RIABiz

5 Entrenched Ruts In Which Advisors Are Idling -- And How To Shift Gears To Peel Out Of Them

Tuesday 3.26.13 by Guest Columnist Rob Isbitts

If you're trying to be an asset-gathering ninja and an investment management guru simultaneously, meet Jack.

As a separate-account and mutual fund manager, chief investment officer, and now the head of an "insourced" CIO for financial advisors, I have had the pleasure of meeting hundreds of advisors of all stripes. This has afforded the chance to have many a heart-to-heart with advisors. The same themes keep coming up in regard to self-inflicted wounds that hold back their practices. Here they are as I see them, along with prescriptions for how to start fixing them right away — unless you are a procrastinator, which is on the list!

1. Meet 'Jack' the advisor

It's in the habitual nature of advisors to insist on being a jack-of-all-trades and, as the saying goes, master of none. It seems that many of our peers are reluctant to admit to their clients that they don't really do it all. Furthermore, they may identify ways to evolve their practices, yet not follow through for fear that clients will see change as the advisor's admission that he or she was wrong up until now.

Frankly, this is silly. Clients should be embracing anything you do to evolve your method of servicing them better. Buggies were replaced by cars, landline phones by mobile phones, etc. Instead of complaining that "I'm so busy," if that is a habitual state of being for you, perhaps its time to see how many hats you can shed. One my favorite business expressions is "do what you do best and outsource the rest." That's simple but powerful advice. Start with one area of your practice and go from there. It will feel like a B-12 vitamin rush when you finally do. See: The art of breathing: How to handle the overwhelm of being a financial advisor in 2012.

Above all else, I see that advisors can be divided on a very simple spectrum of expertise. At the two ends of that spectrum are asset gatherers and investment managers. I see a long-term bonanza for those advisors who successfully adopt the "buddy system" (as some of us remember from going swimming as kids). Do you enjoy asset gathering/servicing/entertaining clients much more than investing (and the daily burden that comes with it)? Then find a quality investment manager and pair up. If you are an investment manager (like me), then it makes sense to create a dedicated distribution network for your unique approach to managing portfolios. In fact, our firm is looking carefully for such matches, so don't be bashful about reaching out to me! See: The 5 biggest errors of intellectual omission by RIAs — in fact, most advisors.

Now, back to Jack. If you ask Jack (or Jacqueline), where they fit on the spectrum of expertise, they will either tell you confidently that their answer is both. Or they may say something like "I am an asset gatherer, and that's how my business will grow in the future, but I really enjoy picking funds and stocks." While I will not say that this is drifting from the fiduciary ideal, it is very, very tough to be great at both ends of the spectrum on a sustained basis. Furthermore, I think that advisors are currently falling victim to their own version of the "wealth effect" whereby their recent run of good performance managing money for their clients has them convinced that they have that side of their practice nailed even as they raise assets all day, too.

It's starting to smell like 1999 and 2007 in this respect. Advisors may have conveniently forgotten that markets go down too. And unlike those past two market peaks, the specter of high-quality bonds (oxymoron?) bouncing around historical lows opens the door to two big risks instead of merely another equity downturn. See: Five steps to get your clients out of bonds and into alternative, low-volatility investments.

Clients are going to need their service-leader when the dung hits the fan again. Will you have time, or will you be too busy figuring out what to do about the markets? And if you are one of those that thinks the markets eventually take care of themselves, etc., that's a big bet in an era when investors are so well informed that they are misinformed, thanks to the otherwise magical presence of the Internet and cable TV. And if you think you can just figure it out once things start to get bad, forget it. It's like playing in your Sunday morning slow-pitch softball game, then being thrown into a Major League Baseball game and trying to hit curveballs and 95-mph fastballs. Its tough to adjust to the heightened pace of the game around you. That's why softball teams drink beer on the field and baseball players don't (OK, not the only reason).

And for investment managers who do not grow because despite their strong work, they can't get noticed (like the proverbial tree falling in the forest with no one around), I have heard your stresses too. (See No. 5 below for more on your plight.) See: 5 ways for stressed-out advisors to build a more efficient practice.

2. Still practicing, not perfecting

Our industry has a bevy of outstanding thinkers when it comes to practice management. They have lasted a long time because they are very good and have proven results. Whether you hire a private coach, join a peer study group or simply become well read on industry issues that affect you, your clients will figure it out from your actions. If you continue to let the same old shortcomings hold you back, you risk that dreaded state we all try so hard to avoid: mediocrity.

There is a human-capital component of this too. Some advisors think that their ideal support team is a group of worker bees that simply put their heads down and plug away all day. But your staff are not elves. You need them to listen well, understand what you require and, most importantly, determine themselves how they can make your firm better. I am blessed with a group at Sungarden that personify that can-do attitude, yet don't hesitate to tell me when I am veering from our collective goals. See: Nine pitfalls for advisors to avoid when taking on new employees.

Until you have open communication and start thinking of your staff as more than checks you pay, you will surely be the root of their underachievement. I find that the Jacks of our industry tend to be the perfectionists or retentive types. I assume this because so many have told me without me and my colleagues saying a word! This is not a bad thing. In fact, it's admirable and shows a willingness to be a leader. But the best leaders also know how and when and what to delegate. Henry Ford did not build the car. He built an organization that built cars. There's a lesson in that for all advisors. See: How a change in mindset and business structure can get you off the hamster wheel.

3. Failing to differentiate

Regardless of what you thought of Republican presidential candidate Herman Cain, the guy created a clear brand.

It seems that an increasingly skeptical retail investor crowd is less willing to pay for mediocre advice, service or portfolio management. So don't give it to them! Figure out what you do really well, and use that as springboard to determine how to rally your clients around that special skill of yours. Mitch Anthony, an industry thought leader I recently heard speak for the first time (after reading his work for years) put the bottom line to it when he said "This business is about determining who will pay you for your experience and wisdom."

As in No. 1 above, what is it you do that drives your revenue, profits, ROE (return on effort) and client happiness? If you are a Jack in the middle of the spectrum of expertise, I think its best to head left (toward asset-gathering ninja) or right (toward investment management guru). Staying in the middle could leave you stuck in the middle. Even a lot of the full-service financial planners I have talked to recently know that they are skilled in some areas and less skilled (or less sure of their skill) in other areas. That's why ensemble firms are created. See: How I advise advisors to run an advisory business from my pulpit.

And that's why they thrive. That ensemble offering you create does not have to be a group of 20 people under the same roof. That's what's neat about the 21st century and what I perceive to be investors' more flexible attitude toward team structure, Skype, e-mail, join.me and many other tools make collaboration easy. And it can lower your costs too. Naturally it's different strokes for different folks, but I sense that the virtual ensemble is gaining traction. Why limit yourself to the best talent in your own backyard. Find the best where they are. It's financial advice, not ditch-digging.

And once you are firmly cognizant of what is special about you, don't be afraid to pound that message home, over and over again. While former pizza "Godfather" Herman Cain's campaign for the Republican presidential nomination was short-lived, he was the father of, and top public expert on, the 9-9-9 approach to changing the U.S. tax system. Regardless of what you thought of him, the guy created a clear brand. There is no reason you can't. See: Advisors should go all-in to make PR worthwhile — otherwise, steer clear.

But if you simply present yourself as another modern portfolio theorist who cares about his or her clients, provides a full range of services to fulfill their dreams, and has won some award, ask yourself this: If there were a database with dozens of screening criteria for advisory firms, and someone put those terms in a search, how many advisors would come up alongside you? The closer you get to the answer, the more differentiated you are. In fact, I sense that in a world where people routinely see 300 e-mails, 200 ads and numerous other stimuli every day, they may just be more attracted to you because you are distinguishable, regardless of what it is you actually do.

4. The fast-food approach to portfolio management

People don't go to the drive-through for a culinary experience. They go there for an expedient meal at a low price. Sadly, I see many advisors taking the same approach to what their clients consider a vital part of their value proposition — the investment strategy used to preserve and expand their portfolio. And while I have strong opinions about what makes for success in that area, my goal here is not to tell people how to invest. I just think that the most prominent money management firms have simplified product selection to such an extent that advisors are forgetting that clients — not to mention regulators — want them to really, truly understand what is being bought and sold for them.

Complex clients statements are fine when markets are serene, but prepare to do 'a whole lot of splainin' when they dip.

The methodology is important but so too are the underlying investments made. The markets have been so sliced and diced, thanks to the proliferation of ETFs, that it has created a double-edged sword: You can have the equivalent of a chocolate ice cream cone with six kinds of candy and three types of nuts inside of it. But you also have a lot going on inside that cone, and your stomach may not realize what's hitting it. See: The 4 biggest investment performance myths — and how they can torpedo advisor-client trust.

Likewise, choice is good, but complexity can be dangerous. And the most important judge of this — your clients — are getting a bit antsy, I think. They see their statement and the only words they recognize on it are your firm's name and their own name and address. The rest looks like something they'd order at Starbucks (midcap balanced value ex-Austria class G-6 shares). This is OK when markets are serene, which they have been for about four years now. But be ready to do, as Lucille Ball used to, "a lot of 'splainin'" once we see even a mild dip in prices. And those price dips could be in bonds or balanced investments, not only the equity-focused items in their portfolios.

5. Substituting past performance for due diligence

News flash! Past performance is not an indicator of future returns. The only thing guaranteed about past performance is that you can't enjoy it (its in the past, so you missed it). See: 5 ways for incumbent advisors to get — and keep — their clients' vote of confidence. There are many parts of life in which past performance really, really matters (heart surgeons, for instance).

There have been times when investment manager performance has been closely tied to how a manager did previously. But now, in an era with coordinated central bank liquidity pumping, record stock market highs, record low bond yields, a mobile communication world and a host of other factors not present together at any time in the past, who has a track record in a period that started out looking anything like this? Yet I continue to see advisors harp on "track record."

Half a career ago, my primary focus was analyzing investment managers and mutual funds. I can truthfully say that past performance was the last thing I looked it. I looked at it, but to put it anywhere near in importance to investment philosophy, process, applicability of the investment strategy to your client's circumstances and needs, and the ability for you to communicate that to your clients is bass-ackwards, so to speak. See: 6 reasons why RIAS can't — or don't want to — have track records.

Past performance evaluation is a big trap for advisors, yet many use it as a substitute for the true due diligence that clients — and yes, regulators — assume and insist that you do to justify your existence over time. That is why there is a field of CIO and research types emerging as adjuncts to an asset-gatherer's practice. It's part of this grand evolution of our business I have seen very clearly the past few months in my travels and discussions with advisors. The whole thing has become too big to do yourself unless you feel really lucky.

This is why again I emphasize that being a "Jack" in 2013 and beyond, putting yourself in the middle of that spectrum of expertise, is a risky proposition. Your own conflict over who you are and who you are not may eventually be figured out by the client. Better that you tell them over and over, and live up to it every day.

So that's what I have seen. Mine is far from the only view in our industry on these five trends, so I welcome your responses to any and all of the above, as well as any observations you have had in your peer interactions.

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