FINANCIAL ADVISOR

November 2002

Normalcy Remains Elusive

By Raymond Fazzi

It was time to get back to business. That may be the most concise way to describe the underlying mood of the Financial Planning Association's 2002 Success Forum, which was held September 28 to October 1 at the Ernest N. Morial Convention Center in New Orleans.

Overcoming trying circumstances seemed to be at the heart of things from the very start. The forum itself—abruptly canceled last year due to the September 11 terror attacks—was making a comeback after a two-year absence. But in doing so, it narrowly missed getting shut out by the weather, as hurricanes and tropical storms struck the Gulf Coast a few days before and a few days after the event.

The FPA attributed only one cancelation to the stormy weather, but the dark clouds hovering over the economy and Wall Street were another matter.

Final attendance figures weren't available at press time, but the FPA estimated that 3,000 attended the 2002 Success Forum. That would be about 600 less than the attendance at the 2000 convention in Boston, says FPA spokeswoman Heather Almand. The association reportedly had 4,400 attendees signed up to come to San Diego on September 12, 2001, only to be short-circuited by the tragic events of the previous day.

Official numbers aside, the general consensus among attendees was that the numbers were clearly down for the New Orleans event—either because many advisors couldn't afford to leave their businesses or decided it was a bad time to be out of the office.

"I think it was firms cutting back and people making the decision to stay home to be close to their clients," Almand says. "Planners are feeling the crunch just like everyone else."

Indeed, lessons on how to deal with adversity seemed to be everywhere. It started with the general session on September 29, when FPA President Robert Barry exhorted the association's members to get back to their roots and focus on the planning profession.

"Financial planning is about planning. It's not about specialties," Barry told the general assembly. Acknowledging times are tough, he added, "This is no time for ease and comfort—this is a time for dare and doing."

The meeting's keynote speaker, Jim Collins, author of Good to Great: Why Some Companies Make the Leap ... and Others Don't, followed up with a lively talk on what it takes to succeed as a business leader.

One trait of successful CEOs, he noted, is that they never settle for just being "good" and look upon greatness as a continuing endeavor rather than a pinnacle to be reached. Quoting the CEO of Walgreens, the drugstore chain that has been one of

America's great success stories, Collins said, "If you ever think you're great, you're not."

The FPA also used the forum to present its members and the press with its 2002 Financial Performance Study of Financial Advisory Practices, which it undertook with SEI Investments and Moss Adams LLP. One encouraging aspect of the study was that advisors appear to be offsetting eroding assets and the down market by taking in more clients.

"This year's study really makes a statement about the ability of financial advisors to manage through the decline in the market," said Moss Adams consultant Mark Tibergien.

At the same time, he warned that it's more crucial than ever that advisors run their firms as a business, something many have failed to do. The study revealed a narrowing of profit margins. He cited one figure that could be dangerous for advisors in a competitive marketplace: The average advisory firm spends 45 cents of every dollar in revenue on overhead. "It's time to get your costs in line with your income," Tibergien told advisors.

Education sessions focused on topics that play a key part in whether advisors can prosper. Some of the themes the sessions followed included insurance and estate planning, investments, life planning, marketing and practice management.

In one session, entitled "How Banks, CPAs and Wirehouses Will Vie for Your Clients," Scott MacKillop warned advisors that they need to prepare for increased competition from different flanks in the marketplace.

"There is a war going on for the affluent investor," said MacKillop, of Trivium Consulting LLC in Evergreen, Colo. More specifically, he warned that the fee-based and fee-only marketplaces are no longer a cozy domain for independent advisors. All sectors of the financial services industry have gotten wind of the fact that products have become commoditized and advice is what will generate revenues, he said.

The trend of transaction-based enterprises moving into the fee-based arena is gaining momentum. In other words, advisors need to prepare for doing battle with the wirehouses. The recent partnership between E*Trade and Ernst & Young is only the beginning of what may be in store for the industry, he said.

"They've looked over the fence and seen what you've been doing, and here they come," MacKillop said. "They're pursuing the advisor-based, fee-based model."

He also noted that the number of fee-based advisors has grown from about 5,000 in 1990 to approximately 25,000 currently. (Some estimates are higher.) There's a reason, he says, that this trend will continue: fee-based businesses are making money. From 1996 to 1999, studies show that fee-based firms grew at an average annual rate of 80%, compared with 20% for the commission firms.

"It's not just because clients like it," MacKillop said. "It's because it grows faster and is more profitable."

In one of the more well-attended sessions, Roger Gibson of Gibson Capital Management Ltd. in Pittsburgh whipped out a series of tables and charts to prove a point: Diversification still counts—for a lot.

One of the charts illustrated how a portfolio with an equal mix of U.S. stocks, real estate securities and commodities achieved a compound annual return of 13.10% from 1972 to 2001—beating a portfolio comprised solely of domestic stocks by 86 basis

points.

It's the type of long view that many investors and advisors forgot about during the late 1990s, he said. "Everyone said, 'Diversification sounds good, but it isn't working,'" Gibson said.

At another session, Richard Hoey, chief economist at Dreyfus, told attendees he suspected that after a bear market that cut the value of leading stock indexes in half, equities would perform better over the next five years than they have over the previous five years. Yet his enthusiasm was tempered. "All stocks have to do for the next five years to outperform five-year Treasuries is return 3% a year," he noted. "That shouldn't be too hard to do. We've had a 50% bear market in stocks."

Life planning and retirement issues arising from an aging population were also frequent themes during the forum. In one session, Mitch Anthony, author of The New Retirementality and Your Clients for Life, told advisors that they need to dispel themselves of the traditional view of retirement as they deal with clients.

Among the preconceptions that can be considered myths, he said, are that you can no longer work past a certain age, a life of ease and comfort is good, and you can plan your retirement all by yourself. "The age of 65 is no longer old," he said. "It's foolish that we have this given work-retirement (rule) at a given age."

Other timely topics were client risk-tolerance assessment and risk-tolerance education. Rick Adkins, CEO of The Arkansas Financial Group in Little Rock, developed his own risk-capacity index in the early to mid-1990s and has had his first chance to test its accuracy since the current bear market began in April 2000. "Five years ago, people could casually say they could tolerate a 15% to 20% loss in any given year," partly because they didn't think it really would happen, Adkins explained.

Geoff Davey, a prominent financial advisor from Bondi, Australia, who is a founder of ProQuest, a Web-based risk-profiling system, told attendees at the session that risk-tolerance and risk-perception issues were not just an American problem. "People's perception of risk has changed as they realized what they were doing was much riskier than they thought," Davey remarked.

The final panelist at this session, Dave Loeper, CEO of Financeware, raised a few eyebrows by challenging some traditional asset allocation assumptions and suggesting that some brokers and advisors told clients to take risks they didn't need to take. The head of the Virginia Retirement System referred a retiree to Loeper whose advisor had turned $5 million into $2 million by investing in overvalued growth stocks like General Electric.

After Loeper noted that this gentleman would have been just fine in municipal bonds, one attendee accused him of using a rearview mirror to second-guess advisors. Loeper stuck to his guns.

After a two-year hiatus, many attendees were happy just to be networking with colleagues from other parts of the country again and enjoying a rare few days of calm and mild New Orleans weather. After the events of September 11 one year ago, it may take until next year's Success Forum in Philadelphia in early November 2002 for one of the nation's leading financial services conferences to get back to normal again.