

INSIDE INFORMATION

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

Special to this issue:

Conferences: *Everything you ever wanted to know about Roth conversions at the AICPA PFP conference in Orlando.....page 6*

Client Services: *How many of your clients are really at risk to leave you for another advisor--and why?.....page 14*

Parting Thoughts: *We've come through a lot in the past ten years. What achievements and failures will we look back on ten years down the road?page 16*

MIDDLE MARKET MODEL

Synopsis: *Here's an advisor who appears to have figured out how to serve middle-market clients under a revenue model that many advisors will find attractive.*

Takeaways: *Apply the the core formula at the heart of financial planning advice, and you can provide significant value at a fraction of the traditional cost.*

Mark Herhold, of Security First Financial in Grand Blanc, MI (roughly an hour north of Detroit) has spent a lot of time thinking about issues that affect both planners and their clients. One of them is the concept of "enough"--as in (for advisors), how do you know when to stop growing your practice? As in (for clients) how do you know when to step off the treadmill? "I often hear advisors talking about how they wish they had more clients because they just added new staff to make more capacity," he says. "And then they get more clients and they're wondering where to find somebody

who is qualified to add to their staff. The dollars required for more technology and employees, and then more technology and employees to service more clients becomes a vicious circle," he adds. "It's like a dog chasing its tail."

In other words, we never hear about a business model for a sustainable practice that isn't purely focused on growth. In fact, all the support systems have a bias toward growth. Broker-dealers want their reps to do more

Continued on page 2

EARLY WARNING

- One of the best, least-known software providers in the planning space is Trumpet, Inc. (www.trumpetinc.com), which has created a variety of productivity tools that link different programs in your office, allow tasks involving different programs to work in batch processing mode and automatically (think: quarterly performance reports), and now a tool called Express Profile, which makes it possible for you to

hire a high school freshman (or your kids, so they can set up their own Roth IRAs) to scan client documents and still have them file accurately in the Worldox document management system. It may be what some advisors are waiting for as they convert to a paperless office.

Add Maestro, also from Trumpet, and you can perform a full text search on all your documents, finding that one that happens to be put back in the wrong folder.

Middle Market Model

Continued from page 1

business, and have elaborate programs to help support this growth that adds to their own bottom lines. And the people who create business models for the profession--the practice management consultants--can't justify the prices they charge for helping a smaller practice stay that way.

The solution will have to come from within--from advisors creating and sharing their own models. "We are a profession to help others feel good and enjoy life," says Herhold. "Maybe, just maybe, our profession gets too caught up in growing bigger, and we could benefit from discussing what is enough for us."

In addition, Herhold believes that advisors could be serving the middle market if they could make a few changes to their service model. The reason so many of them concentrate on wealthier clients, he says, is because they make the service too complicated and labor-intensive--instead of focusing their attention on the really, truly important things that the middle market needs.

Longtime readers know that the profession has been trying to resolve these two issues almost since its birth: if there are two practice management holy grails in the planning space, it is finding an acceptable lifestyle business model that can be replicated, and figuring out how to offer planning services, profitably, to middle-market (unwealthy) clients.

Herhold and his wife Eleanor have managed to do both.

How?

Unlike most advisors, Herhold came into the planning profession with a marketing background, initially working with small businesses in the Detroit area. Before long, he noticed that some of the founders of these firms were living unhealthy, highly-stressful lives--and contracting with him to bring in more business and essentially make the problem worse. He would ask them why they wanted to step up their marketing efforts, and the answers were never very satisfying. "They would tend to keep evolving and growing without any real purpose or destination or design, just following the goal to get bigger," Herhold says today. "Or sometimes they would be getting bigger because clients were knocking on the door and they couldn't turn them away. The more I looked, the more it seemed to me that getting bigger was the default assumption everywhere in the business world."

As his own business grew, Herhold began expanding his customer base to a group of local estate planning attorneys, and these people began referring him to insurance agents--and here, Herhold saw the possibility of life outside the fast lane. "The insurance guys made a lot of money and didn't seem to be working very hard," he says. "So I talked to my wife Eleanor, and we said, let's get our own license and play with it."

Herhold continued to do marketing work for others, but also put some of his business-building expertise into his own

insurance firm--and almost immediately found himself back on the treadmill. "Before long, we had three employees, and were branching out to managing money," he says. "We learned very early on that nobody puts all their money in a fixed annuity, so we started to give advice on their other assets. We set up an IRA, and that part of the business began growing and growing, and we finally got rid of our insurance license, because there was so much demand to do financial planning and manage money."

By then, Herhold was working 95 hours a week. "It was crazy," he says. "But the money was phenomenal. I was grossing almost \$1 million a year."

Most professionals would have continued growing the business, but Herhold understood that he was in exactly the situation that his former marketing clients had been in, and felt uncomfortable. "Eleanor and I stopped and looked at each other and said, you know what? We're killing ourselves!" he says. "We were making more money than we had ever dreamed of, but our quality of life was not good."

But what else could they do?

With no visible model for controlling their growth or creating a firm that would allow for a great life, Herhold and his wife took out a clean sheet of paper. "We asked ourselves, how many hours do we want to work? What services do we want to provide, and who do we want as clients?" he says. "When we finished that exercise, we realized that it wasn't really that complicated. We wanted

to make a reasonable amount of money, we only wanted to work with clients who had reasonable expectations on their investment dollars, and with people who wanted and needed professional assistance, who were enjoyable to do business with."

This exercise led to a startling conclusion. Mark and Eleanor Herhold looked at their ideal client description and realized that there was nothing on there about net worth. In fact, they felt like the less complicated the engagement, the more basic it was, the better. "We liked the challenge of working with Middle America clients," he says.

As it turns out, their biggest challenge was taking the large firm and making it into a small one. "It took us a year and a half to lighten the load with our staff," Herhold says. "We helped to reposition all three employees to working somewhere else, and created a firm where I work 40 hours a week and Eleanor works 20 as the firm's back office. The result was

an income in the low six figures, which was more than enough. It allowed us to be generous with our church and charity, and live a comfortable life."

The new business model is not complicated, but you have to follow every part of it to realize the full implications. First, by offering planning services to an audience that most advisors turn away, Herhold found himself in a niche where no marketing was required. The trick in the middle market is not to acquire clients, but to serve them profitably.

This, in turn, requires great simplicity in office operations. Although he could use an advanced CRM system for not very much more money, he chose to use an Excel spreadsheet to control his calendar--to store client information and also schedule appointments. Meanwhile, every client has a separate Word (word processing) document, so that every time Herhold sends an e-mail or talks with a client on the phone, he opens up the word processing file, types in the date and a few notes about what he and the client talked about. He can copy and paste his e-mail correspondences.

Instead of using PortfolioCenter or Advent, Herhold relies on TD Ameritrade's Veo system to keep track of client accounts, and gives his clients Morningstar snapshot reports in lieu of more formal performance reports. "We have our list of our favorite world-class no-load mutual funds," he says, "along with some ETFs. The Morningstar reports show how our funds have

done over the time clients have held them."

Instead of individual client review meetings, Herhold will hold twice-a-year educational workshops, one in the Spring, one in the Fall. He invites friends and neighbors to presentations on income-focused investing or dividend-paying investments, how stocks and bonds work, how dividends can provide income in down markets, how the performance of the net asset value can be misleading in terms of total return. Every group discussion counts as a client meeting, which bring in three or four new clients.

"We provide personalized investment and financial planning to about 265 families today," Herhold says. "They might bring anywhere from \$2,000 to \$2 million"--although the average is in the \$150,000 to \$200,000 range. Total assets: just over \$50 million.

What kind of service does that person with a \$2,000 account expect? The service model may be the most creative part of Herhold's practice, and it starts, interestingly enough, with some awareness from clients about how much service they can expect. Herhold has found that the person who has a tiny investment portfolio is happy simply receiving the snapshot reports, bringing friends and neighbors to the seminars, and showing up at the Christmas party. Somebody with \$300,000 may come in for a 50-minute discussion once or twice a year. In other words, clients tend to self-sort themselves based on the

Continued on page 4

Inside Information is published monthly by Robert N. Veres.

©2010, Robert N. Veres. All rights are reserved. *Inside Information* may not be reproduced in whole or in part, and particularly not without the use of medieval scribes, without the permission of the publisher, who is certainly approachable on the subject and has proved to be an easy mark in the past.

Editorial offices:

1804 Garnet Avenue
Suite 510
San Diego, CA 92109.
E-Mail: bob@bobveres.com

Middle Market Model

Continued from page 3

size of their investment portfolio.

Even if a prospect comes in with nothing to invest, Herhold will sit down with this person and provide life-changing services, taking only an asset management fee of 0.8% of the portfolio value.

How can this possibly work from a business standpoint? Instead of a lot of fancy financial planning calculations, tax analysis, estate planning, Monte Carlo projections and all the usual polished bells and whistles of the traditional planning service, Herhold focuses on the essential core advice that sits at the heart of all great financial planning service: what might be called The Formula.

As a reader of this service, you know The Formula at such a deep level that it hardly needs to be articulated. Herold encourages his clients to save 10% to 20% of their income each year, live debt-free, and invest their money in sensible managed accounts for the long-term. In other words, don't self-churn the account and end up buying high, selling low and missing out on more than half the returns that the market delivers.

If clients agree to follow The Formula, they remain as clients, and their assets grow much faster than the average person's. That \$2,000 investment will often grow by \$300 a month or more, and Herhold's fee will grow each year with it--creating exactly the alignment of interest between advisor and client that both parties are seeking. Any client who follows The Formula for 20

years will enjoy a comfortable retirement, almost regardless of what happens in the investment markets, and in the process become a substantial client for most planning firms.

In other words, Herhold has found that when you strip it all away, most of the important advice that a financial planner provides can be given in a few sentences at astonishingly low overhead. (Herhold DOES encourage his clients to draw up a valid will and powers of attorney, but those services are provided by a local attorney he recommends.) Client meetings last a maximum of 50 minutes; anything longer than that and the clients schedule a new meeting. "We get them in and out efficiently," says Herhold, "and get to their core issues: how many dollars should I put away? How many dollars will I have in retirement? What estate documents do I need?"

Of course, it's not quite as easy as that; nobody can switch from the normal 0% savings rate to something close to 20% after one or two conversations. If a client happens to be holding significant credit card debt, then the entire financial planning engagement focuses on helping this person save more and pay off those balances. Once the high-cost debt is paid off, the focus shifts to the investments, keeping the money in place during periods of euphoria and despair and everything in between.

"We bring them on slowly," Herhold explains. "We open accounts, we talk about whatever seems to be appropriate to them,

so that a young couple is nudged toward putting away 10-20% for their retirement. We put together any numbers they want to see, and gradually they tend to accept and internalize our advice and take action."

The planning mission is to move the client forward at whatever pace he or she can handle, and here, Herhold has found that there are some fairly standard ways to keep clients motivated. One is to take the focus away from the raw dollars and put it on the actual goal. So, for instance, a client couple in their mid-40s have been working with Security First for the past two years. They arrive for a quick meeting, and Herhold has pulled the husband and wife's Social Security statements. "We know what their current account balance is and how many dollars they're adding," he says. "So we take a quick projection of how many dollars they're going to have. At some point in the meeting, I'll say to them, at age 66, you'll have this much from Social Security, and you'll be able to take this much out of the 401(k)--which will become an IRA--and right now, based on where we are today, you'll have a monthly income stream of about \$3,800 in retirement."

Two years down the road, the clients may be told that they now have a future monthly income stream of \$4,200, and they can see their progress in meaningful terms. And they can also decide when they have enough to retire--when their future income equals the lifestyle they hope to achieve in retirement.

Only occasionally will the focus return to the (growing) size of the portfolio. The client with \$2,000 to invest, who had been turned down by other advisors in town, is, today, up to around \$30,000. "That's more than they ever thought they would have in their whole lives," says Herhold.

He recently sat down with another of his clients, who had come to him initially with \$300,000 to invest, and congratulated him. His investments had reached \$1 million in value. Herhold's message: "Welcome to a very exclusive club."

In Herhold's experience, many middle-income clients have been abused by charlatans at some point in their lives, and so they recognize and are grateful for professional treatment. "They get picked at by peddlers, what we refer to as annuity Nazis," he says. "They're slam bammers, just out to sell product, bam, bam, and they're never seen again. If you treat these clients like they are of value, which we believe they are, then they appreciate everything about you."

One reason Herhold can spend quality time with so many clients is that he doesn't have complicated office procedures or complex software; he doesn't have to hire and train staff, and his office costs are a desk, word processing and spreadsheet software and a phone. "If you're dealing with Middle America, you have to be very efficient with your time and everything you do," he says. "And you have to be willing and able to communicate on a far more basic level than most of us



*"It was your lousy stock tips
that got me into this mess to begin with."*

are accustomed to."

It turns out that the seemingly impossible task of cracking the middle market is not as difficult as we thought. Instead of marketing to high-net-worth individuals who are being solicited every time they turn around, you open your service up to anybody who wants and needs advice, and eliminate all marketing expenses and effort. In fact, the firm's smallest client, that same person who originally had \$2,000 to invest, unexpectedly became Herhold's biggest referral source. "He brought in over 8% of our firm's revenue in referrals," he says, "and it is just because we gave him some professional time and attention."

Continuing The Formula: instead of pursuing more and more assets under management, you look for your practice to provide a good life with a healthy degree of balance. Like your clients, you save 10-20% of the money

you earn over a long career, and because the work is enjoyable and you're not on the constant stomach-churning treadmill, there's no great incentive to retire from an enjoyable business life.

Finally, when working with clients, you strip the financial planning service down to its bare essentials, and focus on moving clients forward until they fully embrace The Formula. The Formula works as hard for you as it does for your clients; they may start out with very little, but at a high savings rate, their portfolios quickly move upscale--and so does your income, as a percentage of assets. Meanwhile, the clients suddenly realize they have more money in their account than they ever expected, and some of the more grateful clients become strong referral advocates for your business. It's a virtuous circle, powered by The Formula.

Continued on page 6

Middle Market Model

Continued from page 5

The intersection of lifestyle practice and middle market clients seems to work on many levels. Even so, Herhold admits that there are times when he's still tempted to go back to the treadmill, and join the other advisors who he privately thinks of as "professional snobs." He will probably always hear the siren call of growing a larger firm, hiring staff, moving upscale, getting ever bigger. "Every once in a while, we think about shifting gears and doing what everybody else does," he says. "Sometimes it looks good on the other side of the fence. But we feel like we're here to provide a service to the community. But then we realize that we have such a big base of clients, we have a good revenue stream, and we're happy."

There are some who think that financial planning cannot become a real profession until it reaches the middle market and becomes--those words again--a service to the community, the ENTIRE community, like doctors and lawyers. There are other advisory services that focus on the middle market--notably the Alliance of Cambridge Advisors and the Garrett Planning Network. Herhold's firm represents a somewhat different model for a new generation of advisors who might soon be making a huge difference in the lives of the unwealthy--and raising a lot more middle-income people to the status of attractive planning clients. I hope others embrace the model. ■

Conferences

Roth and More

Synopsis: *A variety of practice management and client service trends are suddenly pointing in the direction of a unified management account back office provider.*

Takeaways: *The discussion about Roth conversions, how to evaluate their benefits in individual client situations, whether to split the conversion into many parts and how to move money from IRA to qualified plan to Roth are all likely to benefit your clients.*

I'm here at the AICPA PFP Conference in Orlando, facing a speaker lineup that includes some really tough, complicated, technical speakers, people like Bob Keebler and Barry Picker and somebody I've already been warned about named Stacy Eastland, who apparently mumbles tax code in his sleep. But, like most of you, I've been around the block a few times, and what can an estate planning lawyer from Goldman Sachs teach ME about complex estate planning strategies, right? So I bravely enter the room, ready to report back to my readers in case Eastland has anything to add to what we already know about transferring assets to the next generation of clients.

Okay, what was that again? Eastland is creating two short-term grantor-retained annuity trusts (GRATs), which most of you recognize as a vehicle where assets are put into a trust, and then annuity payments are made back to the grantor. If the grantor outlives the trust, then the assets pass on to the designated heirs. Then we created a family limited partnership and

the family wrote itself a put spread option on the value of the assets inside the FLP, and as nearly as I can tell (and others who were at the session confirmed this) we put both sides of the transaction, both highly-leveraged, into different GRATs. The net result of this transaction is essentially zero (except for the cost of the options themselves); whether the stock goes up or down, dramatically or not, the family is holding both ends of the transaction. Because of the leverage, one side will probably win big, the other lose big, and whichever GRAT happens to be holding the winning side of the transaction is maintained and a bunch of the FLP value is transferred into the GRAT, while the other GRAT is quietly unraveled.

Later, Eastland showed how this transaction could be made using market instruments; buying call option spreads from the client's wife, selling calls to the wife, contributing some of this to the GRAT, and then purchasing puts from each other, and there's a table which shows that if the holdings inside the partnership go down as

little as 5.78% in 13 months, the GRAT winds up with a gain of 196.44%, and if it appreciates by as little as 7.37%, the GRAT receives a 151.69% windfall.

Later, Eastland offers a mini case study where the client wants part of his estate to go to his family and the rest to charity. We just created a testamentary charitable lead annuity trust, which (as most of you know) provides income to a trust, and, at the end of the term or the death of the donor, gives whatever is left in the charity to heirs. I thought the strategy was over. But then Eastland created a family limited partnership with his client owning .5% of the general partnership shares, and 69.5% of the limited partnership shares. The trust owns .25% of the general partnership shares and the rest of the limited partnership shares. When the client dies, some of the partnership interest goes to the family, the rest into the CLAT. Later, the partnership pays for the estate taxes, and it issues a balloon note to the CLAT, with the principal going to the family at the end of 20 years, and interest going to the charity. The client's family gets two tax deductions for the interest payments they are making on the note; an estate tax deduction in the amount of the zeroed out CLAT annuity payments, and directly on the income tax payments through the partnership. Meanwhile, the principle of the note is effectively the family paying the money back to itself.

I'm wondering if this would pass the IRS smell test as Eastland begins describing "the leveraged reverse freeze with a cascading sale

of growth of partnership interests"-but this is about as much as I was able to absorb. The point, which some of the attendees made to me after the session, is that your clients are going to start hearing about some very complex, and potentially risky (from an IRS audit standpoint) estate planning strategies from the local brokerage community--and it will start about the same time as Congress finally stabilizes the estate tax regime. If what I saw from Eastland is right, your clients will hear about sweetheart sales of family limited partnership interests, leveraged GRATs and partnerships between the parties receiving GST trust assets, contributing or receiving notes for various purchases of interests. Be ready.

All About Roth

There was, of course, a lot of talk about Roth conversions at the conference, with Keebler and Picker as the primary experts in the CPA advisory world. Keebler, who is now affiliated with Baker Tilly International, offered a terrific presentation on everything Roth. He started by going through the two so-called 5-year rules, both of which generally state that holders of a Roth account cannot take tax-free, penalty-free distributions of earnings unless they are age 59 1/2 or if the Roth IRA has existed for five years beginning with the first taxable year after which it received a contribution or after a rollover. But even younger holders of a contributory Roth can take out the money they CONTRIBUTED, and according to the FIFO Roth accounting structure, the first

money withdrawn from a Roth IRA is considered to have come from the client's contributions. If a Roth owner over age 59 1/2 takes money out of the rollover account before the five year holding period, any part of the distribution that dips into the account's earnings will be subject to ordinary income taxes. After five years, after age 59 1/2, all the money comes out tax and penalty free.

Conventional wisdom says that if a client's tax rates are the same when the conversion taxes come due as they are when the money comes out, the Roth IRA conversion is basically a wash transaction; the value of the taxes paid today equals the value of the tax-free distributions in the future. But Keebler thinks the scales are tipped in favor of Roth conversions. For one thing, the suspension of minimum distribution rules for Roths allows for longer deferral (advantage: Roth); for another, paying income tax on the Roth conversion before the estate tax comes due offers an estate tax break. If the client can manage to pay all the income tax due on the Roth conversion with non-IRA funds, then he or she can enjoy greater tax-free growth going forward. And because federal tax brackets are more favorable for married couples filing joint returns than single filers, Roth IRA distributions won't raise tax rates for the surviving spouse when the other spouse dies. And Keebler hinted that he believes that tax rates will go up in the future, making it virtually a no-brainer to convert at least SOME IRA savings to a Roth.

Continued on page 8

Roth and More

Continued from page 5

Later, Keebler talked about partial conversions, where a client will essentially fill up his/her current tax bracket with the income attributed to the conversion. If there are unused charitable contribution carryovers, current year ordinary losses, NOL carryforwards from prior years or credit carryovers, so much the better. He talked about the privilege of recharacterizing (undoing) the conversion, and then recommended that advisors tip the balance of the scales still further by creating separate IRAs for each asset, asset class or investment sector in the portfolio. Then do a Roth conversion on each of those different IRAs, and pay income tax on the conversions. The Roths that go up in value will be maintained; those that do not will be recharacterized by October 15, 2011, and amended tax returns will be filed claiming a refund for the recharacterizations. Note that this flexibility allows the advisor and client to retroactively determine the optimal amount that will, eventually, be held in Roth and traditional IRA accounts.

Regardless of which assets grow and stay in the Roth (vs. do not grow and get recharacterized), Keebler thinks that capital gains-producing assets like stocks and stock funds should be placed in the Roth IRA or taxable account, while the bonds would eventually be reshuffled back to the IRA. He talked about strategically taking distributions in retirement to control the client's tax bracket (fill up the lower bracket with money from

the traditional IRA and then sell high basis assets out of the taxable account for additional income. In addition, the retired client should take distributions first from assets with lower annual expected rates of return, and generally try to preserve money in the Roth and the low-basis assets in the taxable account as the money that will be left to heirs. There will be many excellent sessions on Roth conversions at various conferences this year, but Keebler's will almost certainly be one of the top three.

Barry Picker's session wasn't so much a presentation as an impressive oral exam, where the audience asked the most complicated questions they could think of, and then Picker, with Picker & Auerbach in New York, author of the *Guide to Retirement Distribution Planning*, would give an impressive answer and discuss all the various implications of the problem. For instance, a young person (under age 59 1/2) who will soon need money out of a qualified plan could move some or all of the qualified plan assets into a traditional IRA, then roll it into a Roth, pay taxes, and then tap the Roth five years later--being careful, of course, not to dip into earnings that accumulated after the conversion.

In response to another question, Picker said that a terminally ill person can do a conversion, which moves the tax to the decedent's return, possibly takes advantage of the ill person's potentially lower tax bracket, and move the non-earnings component to the heirs tax-free. But suppose

somebody inherits an IRA, when current rules say that an inherited IRA cannot be converted to Roth? Picker asked if it might be possible for that client to set up a company, doing consulting perhaps. If so, the client can create a qualified plan, move the IRA assets into the qualified plan, and then convert the plan into a Roth. (Remember: this would start the 5-year clock ticking all over again.)

The ticking clock became a focus of the questions. For instance, if a client is contributing to a Roth 401(k) for five, eight, ten, twenty years, and then rolls it over to a Roth IRA, that event begins a new five-year time before the earnings-related distributions can be taken out tax-free. However, clients could create a Roth IRA beforehand, with minimal funding, and then eventually move the money over to this Roth account. The five year clock has been ticking from the date of the creation of the Roth receiving the rollover assets.

Some questions involved mistakes. If an inherited IRA is inherited by a trust, that kills the IRA and any chances of tax-free accumulation. The proper way to handle this, Picker told one uncomfortable-looking attendee, is to make the IRA payable to the trust. (The attendee left and made a call on his cell phone shortly thereafter.)

Another advisor asked about a client, over the age of 70 1/2 (and therefore subject to minimum distributions) who converts the IRA to a Roth in 2010. He therefore doesn't take the minimum distribution, and then decides (a

la that Keebler presentation) to recharacterize some of those assets back to a traditional IRA in 2011. Does he then have to to back and take a minimum distribution in 2010 on those recharacterized assets? Without hesitation, Picker said the client would have to take a 2011 distribution based on the value of the recharacterized assets as of December 31, 2010.

Insurance in Depth

At this point in the conference, some of the attendees I talked with were operating on information overload, and more than a few were wondering where they would find the time to do multiple conversions for every client, and create those qualified plans for clients in order to roll money in and back out again, and a few were openly questioning whether any of the fancy footwork Eastland (and, apparently, Goldman) was recommending would pass IRS muster. But there was little rest for the weary; another highly-detailed session, hosted by attorney Charles Ratner of Ernst & Young, looked at ways to determine which insurance policy will be suitable for advisory clients.

Ratner started slowly, comparing and contrasting the various features of whole life, whole life/term blend contracts, universal life current-assumption policies, universal life no-lapse coverage and variable-universal life. He recommend that you start with the assumption that whatever policy clients are considering to purchase today may turn out to be the last policy they will be able to

buy, because of declining health issues. "It's important to get it right the first time," he said.

The default assumption was that everybody in the room would look first at using term insurance, and Ratner cautioned that although most term policies can be exchanged for a cash value product without evidence of insurability, not all conversions are created equal. For instance, is the policy convertible to the company's total cash value product line, or a small subset. Is underwriting required? If the term policy is issued by a subsidiary company, will it convert to the parent company's policies? "Don't rely on what the agent tells you," Ratner warned the audience. "Find the relevant section in the contract and read it carefully," he recommended, adding that he has had agents tell him one thing, only to find very explicit contradictory wording in the policy.

From there, Ratner recommended that advisors view their interaction with agents as a contact sport. "The agents are selling the most insurance they can with the highest compensation available, which means this is not and cannot be a collegial relationship," he said. "And as the estate planning market dwindles, the collegiality starts to dissipate." Some agents, he told the group, tend to believe in only one kind of product, and will tell you that all others are inferior, no matter what specifics you offer. Later, he said that some agents particularly dislike flexible premium products, which tend to offer the most flexibility to the client.

Discussing specific types of policies, Ratner compared whole life with the whole life blend contract, and noted that with the whole life blend, the target premium, the part that is whole life as opposed to the part that is a term policy, is the part where the agent receives the maximum commission. Is it a surprise that the agent will push the value of the guaranteed death benefit? Instead, Ratner said, recommend that the client maximize the term component (an example showed \$1 million in coverage with \$900,000 of it in term coverage, with dividends from the whole life portion buying paid-up additions that will gradually displace the term) and then overfund the policy, giving it an extra degree of safety. If you get into a dispute with the agent, ask the agent politely to show how much he/she would make on what he/she is recommending vs. what you are. "No agent I've ever worked with has ever taken that conversation further," he said.

Compare that with current-assumption universal life policies, where the more you fund them, the more the cost of insurance goes down. The policy can be made to be extremely flexible, and with a term rider, the client can get a minimum base, maximum of term, pay lower commissions and dump more money into the policy for tax-free compounding. The downside is that this policy is extremely sensitive to interest rates, which means it has to be constantly monitored. What if an agent says the company will only let me go down as low as a 25% base? In Ratner's experience,

Continued on page 10

Roth and More

Continued from page 9

if you contact the company and tell them that this is a competitive case, the home office will almost always make an exception to whatever the agent is telling you.

With no-lapse variable life, so long as you pay the premiums on time, the death benefit is guaranteed. "Agents love this," Ratner said. "It's simple, easy to understand, and there is no way to dial down the commission." Ratner said that if you ever decide to switch to a different kind of contract, these are difficult policies to manage via a 1035 exchange, because the only thing you see on the statements is a death benefit--not a cash value.

Finally, Ratner praised the variable-universal policy for its totally flexible premiums, for the ability to manage the asset allocation, and for the fact that the cash values are not part of the insurance company's general account, making them safer. But some clients may not be excited by the uncertainty and additional decisions required. And these policies are extremely sensitive; after a bad quarter, it can take a long time for the policy to catch up to where it was, because the cost of the death benefit protection rises in relation to the money in the contract--not unlike a client getting hit by a bad quarter early in the distribution phase of retirement.

What about survivorship life? Ratner said that these policies were often sold to guarantee that the heirs will have the liquid assets to pay the estate tax, and are now being sold to policyholders who want to guarantee a certain level of inheritance to their children.

But he told the audience that not all buyers think through the implications of a policy that doesn't pay on the first death. "If the husband dies young, the wife may wind up paying premiums on that policy for 40 years," Ratner said. "In my experience, there is usually a liquidity need at the first death." His recommendation: don't let the estate tax suck all the life out of the discussion. Nor, for that matter, should you focus exclusively on the (low) premium.

The last part of the talk focused on who to work with, and what kinds of recommendations to make. Ratner suggested that we shop carefully for an insurance agent who will work for the client instead of his/her own generous commission. When a client comes back from the health club, having met an agent who says he/she needs a whole lotta life insurance and doesn't need to talk to other agents, red flags should be going up everywhere. Same with any agent who says, 'My clients like the guarantee of a strong company,' which means the agent avoids flexible products--and, though he can sell products from a variety of companies, he focuses on just one in order to boost the commission.

Other red flags: I know and trust this company. (Translation: I don't shop around.) Or: I know underwriting. (This leads to a situation where the agent comes back and says, we really need to give a piece of this life business to this company I work with, because they did so much underwriting work on this, even though their proposal didn't come out on top.) And avoid anybody who recommends pension

maximization--that is, instead of taking the joint and survivor option from a pension, take the single-life option and buy life insurance with the additional income. "You don't know how long a person will live, and you don't know the future inflation rate," Ratner told us. "If you run the numbers and add in a margin of safety to cover what could happen, these arrangements turn out to be extremely risky for the retiring executive."

As to strategies, Ratner said to look for the least sexy approach to solving client problems with life insurance; they tend to be the easiest to go back and fix if something goes wrong. He prefers to put policies in an intentionally-defective grantor trust, rather than a separate tax entity, making gifts to the ILIT to fund the policy. "Ideally, you would like to find a cash-flowing, discountable piece of property to gift to the trust," he said. This provides the trust with cash to pay some of the premiums. Alternatively, you could create a grantor-retained annuity trust which pours over to an ILIT, which pays the premium with these funds.

State of the Profession

There were three sessions which directly addressed different ways that the profession is changing--or will change. One was a keynote presentation by Blaine Aikin, CEO of Fiduciary 360, on the new regulatory climate. Aikin identified four major themes that advisors need to address in the near future.

1) Transparency--making all disclosures clear and precise. Aikin

noted that both the House and Senate are asking the SEC to facilitate clear communications of the terms of engagement and obligations that advisors believe they have with clients. He expects the language to be similar to the rulemaking at the Department of Labor on qualified plan disclosures, where brokers and advisors have to discuss, in detail, their compensation, their affiliation and any conflicts of interests they have in making recommendations. The DOL has also demanded that advisors and brokers disclose any restrictions on the investments they are able to recommend--which covers situations where a brokerage firm may only have in-house funds on the shelves, or a limited menu of external funds.

2) Objectivity--the fiduciary standard. Aikin noted that the House bill directs the SEC to prohibit certain sales practices and compensation arrangements that may be contrary to the public's interest--but doesn't say exactly what those are. He doesn't expect commissions to go by the wayside--and, indeed, there is a specific provision in the House bill which seems to validate the commission model--and Aikin wonders if the SEC has an inclination even to prohibit so-called "dual-hat" arrangements, where the advisor wears a fiduciary hat while creating the financial plan, and then puts on the implementation (sales) hat when making specific recommendations. As evidence, he noted that SEC Chairperson Mary Schapiro has recently decided to review 12(b)-1 fees to see if they are generating any conflicts and confusion in the marketplace. "That analysis has

been done multiple times before, and the conclusion has always been that these fees are very hard to justify as a benefit to consumer interests," Aikin told the audience.

3) Reasonableness--whether certain practices can be justified. In the financial world generally, Congressional attention has focused on credit card provisions and fees, and the Consumer Financial Protection Agency will probably focus there and on mortgages. What constitutes reasonable compensation is a question that won't be answered for a while yet.

4) Accountability--by which Aikin means stronger regulatory oversight of potential conflicts and issues. It seems clear that the SEC will be expanding the scope of its responsibilities, and will be getting more resources. Meanwhile, more advisors will move back to the state level to be regulated. Will that raise or lower their regulatory obligations?

Currently, Aikin sees a few significant areas of uncertainty. Will the broker-dealer exemption from RIA registration survive the Congressional overhaul? Will FINRA be given expansive new powers to regulate RIAs or investment advice? Will dual-hat service arrangements be tolerated? There will be a fiduciary standard, but will it be a compromise with the fair dealing rules which have governed the brokerage world? For advisors who want to get ahead of this particular curve, he recommended we embrace the four principles in their strictest interpretation, and bring moral maturity and a moral imagination to the planning practice--to be willing

to consider the ethical implications of our actions.

A second session generally devoted to the state of the profession focused on business continuity and merger activity. Mark Tibergien, of Pershing Advisor Solutions, moderated a panel whose members included David DeVoe (who handles M&A activity at Schwab Institutional), Rajini Kodialam of Focus Financial (one of the rollup firms) and Robert Wagman of Aspiriant--the firm that came out of a merger between Kochis Fitz and Quintile Wealth Management, which appears to be interested in acquiring footprints beyond its West Coast client base.

Tibergien noted that in most of the countries he has visited, as here in the U.S., the average age of advisors is between 52 and 54, and he has noticed a significant age gap between the principals of planning firms and the staff people coming behind them. That should mean that there would be a great deal of merger and succession planning activity, but as you'll see in a minute, the amount of M&A activity represents little more than a rounding error above 0% of all practices.

Why? Tibergien offered some possibilities. Principals seem to have an inflated impression of the value of their firms, and there are very few financing options available for these purchases. He said that the serial buyers (the rollup firms) seem to be suspending their activities for a while, and (perhaps the biggest reason) planners, in his view, tend to be the worst planners for themselves.

Continued on page 12

Roth and More

Continued from page 11

Among the highlights: DeVoe said that the highest number of transactions his firm has tracked in any one year is 80 in 2008--compared with some 25,000 advisory firms overall. (The number fell to 70 last year.) He thinks that the key to unlocking the inevitable transaction activity is principals starting to transfer ownership to their key staff members. Meanwhile, he says that the planning profession has recently attracted the attention of private equity funds--for a very obvious reason. "The average Schwab-affiliated advisor has grown at 20+% rates, which makes them very attractive to private equity," he said.

Nevertheless, RIA firms continue to be the primary buyers, making 60% of the purchases in the small sample of deals that are going through. Add to that another 15% of transactions being management buyouts (think of it as an RIA firm buying itself), and the consolidators, private equity firms, banks and accounting firms make up a fairly small percentage of the effective buyers--and they seem to be interested only in firms with \$100 million or more under management, which are plentiful but not the majority.

Kodialam's firm has bought ownership shares in 19 firms and three third-party administrators, and she said that Focus has no intention of rolling them all up into one big national firm or kick out the founding partners. In fact, the goal is to keep the owners in place for the next six years and apparently teach

them how to market themselves a bit better, manage their practices a bit more efficiently and help them make their own purchases of nearby firms.

Wagman discussed the merger that brought Aspiriant to life, and then talked about the goal of bringing two to four outside planning firms into the fold, which would add to Aspiriant's current \$4 billion under management. The merger solved Quintile's succession problems; the firm's equity was essentially in the hands of four principals, who didn't see a way to sell it to the next generation at a fair market price. Kochis Fitz had a more distributed ownership structure, and so did the merged firm, with more employees who could buy more shares of stock from the founders.

Wagman clearly believes that the future of acquisition activity is larger RIA firms buying smaller ones--and the numbers seem to back him up.

The panel discussed optimal size after Tibergien noted that 26% of firms with over \$1 billion under management are owned by outside organizations. DeVoe may have made the best point when he said that it was perfectly possible to run a highly-profitable advisory practice with \$50 million under management, and just as possible to run a money-losing operation with \$1 billion in client assets. Wagman noted that when the asset pool gets larger, so too does the multiple an outside firm is willing to pay, and suggested that these higher multiples meant that advisors, as their firms grew, were increasingly

tempted to cash out at a multiple they knew they couldn't get from an RIA firm.

So why are there so few transactions? Wagman said that many advisors are becoming more generous to their internal employees, selling stock at below the multiples they could receive outside, which means that the succession issue is being addressed invisibly in many decisions across the industry. Kodialam believes that it's purely a case of procrastination, fueled recently by the downturn and the need to put more attention on the client base. DeVoe's answer was that people in the profession are making a good living, and nothing is pushing them to retire or create a succession plan.

The third state-of-the-profession presentation came from John Bowen of CEG Worldwide. It seems like I'm seeing Bowen at every conference I attend these days, and whoever he talks to (NAPFA, AICPA planners, brokers at national wirehouse organizations) is uniquely positioned to be the dominant service provider of the future. Bowen told the CPAs that only 6.6% of financial planners in the U.S. marketplace work collaboratively (his preferred business model), but that 67.3% of CPA advisors do so. (The rest are investment generalists--which seems to be Bowen's polite term for "salespeople.") These collaborative advisors earn more revenues than the others by orders of magnitude, and Bowen told the group that they can supercharge their financial performance by working with a TAMP--basically

an outside firm that handles the investments. He said that three out of four financial advisors who net more than \$800,000 in yearly revenues outsource their investment management.

At the end of his presentation, Bowen said that clients are primarily focused on five core services: preserving their wealth, mitigating income taxes, estate planning, wealth protection (meaning asset-protection from creditors), and charitable giving.

Annuity Debate

There were many other sessions, including two by Harold Evensky of Evensky & Katz in Miami, two by Michael Kitces of The Kitces Report, two by Ed Jacobson, and presentations by economist David Kelly, Roger Gibson, and David Walker on the state of the national debt. Some were concurrent with sessions I'm reporting on here, but one session I did manage to sneak into was a debate between Jim Shambo--a thought leader in the CPA planning world--and Larry Braunstein and Mark McGorry. The debate illustrated a deep divide in the planning world on the subject of variable annuities and whether they're appropriate for clients.

As the first speaker, Shambo offered a devastating critique of VA contracts and their guarantees, showing that the expenses--before commission--typically ate up 60% of a 5% annualized drawdown, compared with 20% for an advisor recommending portfolios of index funds. He created Monte Carlo

simulations with the guarantees on VA contracts under various scenarios, and found that the failure rate for a retiree was just under 63% with the variable annuity, vs. just under 15% for an indexed portfolio. When he raised the assumed inflation rate from 3.5% (the number used in the first simulation) to 5% a year, the results were similar for the VA, and the failure rate was slightly higher for the index portfolio. Shambo said that low-cost immediate annuities consistently lowered the failure rates, but noted that few insurance agents were selling them.

Then McGorry and Braunstein took the floor, and proceeded to ignore all the points that Shambo had made, blandly stating that the products offered guaranteed lifetime income benefits for clients who were afraid of the markets and concerned that they could outlive their standard of living. They told us that these clients who are frightened to be in the markets are ideal annuity prospects, but declined to say whether the advisor's job is to present a more balanced view of potential investment returns, or simply to cater to the fear--or even, perhaps, enhance it in order to get a commission. They focused on the guaranteed minimum withdrawal benefit (GMWB) riders, talked again about a lifetime income and the mighty financial strength of the insurance company.

Shambo rebutted by pointing out that whenever the GMWB kicked in--when the markets had gone down but the amount that clients could take 5% distributions out of had gone up--it was really

"funny money"--that is, not money that the client could walk away with in a 1035 exchange. He then noted that clients could get that same 5% distribution from an immediate annuity. But no amount of simulation, logic, expense discussion or anything else could shake his opponents, who stoically refused to look at Shambo's slides, and kept repeating that it was important to cater to the fears of those people who would never be in the market if some good samaritan weren't there to sell the annuity. After a lot of brain-turning technical sessions, at least this one provided a small measure of comic relief.

As I've said before, you find more technical content in the AICPA planning meetings than anywhere else, and this one addressed the topic du jour--Roth conversions--at a Ph.D. level of detail. But I found myself wishing that just one of the keynote sessions could have offered a broader perspective, a little humor and motivation and the reason why advisors do the things they do and how they could be more effective and motivated in their own lives. This is not in character for me; at some national conferences, these happy motivational speeches are about all you get from the keynoters, and I find myself wishing for a little more meat on the bones. There's probably a happy medium here somewhere, but I prefer the all-meat approach to the alternative, and I think the clients of the AICPA attendees will be happy with the advice they get on topics that can seem quite challenging even to senior professionals. ■

At Risk or Loyal?

Synopsis: *A compendium of 6,000 advisor clients shows that fewer of them are at-risk to jump to another advisor than some of the statistics you may have read.*

Takeaways: *The key to keeping clients loyal through market downturns seems to be frequency of meaningful contact, and whether or not the clients feel they have a plan in place (and are following it).*

Julie Littlechild, of Advisor Impact in NY (<http://www.advisorimpact.com>) is in a unique position to assess something that is being widely discussed these days: how many clients are likely to leave their advisors. John Bowen and CEG Worldwide are estimating that 81% of planning clients are poised to leave their advisor, and Nick Murray has made similar estimates, and argued that this is a GOOD thing, because even though all your clients are going to leave you, there are thousands and thousands more up for grabs.

Littlechild's statistics paint a somewhat different picture. Advisor Impact creates questionnaires for advisors to send to their clients, and has collected responses to questions posed by hundreds of advisors and roughly 6,000 clients since the beginning of the market meltdown. Among them is an overall satisfaction score: Where would you rate your satisfaction level on a scale of 1-5? Littlechild defines an at-risk client

(as in, at risk to leave for another advisor) as anybody who gives their planning professional a "3" grade or less, meaning, basically, anything other than an A or B.

Defined this way, she says that the number of at-risk clients roughly doubled after the market downturn, from slightly below 5% to slightly below 10%. Comparing those post-meltdown figures with some 56,000 client questionnaires collected over the last five years, she found the satisfaction rate hovering consistently around 4.7 until the market downturn, when it dipped to 4.5. "If the glass is half-empty, then at-risk doubled," says Littlechild. "If it's half-full, then things aren't really that bad. Clients seem to be generally satisfied with their advisors."

Littlechild is quick to point out that this is not a totally representative sample; although it is certainly orders of magnitude larger than CEG's, the Advisor Impact surveys are primarily conducted by fiduciary advisors,

rather than the brokers and salespeople that Bowen exhorts to adopt a "collaborative" business model. "We are somewhat skewed upward," Littlechild admits, "because you would think that if advisors are doing a terrible job, they probably don't want to survey their clients. But I really don't think that accounts for such a dramatic difference."

When you dig a little deeper into Littlechild's aggregate numbers, you get some interesting clues into what people really want from their advisor. "We saw two groups of clients emerge during that 2008-9 period," she says. "One group said they were dissatisfied with their advisor's investment performance, but their advisor was proactive and they had a plan going forward." That group, she said, almost unanimously gave their advisor a high overall satisfaction rating.

The second group said, like the first, that they were not totally satisfied with investment performance. But they also were concerned that their advisor had not been proactive, and had not put a clear plan in place. These clients gave much lower overall satisfaction scores, and tended to fall into the at-risk category. "What I take from that is that if you create clear plans for your clients, if you are doing the job they asked you to do," says Littlechild, "then what happens in the investment markets doesn't matter as much. The clients who have low at-risk numbers are the ones who have clearly communicated their

value and their role and delivered what they promised. Clients are responsive to market conditions, but they aren't blaming those more proactive advisors for them."

Of course, if you, or your firm, does one of these surveys, it will actually pinpoint which of your clients are at risk, which feel dissatisfied with what and why. The surveys are offered either in paper form (Advisor Impact supplies the forms, and you mail them out) or you invite your clients to participate online. The cost can be as low as \$300 or as high as \$1,000, including the analysis, which also asks what each client prefers in terms of frequency of contact, educational activities, whether they value workshops or newsletters or the wine and cheese party at the end of the year.

Some of the questions seem to elicit the same responses no matter who you ask; such as trust being the most critical factor in the relationship. Beyond that, you can get responses on things like client contact that range from, I never want to see my advisor (2% of the overall database) to I want five or more contacts a year (9%). Interestingly, this is one of the responses that has changed the most since the meltdown; the number of clients asking for four or more review meetings a year has jumped from 8% to just under 30% in the past year and a half.

"People are wanting more contact," says Littlechild, "which may mean the cost of managing clients is on the increase." Is this transitional, or a fundamental shift?

"I can't be sure," she says, "but if clients are permanently going to be looking for more contact, then we may be seeing a shift in the cost of service delivery, and we need to get a handle on that."

In fact, most advisors seem to be getting passing grades on frequency of contact, in part because they raised their service levels dramatically when the markets started tanking. But the other questions suggest that the quality of those interactions may be becoming increasingly important. "It's easier to get a good contact management system and touch your clients more often," says Littlechild. "But it's harder to get your clients to perceive you as being proactive in managing the relationship. Have you effectively communicated that they have a plan in place and are tracking well against that plan? Do you have a deep personal connection with your clients? Having engaged clients, rather than merely satisfied ones, is all about getting the offer right and having that deeper connection--and that could change the way we communicate with clients going forward."

As it happens, the survey can be used as a tool to facilitate that process. After the advisor has collected feedback, he or she can have a meeting with clients (Advisor Impact provides a meeting planner tool), and focus on the four or five key issues that the client may have raised. Of course, the advisor will schedule the first ones with clients who seem to be at risk, armed with some idea why the

relationship may be deteriorating.

But this raises another issue; many advisors have told Littlechild that they don't want to know what their clients are thinking--for several reasons. One is purely psychological; if you find out that ten of your clients are not happy, it will ruin your day, even though the other 110 are reporting positively. Another is the fear of creating more work. What if the clients want more services than you're currently providing?

The overall message here is what you probably suspected when you read reports that 81% of clients are poised to jump ship. (That may be true about brokers, but it doesn't apply to ME...) Fiduciary advisors seem to have a better handle on their clients than some of their competitors, and if those other numbers are right, there may be a huge chance to take clients from others without risking your own.

And the most important takeaway, I think, is that clients are willing to accept occasional downturns and ugly investment performance if they feel like you have a connection and they are following a plan. Advisors who have allowed their services to drift toward investment-only should pay particular attention here. There is a clear trend in the profession away from the numbers toward a deeper conversation with clients, and it seems clear that this is welcomed and desired by the people you work with--individually and in aggregate. This is good to know as the markets, once again, seem to be going through a shaky patch. ■

Looking Ahead, Backwards

Some of my readers think this is the last year of the 2000s, and that January 1, 2011 properly begins the new decade. So we are either in the last or the first year of a decade; either way, I think it might be a good time to assess the changes we and the profession have experienced over the past ten years, and spend a moment thinking about the things which are obvious now which were not so obvious then.

This makes it possible for us to consider in what ways, ten years from now, we will look back on this day with a sense of superiority.

Ten years ago, there was no mention of the word "fiduciary" in our professional conversations, and it was still possible to get into a heated argument about whether fees were really the future of the profession. I remember one prominent broker-dealer executive who proclaimed during a conference presentation that financial planning was and would always be about sales, and that selling packaged investment products was a higher calling than giving advice "without implementation." Some of us gently pointed out to him that fee-only advisors were managing client portfolios, handling IRA rollovers, filling out tons of paperwork and trade tickets, sending out quarterly performance statements and a lot of other implementation tasks. But back then the "no implementation" label seemed to have a life of its own, impervious to logic. How quaint it seems to us now.

Today, we can look back and see that the profession of the late 1990s was groping for an ethical standard, and the real-world client interactions were only starting to emerge from a sales model. Nevertheless, the handwriting was on the wall for anybody looking in that direction. All of the major broker-dealers (including the BD managed by the "no-implementation" guy) had created asset management platforms and were beginning to derive a significant piece of their revenues from fees. This was clear evidence that charging fees was a trend for the future--and, looking back, we can see that it was.

What will we think ten years from now? I suspect that in 2020, we will look back and realize that today's profession still had not fully emerged from the sales model; that it was still possible, way back in 2009, for the president of one of the largest broker-dealers to say that the public needed somebody to offer financial advice and still be able to sell them an annuity.

We will notice that, with a couple of exceptions, most of the BDs were still earning more than half--and in many cases, much more than half--of their revenues from transactions, on sales activities, and we will

look back on the speeches and outlines of presentations at many industry conferences and see how many were given by annuity representatives who were showing us how to overcome objectives. Certain industry columns will be particularly interesting to read; we will see how advisors in the 2010 era were advised, soberly, not to be investment generalists always looking for the next product to sell, but to consider embracing a model where we collaborate with clients on the issues that THEY want to resolve. Such a concept!

And I think there will be a general realization, ten years after the fiduciary concept has become the law of the financial planning landscape, that commissions represented a conflict of interest, and that the insurance companies who created annuity products were mostly focused on capturing assets through the old, creaky, dying remnants of what was once a vibrant sales channel, charging more than mutual funds for their products because they could pay nonfiduciary advisors to recommend them.

Ten years ago on the investment side, modern portfolio theory ruled the land, but we were comfortable with tinkering with our definitions of asset classes. Thus "tech stocks" somehow became an asset class, and there were a few people like Bob Markman who were arguing that diversification was a bad idea when it was obvious that technology was the engine of a new age of commerce. Today, we look back at the tech boom era with some amusement, at all the

companies that were trading at impossible multiples and reaching new heights every week. What were we thinking?

Ten years from today, I expect that we'll look back on the 2008-2009 market debacle and shake our heads at the naive way that advisors expected a diversified portfolio of market-traded securities to somehow avoid downturns when there was panic everywhere in market-traded securities. I expect that this will be the decade when quasi-public companies will go straight to the investing public for their funding, when UMA platforms will allow every advisor to pool client assets and build a portfolio of startups, timberland, well-managed cattle farms, oil wells and coal fields--operating businesses with tangible assets whose veracity and accounting will be overseen by the same auditors who currently check the books at Fortune 500 companies.

In that future day, MPT will have been modified and made more complex, with leptokurtotic distributional models of quarterly and yearly returns, evaluations of the correlations (and shifts in correlations) of individual assets within each asset class, detailed comparisons of current valuations versus historical norms and expected inflation, interest rates and turns in the domestic and global business cycles. I expect that there will be a bifurcation between asset managers and financial planners; advisors who enjoy the client-facing planning work will delegate the investment

stuff to professionals who enjoy digging into all this new investment complexity, and larger companies who will handle the investments on an outsource basis. The difference between that and sales is that the client-facing planners will monitor the costs and activities of the investment managers on behalf of clients.

In general, I suspect, we will look back at the investment portfolios of 2010 as hopelessly naive and simplistic.

In the year 2000, the Internet was just finding its legs, and it was still possible to hear grumbling from some of its pioneers that the "greedheads" were taking over and actually applying business models to their web activities. Access to the web was slow, and what we found was relatively unsophisticated.

Ten years from now, I will be astonished if we are still typing on keyboards the way we do today. I expect the Web to be not just interactive, but visually active, where we will talk to each other and view recorded video messages sent and received like e-mails. This newsletter service will become an audio file, and then a video presentation, with the text available side by side with the author's discussion of issues and events. Discussion boards will become more active and interactive, more personal and more visual--and all of it will be convertible on demand to text files, as text files will be convertible to audio files.

This next wave of information overload will,

paradoxically, lead to a greater reliance on professionals to filter and sort and summarize what's going on. Most of you realize that much of what you read about financial services and investments in the consumer press is naive at best, and often wrong, and I think we all suspect that doctors, lawyers, scientists, artists and pretty much everybody else realizes the same limitations of the press in their respective fields. People will turn to their professionals in each area to find out what they aren't hearing, and eventually the information on the Internet (which is where the press will be, as well as more detailed information sources) will be scanned mostly by professionals, who will offer their own blogs and summaries to their clients.

Between now and 2020, I expect the planning profession to BE a profession, to have created its own fiduciary standards, to have enforceable standards of practice, and state boards of financial planning. The few dead-enders who believe in a commission model will be increasingly sold out by product vendors who see the handwriting on the wall and cut the loads the way the mutual fund industry did way back in the Dark Ages of the 1990s.

Like all people in all ages, we will look back on the world ten years ago and wonder at how naive and primitive it all was. And maybe we will be bold enough to write predictions for the next ten years which will probably fall short of the remarkable things that actually take place. ■