service the firm

provides under the Lenox Personal CFO™ name. Lenox also provides supplementary group benefits to companies for their executives, such as disability insurance and life insurance. "For small and large companies, we do the group benefits, retirement income planning, and so on," says Henske.

The firm has grown rapidly since its inception in early 2002. Today Lenox manages approximately \$1.2 billion in assets under management and the staff numbers about 100 in four offices across the country. Henske says much of that growth is attributable to the synergy between the group-benefits offering and the personal advisory service. The usual process for benefits selection, he says, is to have the executives enroll online or read a benefits brochure, and make unassisted choices. As an alternative, the Lenox staff meets with the executives and discusses their options with each executive privately and guides them through the benefits selection process.

That approach accomplishes several things. It puts the human resource department's stamp of approval on Lenox because that department has arranged the meetings. The meetings take place at the executive's location and the process is efficient: the Lenox representative can have eight to ten meetings in the course of one day. "You've got the time management because you're meeting people on a regular basis in one area," says Henske. "And then these are people who have been looking for advice for a very long time, and you just happen to show up on their doorstep."

Henske cites a recent case. A bank wanted to offer supplemental disability insurance to its senior managers and hired Lenox to advise the executives. The engagement required face-to-face meetings with 2,000 executives to discuss their options under the program. As Henske notes, a conversation about the need for disability income insurance provides information about income, family situation, and other aspects of personal finance.

"The natural conclusion for a lot of those meetings is being able to do ancillary business with them whether it's on the financial planning side or further risk management or whatever that might be," he says.

One might think that Wall Street executives and hedge fund managers have ready access to financial expertise in the workplace. In some cases they do, says Henske, but there are other considerations. The executives might not want someone in the company to know what's going on in their personal lives. Many of these executives change jobs regularly and the odds are good they will be at a different company in five years. Another reason for working with Lenox is that many investment management firms do not provide comprehensive wealth management.

"They may do the asset management, for example, but not all of them do financial planning," Henske says. "So there's a big difference between accumulating assets to manage and financial planning and wealth management."



Lenox has been successful in delivering a wide array of products and services to a narrow target market. The firm's biggest challenge, says Henske, is staffing. "We have a problem that's the polar opposite of everyone else in our industry: here at Lenox, we have too many clients and prospects," he says. "Although you would think that's a very high-end problem to have and a good problem to have, it creates a whole new set of other problems. You can't find enough financial advisors to work with these folks."

Reaping a Harvest in the Garden State

Regent Atlantic Capital LLC is located about 30 miles from Manhattan in Chatham, New Jersey, but that doesn't mean the firm can escape the big-city competition. J. Brent Beene, CFP®, a wealth manager with Regent Atlantic, estimates that roughly half the prospective clients he sees are also interviewing the large brokerage firms and trust companies. "Although those competitors often have greater name recognition," Beene says, "our firm wins a lot more than we lose." The numbers support his contention, as Regent Atlantic now serves 850 clients and has almost \$2 billion in assets under management.

Beene attributes that success to several factors, the first being the firm's service-team approach to wealth management. Each team consists of two wealth managers, a financial advisor, a client service administrator, and an analyst. In a sense, each team works as a separate wealth management business, although there is tight integration across the teams. Clients work with the team, not just one individual, and Beene says extremely low turnover among the advisory staff creates stability that clients value. "There aren't any secrets," he says. "It's all about how we implement the game plan and execute, just like football. There aren't any trick plays that make a great team; it's just that they keep to the game plan and execute that while not making errors."

Beene believes another differentiator is the firm's sophisticated investment management process. RegentAtlantic has a target allocation of 20 percent in alternative investments for its clients' portfolios. Starting in 2007, part of that allocation included structured notes to deliver targeted investment outcomes. Beene cites an example of a structured note that is a negative play on a real estate investment trust (REIT) index. The firm's investment committee believed REIT valuations had reached "ridiculous" levels and were unsustainable. The firm asked several investment bankers for bids to create a two-year structured note that would allow clients to benefit if the REIT index dropped but also maintained downside protection in case the index moved higher.

"On the upside, we had a two-to-one multiplier so if the real estate index declined, we were getting two times that on the upside," he says. "This one particular note had an upside participation, and so as the real estate index declined, we got a multiplier on the upside. We also had a downside buffer in case we were wrong."

Customized structured notes are readily available from the large brokerage firms and other institutional wealth managers, but their use isn't nearly as prevalent among

independents. RegentAtlantic has also developed other structured notes when they've perceived the opportunity. One note is based on the relative performance of small- and large-cap stocks; another is a play on the currency carry trade.

The firm also offers a hedge fund-of-funds, the Regent Atlantic Fund, to its clients. The fund took three years to develop and is structured as a partnership. A sub-manager performs the initial hedge fund evaluations and passes that analysis to Regent Atlantic's investment committee, which decides which funds to include. Beene says the fund works with seven sub-advisors and he estimates there are 40 to 50 hedge funds available for investment. The fund's goal is wealth preservation with low volatility as opposed to seeking high returns.

Competing with the Biggest Firms

Laird Norton Tye, owner of LNTye in Seattle, Washington, plays in the big leagues. The firm, which is also a trust company, has roughly \$5 billion of assets under administration and competes regularly with the major financial institutions for clients.

Kaycee Krysty, CFP®, CPA, chief executive officer, says that the firm's in-depth understanding of its clients is an important element in its success. She notes that many firms will work with almost any wealthy client who meets the required account size. LNTye prefers to focus on the prospects and clients whom she calls "business leaders," a group she says has clearly identifiable characteristics. "They are data driven, they are creative, they are people who are CEOs, entrepreneurs, founders, business-owning families," she says. "Because we understand that client as a niche, almost, everything else we've done in terms of our programs and to differentiate ourselves is to meet their needs. I think that that's really a critical first step."

In LNTye's experience, an important factor in these clients' success is that they always hire the best people for their companies. As an extension of that experience, Krysty says, they want their advisors to have similar degrees of expertise. Consequently, LNTye has made a practice of hiring top-tier talent for its staff. For example, Douglas Rogers, CFA, author of *Tax-Aware Investment Management: The Essential Guide* (Bloomberg Press 2006), joined the firm in September 2006 as its chief investment officer.

Krysty says the firm enhances legacy planning with activities such as family retreats. These gatherings give family members an opportunity to discuss how they see the family's wealth fitting into their lives and relationships. This process in particular takes on an additional impact when dealing with second- and third-generation business-owning families.

The firm also works to educate its clients through its "thought forums" in which nationally recognized experts give presentations. For example, health expert Dr. Andrew Weil spoke to clients last year about health and aging. While the thought forums' topics aren't always finance-oriented, Krysty maintains they add significant value to the firm's relationships with clients.



"Business leaders are intellectually active," she says. "They're voracious. They want new information, they want the best information. Our thought forums have been going on almost ten years now, where we are consistently bringing in some of the top brains not just from the financial services industry, but in areas that affect their lives."

Demographics have favored financial advisors for the last 10 to 15 years, and many firms will continue to benefit from boomer wealth for at least the near future. The industry's profitability is attracting more competition, however, and at some point, it likely will become more difficult for "me-too" firms to continue attracting new clients at their current rates. When that happens, firms that have differentiated themselves will stand out from competitors. How a firm accomplishes that will depend on the opportunities that present themselves or are created and the firm's ability to exploit those opportunities. As the firms highlighted in this article show, however, advisors can stand out from the crowd in a variety of ways.

A Planner's Pyramid of Success by Vern C. Hayden, CFP®

Vern C. Hayden, CFP®, is president of Hayden Financial Group LLC in Westport, Connecticut, and author of *Getting an Investing Game Plan*.

Reprinted with permission by the Financial Planning Association, Journal of Financial Planning, March 2006

Nearly two decades ago, I was the opening speaker for a financial convention at the Marriott Desert Hot Springs Resort in California. It was the resort's first convention and there were a lot of well-known celebrities hanging around to celebrate its opening. The convention had its own celebrity as the closing speaker and I was fortunate to be sitting next to him at the speakers' table. Many of you will recognize John Wooden as probably the greatest basketball coach who ever lived. As many of his famous alumni from UCLA will attest, he coached more than basketball, he coached a way of life.

The mechanism he developed to do this was called the Pyramid of Success. Wooden defined success as "peace of mind which is a direct result of self-satisfaction in knowing you did your best to become the best that you are capable of becoming." His one-page handout was his Pyramid of Success, with all the characteristics he taught, including industriousness, loyalty, enthusiasm, self-control, skill, team spirit, confidence, and competitive greatness.

In my brief chat with Wooden, I asked if he would be offended if I developed a business pyramid for financial planners. He graciously said, "That would be fine, a lot of ministers have done the same thing." With that in mind, I did it...17 years later. I am no John Wooden, but I do have a passion for our profession and I like to work with ideas, so, please bear with me as I try to explain the Pyramid of Success for the Financial Planner.

The pyramid is an attempt to capture a visual of the "whole," which is the sum of the parts including, most importantly, their interaction on one page. It is a dynamic image of the realities of the business. While there are constant fundamental truths in the pyramid, there are also points that may change. Certainly, some of the techniques employed will evolve over time.

A financial planner's long-term business success is based on two fundamental factors:

- The acquisition of clients who generate renewal income
- The repetition of quality service for those clients over a lifetime

Everything else is a strategy or technique that complements those two fundamentals. Quality service demands the highest standards combined with continued self-improvement and renewal. The bible on service is *On Great Service*, by Leonard L. Berry, the great book Bill Carter told me about at the Financial Planning Association's retreat in Colorado Springs in 2004.

Defining Your Core Values

Success must be grounded in core values that form the base of the pyramid and enable us to build toward success. These values are what really make you tick as you work with clients. Here are some examples. It isn't necessarily what's right or wrong, it's "what are you really?"

- Are you in a sales mode or an advisory mode with clients? If you can hardly wait to meet a new client to see how much variable universal life insurance you can sell them, your values are centered on yourself. If you are eager to meet a new client without any sales-like preconceived ideas, you are more client centered. Put another way, are you a product-driven planner or a client-driven planner? There's a big difference and each of us must have a clear answer.
- Is making money the primary motivating factor of your business activity? A close friend who was a broker at a major brokerage firm was told she might "be history" if she didn't make a certain amount of money by the end of the month. She was forced to be money-driven to keep her job. That's vastly different from focusing on a process whose end result is making money. The emphasis is on the work being done with a client. Money is obviously a critical factor, but would it be number one in your mission statement?
- Are you a "fiduciary" or are you operating under the "suitability" standards?
- How do you make money - commissions, fees, or a combination?
- How do you define your character? At what point would you consider yourself dishonest? A planner is constantly challenged with "little" compromises. At what point does a little become too much? Integrity is not enough. Years ago, one of my philosophy professors at the University of Southern California graduate school defined integrity as "being consistent with your own values." You can imagine how relative integrity could be. Bank robbers could have integrity as long as they are consistent with



their value of "it's okay to steal"! It's only after you define your values that integrity becomes a meaningful issue and becomes part of your character. A good starting point is probably asking yourself, "Am I really honest? Trustworthy?"

- Core values include your feelings about education and credentials. It may help to consider the question, "Am I committed enough to my profession to obtain the degrees or credentials that best prepare me to provide the level of service I promise to clients?"

Core values are obviously very personal. If you are a CFP® certificant, the Code of Ethics and Professional Responsibility helps to form the foundation for your success. Your philosophy of life and your core values will determine what you make of your life and your business.

In my next article, I will discuss some of the logistics in starting a financial planning service. This effort should be viewed as a systematic and pragmatic approach to highlighting the most significant issues of building a financial planning service. The success pyramid will include logistics, preparation needed, positioning your niche, interviewing prospects, a planning process, implementation, servicing, and innovation. Each of these areas has three to five sub-topics. It is the interaction of all those parts that make our business work. Incidentally, this is not an academic exercise. For better or worse, it all comes from personal experience of actually doing these things. To borrow a phrase from Al Reis and Jack Trout, from their book *Positioning: The Battle for Your Mind*, these are ideas that come from "the mud of the marketplace."

A Planner's Pyramid of Success: Logistics by Vern C. Hayden, CFP®

Vern C. Hayden, CFP®, is president of Hayden Financial Group LLC in Westport, Connecticut, and author of *Getting an Investing Game Plan*.

Reprinted with permission by the Financial Planning Association, Journal of Financial Planning, November 2006.

In my column in the March 2006 issue of the *Journal*, I introduced the Planner's Pyramid of Success, a model based on a Pyramid of Success that was developed by basketball coach John Wooden. I focused on how you define your core values. This time, I'll focus on the next level of the pyramid: the logistics involved in a financial planning practice.

If you are a skier, you know the color code for ski trails is green for beginners, blue for intermediate, and black for expert. This discussion is mostly for the green-slopers. Of course, all the experts started here, so maybe a moment or two to reflect isn't all bad.

The approach you take to solve logistical issues will reflect your personality, the way you like to communicate, and the way you will go about planning with clients.

A Checklist of Activities

My purpose is not to go into great detail on these issues, but to give a few examples of the main things you need to consider. In that sense, the pyramid serves as a checklist to do the things highlighted at each level. It's important to build a resource library for each activity. For example, the best resource for staffing and office management is Mark Tibergien of Moss Adams. His book, *Practice Makes Perfect*, is excellent. For equipment, systems, and software, the experts are Joel Bruckenstein and Dave Drucker. Their book, *The Virtual Office*, is a classic.

Other core resources for your "experts" library should include anything written by Harold Evensky and Deena Katz. The most innovative new book is *Financial Planning: The Next Step*, subtitled *A Practical Approach to Merging Your Client's Money with Their Lives* by Roy Diliberto, CFP®, one of the profession's well-known and highly respected leaders. It's innovative because it not only synthesizes others' concepts of financial life planning in plain language, but integrates the author's original thoughts on the process as well as cogent business insights.

Before giving you a snapshot of my office, I want to start identifying principles that may act as guidelines for you. The first principle relates to the last article I wrote on core values as a base for the Pyramid of Success. It's very short and simple. It only gets complex when you try to consistently implement it. It is as follows: **Operate your business consistent with your core values.**

Office Setup

First, let's discuss the importance of the location of your office. One criterion for us was to locate where it would be easy for people to get to. It had to have plenty of parking and be easy to reach for the disabled and elderly. Consequently, we are within five minutes of I-95 and have easy access to downtown Westport, Connecticut.

Once you have your location, try to stay put. People like stability in their advisors. We have had the same address and phone number for 20 years. We have moved within the building three times. Each time we make it a little nicer. We hired an interior decorator to help us design everything in the office. The result gives clients a feeling of quality and comfort. Our secretary has a desk in the reception area, which also has a sofa and a couple of leather chairs. There are two tables with lamps and a telephone with pad and pen. In addition to the landscape art on the walls, there are some accolades from the media and such. It is a relaxed and somewhat casual atmosphere.

As people enter our office, here's what they see. There are two names on the front door: "Hayden Financial Group, LLC" (my RIA), and in smaller letters, "Geneos Wealth Management, Inc." (of Denver), our B/D affiliation. Some coaches have told me to give up my Broker-Dealer (B/D) affiliation. I haven't and I won't. As you know, people are forever telling you how you should run your business. The B/D relationship is very important for four reasons.



1. It helps simplify a morass of regulatory challenges. There is a shared responsibility and it's very cost effective. E&O insurance is also less expensive.
2. Additional criteria for a B/D are that it should be small to medium size, high payout, superior service, financially sound, financial planning orientated, very compliance proficient, no proprietary products, and independent. It especially serves as a valuable resource for complying with regulatory mandates.
2. About 90 percent of our income is from fees (both financial planning and portfolio management), but the other 10 percent from commissions is important.
4. The camaraderie and networking among the other planners in the firm is unique and defies quantification.

We all have to screen out inappropriate advice, which gives rise to the second principle: **Accept and implement only advice consistent with your own values and business criteria.**

Continuing our office tour, there are three offices down a hallway on one side, one office on the other side, and a fifth office at the end of the hallway. The final space is a multi-functional room, including a sink, cabinets, copier/ fax/scan machine, computer stuff, and files. Note: the two offices that we use to meet with clients have round tables and at least four chairs. All client meetings are held around the tables. Clients feel more comfortable working with us on an equal basis rather than on the opposite side of a desk.

From the standpoint of staff, there are six of us:

1. Chief of operations and administration (include secretarial duties)
2. Chief investment officer (CIO)
3. Director of financial planning
4. Manager of client services, client retention, and new client development
5. Administrative assistant
6. Assistant to the CIO

Here is an overview on our system and software:

1. Dell computers, both desktop and laptop
2. Hewlett Packard network server with a Microsoft 2003 operating system, high-speed network access
3. Ricoh color copier, fax, printer, and scanner
4. Laser Apps, to fill in forms for new accounts IRA distributions, and so on
5. Backup software is a must!
6. FSCI/DBCams database software
7. Contact management software: CRM/Junxure I
8. Financial planning software we've tested NaviPlan and Money Guide Pro; currently, we are testing Financial Profiles
9. Quick books accounting software
10. Kettley Backroom Technician, an encyclopedia of financial planning topics
11. Microsoft Office
12. Morningstar Principal-mutual funds/stocks/annuities

It is important to realize that technology should support the final planning process, but planning should never be subordinated to it.

Maintaining all the logistics of your business is a constant

challenge. Instead of a "green" ski slope, it can rapidly become a double black diamond. This happens most often with the computer systems. We keep our expert computer geek on retainer, which brings me to the third principle: **Admit your limitations and have experts back you up where needed.**

The next level of the pyramid is "Preparation" and identifies four key areas that can make or break a career and business. This is where you need to make some demanding stretches in preparation for some black diamond runs.

Credentials

In their landmark book, *Marketing Warfare*, Al Ries and Jack Trout state, "You must have the credentials the marketplace demands." Aside from all the controversy, the CFP designation won the credential war in the media a long time ago. For example, in 1996, CNBC called the IAFP headquarters in Atlanta and asked for a list of CFP certificant in the tri-state area - New Jersey, New York, and Connecticut. That is how many of us first got on CNBC. In the early stages, the media was somewhat critical of the CFP designation. Gradually, they realized this was an important step to professionalism. When some financial journalists were questioning the quality of the final exam, the CFP Board invited several to take a sample exam. This was done in 1996, in New York City. None of them passed the exam and it was a dawning of a new era of respect. If you're going to be a financial planner, you need the CFP certification. It was the first designation created for financial planning and did the heavy lifting in the pioneer days.

Next time, I'll discuss the balance of the issues at this level. The most important of these will be the absolute necessity of having a philosophy of financial planning.

Pyramid of Success: The Final Chapter by Vern C. Hayden, CFP®

Vern C. Hayden, CFP®, is president of Hayden Financial Group LLC in Westport, Connecticut, author of *Getting an Investing Game Plan*, and contributing editor to *TheStreet.com*.

Reprinted with permission by the Financial Planning Association, Journal of Financial Planning, March 2008

Starting with my March 2006 column, I introduced the Pyramid of Success for the Financial Planner (see Figure 1), which I created based on the Pyramid of Success introduced by basketball coach John Wooden. I've discussed eight levels:

1. Defining core values
2. Addressing the logistics of a financial planning practice
3. Preparation through developing a system of fundamentals
4. Establishing a niche
5. Interviewing prospects
6. The planning process
7. Implementation
8. Servicing

This ninth and final chapter of the Pyramid of Success



has to do with innovation and the sometimes illusory concept of success. The Oxford Dictionary defines innovation as 1: new methods, ideas, break new ground, pioneer, blaze a trail 2: make changes, make alterations, modernize, remodel.

There is potential for innovation in at least six areas of our business:

1. Ideas
2. Services
3. Systems
4. Processes
5. Products
6. Marketing

Ideas

Someone once said, "Ideas are a dime a dozen. Those that we implement are worth millions." Innovation starts in the mind. Sometimes it's accidental and sometimes it's on purpose. By accidental I mean there are times when you're not trying to come up with something new, but something just hits you. It can happen in the middle of the night. When that happens, stop what you're doing and write it down. You can evaluate later.

We've all experienced brainstorming sessions. Sometimes it is just you and other times it's with others. Either way, you're trying to think up new ideas on purpose. The purpose generally relates to a specific

evaluate the spontaneous ones. The critical issue is to decide when and how you will implement your best ideas.

Services

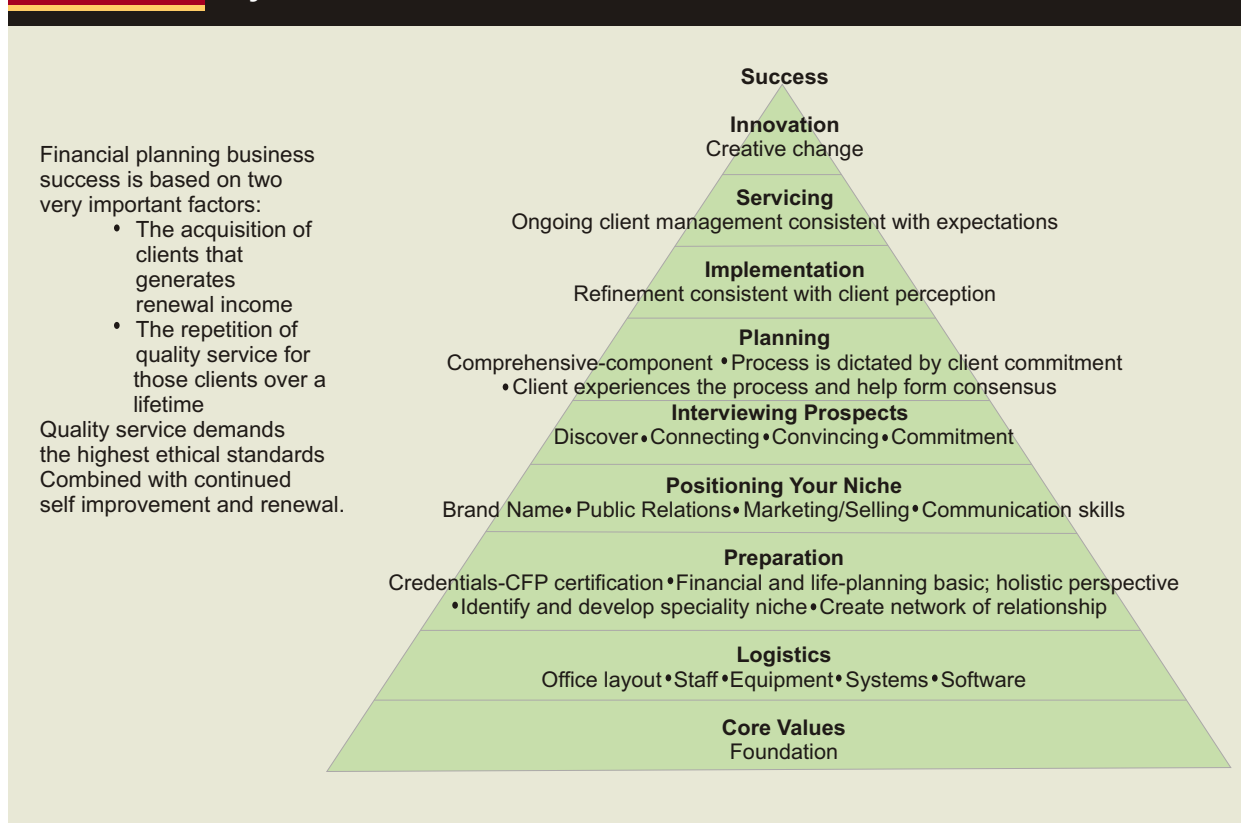
As you know, giving good service helps determine how long you will keep a client. Good service also produces referrals. Out of all the possible service ideas, you have to carefully evaluate what works for you. Service ideas range from using your Web site and newsletters to client meetings and reporting.

In "What's Changing?" in his January 2008 Inside Information, Bob Veres noted, "A growing number of advisors are now getting rid of this time-consuming quarterly ritual. Instead they are posting their clients' portfolio information on the web, using a variety of new tools to create individualized password-protected web pages for each client." If you don't have time to think up innovative service ideas, Bob does a lot of it for you.

Systems

I'll never forget 1980. That was the year we got our first computer. It was nicknamed "Trash 80" because it was Radio Shack's TRS 80. It was big, cumbersome, and slow, but what an innovation. That was before the Internet. The workings of technology elude me but its importance and utility do not. I have a Blackberry Curve,

Figure 1 : Pyramid of Success for the Financial Planner



issue, like, "How can we market differently this year?" Because innovation starts in the mind it is important to set aside specific times to think about new ideas and

an Apple i-Pod, a Garmin GPS, a speaker phone in my Range Rover, a digital camera, and a portable Dell computer. I don't know how to use a lot of the whistles

and bells on any of these, but I know the main stuff and keep learning. At age 71, that puts me ahead of many in my peer group.

To get an annual update on technology as it relates to your financial planning business, I encourage you to attend the January 2009 conference titled “Technology Tools for Today.” The great tech masters, Joel Bruckenstein and Dave Drucker, co-editors of *Virtual Office News*, organize this every year.

My parting thought regarding technology systems is a critical one: Technology should always be subordinate to a financial planning process. There may be a time when robotic surrogates will represent a planner and client, but not yet. Computers don't work with the client - you do. It is the humanistic high-touch element that must be preserved with clients.

Processes

The core idea about process is to answer the question, “How should I work with a client from the first meeting on?” Your answer will start defining your process. In 1968, my process was to complete about four pages of data, send it by snail mail to the insurance company's planning department, and get a canned presentation (sales pitch) back. It was primitive and lacked the basic insights on how to work with real people. That negative experience changed the way I work with clients. I learned that information is dynamic, not static, as well as being objective and subjective. I've explained in previous columns how those concepts helped me develop a process.

The most recent innovative change we have made is in the investment area, which will be the subject of a column later this year. In short, we have changed two significant premises. The first is that a mutual fund portfolio should be put together admitting we don't know the future. We do not buy into any particular scenario. We answer the question, “If we don't know what is going to happen, how do we put together a portfolio?” The second premise is that it is okay to not know how a portfolio is allocated on any given day. At least 40 percent of a portfolio will consist of “go anywhere” managers. They can invest in any asset class or company size, including foreign. Because the managers change their allocations periodically, we are not sure of the overall resulting allocation. We synthesize the allocation of managers and asset classes.

Products

This is obviously a huge area of innovation, from life settlements to retirement income funds and annuities. The challenge for us is to determine what works and what doesn't. Most planners don't claim expertise in this area and should probably leave the creation of new products to others. In the early days several planners did play this game, and most of the ones I know ended up broke, in jail, out of the business, or went through a career change.

Marketing

Marketing consists of positioning your business for a

desired clientele so they will want to become clients. In the 1970s, '80s, and early '90s, non-product public seminars worked really well. Because of the speed and volume of financial information coupled with the online resources available, it is much harder to get 100 new prospects in a room.

Over the last ten years we have innovated in different ways through the media. This has resulted in over 200 appearances on CNBC, Fox, Bloomberg, ABC, over 100 columns on Jim Cramer's *TheStreet.com*, and a book published by John Wiley & Sons. The opportunities to do innovative marketing are virtually unlimited. One way to expand your thinking in this area is by reading the books written by Al Ries and Jack Trout. Start with *Positioning: The Battle for Your Mind*.

These six areas serve simply as a checklist for you to think how you might intentionally innovate to create more leverage for your business. It doesn't have to be a big idea. The little ideas add up. If you do nothing else, try to innovate in a way that will differentiate you in the marketplace.

Defining Your Success

The apex of the pyramid simply says “Success.” You need to define this for yourself. Don't look at success as a destination. It is more like a trip and how you will travel it.

I don't remember a time when I didn't think of myself as successful - even when I had four abysmal failures. Past the survival stage it has little to do with money. The actor Robert Duvall, in the movie *Broken Trail*, was the trail boss. Over a campfire one night, he told his cowboy nephew, “Never use money to measure wealth, son!” One of my friends has worked with only extremely rich families, one at a time. His comment surprised me when he said, “They all lived complicated lives and none seemed to be happy.”

As to the financial planning business, I have found that success is based on two important factors:

1. The acquisition and retention of clients who generate renewal income.
2. The repetition of quality service for those clients over lifetime.

Sounds pretty simple, but there are a lot of potholes and speed bumps along the way.

I'd like to close the way I started this series by quoting the legendary UCLA basketball coach John Wooden. Here's his definition of success: “Success is peace of mind, which is a direct result of self-satisfaction in knowing you did your best to become the best that you were capable of becoming.”

