

Universal Lessons

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Great job on Mike Patton's June 2008 article in *Investment Advisor* magazine, entitled "[Lessons Learned.](#)" His points about publicly owned companies were right on target. I always share the same points when speaking with prospective clients.

Prospective clients are not always aware that firms like ML, SB, UBS, RJ, Ameriprise (and maybe LPL in the not too distant future), and the like are obligated by law to act in the best interest of their shareholders—not clients or advisors.

Aaron Skloff, AIF, CFA, MBA
Chief Executive Officer
Skloff Financial Group
Berkeley Heights, New Jersey

Lessons Learned

As the road smooths after a year of independence, Mike Patton shares his insights

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By [Mike Patton](#)
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Much of my first nine months on the Road to Independence was spent creating infrastructure, determining marketing strategy, making adjustments, and adapting to a new lifestyle. The following three months saw assets under management nearly triple and future prospects brighten. This article, the fifth in the series, will recap my first year and highlight the most important lessons learned. I'll also take an in-depth look at my business philosophy, why I chose to be an RIA, and how both the philosophy and choice has influenced client acquisition. I'll share what I've learned about the key differences between advisors working as an independent contractor with a large firm, and as an RIA. My hope is that by sharing my experiences—the triumphs and the mistakes—you may glean an idea or two that will prove helpful whether you are currently an employee advisor with a large corporation or as an independent advisor.

From the Top

To briefly recap my background, I've been an advisor with a global wirehouse, a regional brokerage firm, a principal for a subsidiary of a medium-sized bank in the Northeast, and most recently I worked as a "Senior Financial Planner" for one of the largest global banks in the world. After much consideration (preceded by some serious frustrations) I went independent, starting my own wealth management firm from scratch. Saying I did so "from scratch" simply means that I did not leave with a book of business. After considering taking the broker/dealer route or the registered investment advisor path, I chose the latter, sort of by accident. Allow me to explain.

I had given notice to my employer, and on April 1, 2007, I knew I would officially be self employed. I had gone through the necessary process with the independent broker/dealer with which I had chosen to affiliate, and my case was set to go before the B/D's approval committee within a few days. I was told that approval was certain and that everything was academic at that point. I even received my new rep kit in the mail. So there I was, less than a week from my departure date, when out of left field came the shocking news.

This broker/dealer made the decision that since the company I was working for de-licensed all of their financial planners eight months earlier, I would have to begin under another OSJ and receive a reduced payout. Though they had been aware of this fact for nearly two months, they suddenly changed course at the 11th hour and I was left with the choice of finding another B/D or staying with them. I was forced to rethink my choice of using a broker/dealer and after about a month I decided to become a Registered Investment Advisor. The most ironic part of this whole story is that this particular brokerage firm has since tried to recruit me. Would you like to guess what my answer was? Now, I'm not angry or bitter in the least. You see, I'm glad things turned out the way they have.

I've found that working as an RIA is much more preferable to working as a broker. Although I didn't see it at the time, it was a blessing in disguise. Now, let's look at how I'm building my business.

Step One: Creating a Unique Mission Statement for yourself

When I began, I didn't assign much importance to creating a mission statement. I believed that all I needed to do was go out and find clients and everything would be fine. In retrospect, I've learned that without a mission statement, you have no plumb line. The mission statement is, in fact, the driving force behind every decision you'll make. It acts as your compass and should be drafted early on. If you're currently working for a large brokerage firm or bank, it's important that your values are compatible with those of your employer. When they're not, frustration ensues and productivity suffers. I speak from experience. Over the past year, I've received a number of e-mails from individuals in our industry. Most of these advisors are working for large corporations and are contemplating the move to independence. They are successful and experienced, but they are also frustrated. Their frustration is due to the extreme restrictions imposed on them by their respective companies and the disillusionment due to management directives which hamper their ability to properly serve their clients. Why would management do this? I think it's because the company is operating from a different paradigm than its advisors. Here's an illustration.

Recently, I viewed a television ad from one of the major wirehouses, a name we'd all recognize, which said, "Our clients always come first." Sounds good on the surface, right? Let's take a closer look at this statement. First, large public companies are under pressure to meet shareholder expectations since shareholders provide a major source of capital. Secondly, a company's board of director's holds sway over its CEO and ultimately over upper management. As a result, decisions are made by upper management through the prism of revenue and profit, and bolstering the stock price of the firm. These decisions are often not in the best interest of the firm's clients. To satisfy shareholders, revenue generation becomes the top priority and since clients are where the revenue is found, then certainly the "client always come first." There is, however, a significant difference in saying, "our clients always come first" and "our client's interests always come first." Adding the word "interests" completely changes the meaning of the statement. Your mission statement should have the client's interests as its central theme. If it does, then all of your decisions will be made for the benefit of the client and you'll have no shortage of business.

If you are frustrated working for a large bank or brokerage, you should consider drafting your own mission statement and then compare it to your company's. If they differ, then you will either have to change your values or your company will have to change its mission statement. I rather doubt that you'll see the company change.

Step Two: Communicating the ways in which You Are Different

When it comes to marketing your services, the most obvious and important thing you can do is to differentiate yourself from the competition. You do this by determining your differences and their relative importance, then communicating this to your target audience. The most important phrase is "relative importance." Whatever your differences are, your prospective client must perceive them as important. If your differences are only important to you, then what does it matter? They must be important to them. Let's face it, there's a lot of static out there and clients often have a hard time sorting through it all when selecting an advisor. Since we are in the business of solving problems, if we can provide an objective methodology which aids clients in this selection process, then we will be perceived as someone who is interested in helping. This has been an important part of my new client acquisition.

Here's what I've done and how I've done it.

First, I've created a document I call "What's Important to You" which lists the most important services I provide. I give this to prospective clients and have them rank the importance of each item. If they rank the items as low importance, we probably won't work well together. If, on the other hand, they rank these items as important, then I know they can benefit from my services. One of the advantages of being independent is that you have the freedom to decide which clients you are the most compatible with. In a very real sense, you are interviewing the prospect just as much as they are interviewing you. You need to be in agreement about working together and they need to buy into your process in order for the relationship to be mutually beneficial.

Step Three: Understanding the Advisor Selection Process

This topic is very important since understanding it can greatly help you grow your business. Why do clients select one advisor over another? There are a number of reasons. Sometimes they're rational but very often they're not. Let's take a closer look at two of these reasons—trust and cost. The single most important reason a person selects a particular advisor is trust. Trust breeds comfort and without comfort a client is far less likely to make a decision. How do you gain a prospective client's trust? Trust is earned over a period of time in part by keeping your promises. There are two main elements in this formula. The client has to possess an ability to trust, and you, the advisor, must be worthy of that trust. It's that simple. For some, trusting is easy but for others, past experiences have made this difficult. This is one of the main reasons why I am so adamant about ethics. Whenever a rogue advisor causes harm to someone, it hurts all of us. The advisor must operate from an ethical foundation at all times. If you do this, then you'll have plenty of business. So how can you increase your odds of securing the right clients? I go back to my "What's Important to You" document from the previous section. Once I have an opportunity to meet with a prospective client, my process will help determine if we're suited to work together. I also tell them that I recognize this is an extremely important decision for them and we should not be in a hurry to decide. This resonates with them because they are used to feeling pressured and this removes that pressure. I think it's very important that the client relax and feel comfortable with me.

Then there's the cost issue. I find that people don't mind paying for advice if they perceive an adequate value relative to the expense (see sidebar, "The Cost Issue,").

Step Four: Gaining New Clients

In my experience, there are two main ways of gaining new clients. Basically, either you go out and find them or they somehow find you. A lot of advisors go out and find them by using seminars, direct mail, advertising, and a variety of other proactive strategies. These methods of marketing involve a higher expense and are less personal. That said, they happen to be the very methods I used when I got started in the

business over 20 years ago. Today I have completely reversed my position and prefer to work primarily through referrals. Developing relationships with other professionals has proven to be much more efficient than the previously mentioned laborious and expensive marketing strategies. I think your chosen method depends on the type of clients you're looking for. If you're looking for wealthier clients, you may be less likely to find them at a seminar or by using a mailer and more likely to find them through one of their friends or other advisors. Someone who was referred to you already possesses a degree of trust since they trust the person who made the referral.

Why Go Independent?

I have found that the independent platform offers many advantages to both the advisor and the client over large brokerage firms and banks. These advantages include the areas of conflicts of interest, culture, product offerings, and capacity.

An independent has no conflict between serving the shareholder or the client.

A publicly traded firm has an obligation to its shareholders and to its board of directors, which is often misaligned with the interests of the client. The bottom line is this; with publicly traded firms, revenue and profit are the focus and everything else is secondary.

As to culture, when the focus is on revenue and profit, a strong sales culture ensues. This culture comes complete with seductive incentives as companies use the lure of extra compensation to drive employee behavior. As an independent, there is no middle management to dictate what you should do when it comes to servicing your clients.

When it comes to capacity issues, I've lost count of the number of times I've heard clients voice frustration at being unable to reach their advisors. This often comes down to a capacity issue. Many advisors, especially in larger firms, are under pressure to continue bringing in new clients. As this number grows, eventually clients find themselves on the short end of service. As an independent you decide how many clients you will serve. Then you can remain accessible as accessibility is an issue most dear to clients. I include my cell phone number on my business card and encourage clients to use it if they have an important need.

The bottom line is this, as an independent, there is absolutely nothing standing in the way of acting in the client's best interest at all times. The only thing that could possibly hamper this is the advisor himself. The independent advisor truly has the greatest potential to be objective and objectivity is something in extremely high demand today.

Why Go RIA?

The advantages an RIA has over a broker are also numerous and are found primarily in the areas of legal standards, compensation structure, disclosure requirements, and production quotas.

An RIA is governed by the Investment Advisers Act of 1940 and is held to a fiduciary standard. This is the highest standard in the industry and is much higher than the suitability standard a broker/dealer is required to uphold. Basically, it means that an RIA must always act in the client's best interests. Representatives of broker/dealers are required to uphold FINRA Conduct Rule 2310(a) which provides that "in recommending to a customer the purchase, sale or exchange of any security, a member shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his security holdings and as to his financial situation and needs." The broker must have "reasonable grounds for believing it is suitable based on the facts, if any, disclosed by the customer." What's reasonable? What's suitable? Based on the facts...if any? So the burden seems to be on the customer to disclose the facts, huh? This seems to be very subjective.

As to compensation, a pure RIA is generally fee-only whereas a broker can receive fees or commissions. I have found that clients have a strong preference for the fee-only structure.

An RIA is subject to full disclosure whereas a broker/dealer does not have to fully disclose all conflicts of interest and past disciplinary actions. I would rather disclose everything than have the client find out later and lose trust. I'd rather disclose all fees, even if it means I may lose the prospective client. You have to trust that what you are offering the client is valuable.

Since RIAs are solely responsible for their own businesses, if there's a production quota, it's self imposed. Independent broker/dealers will sometimes require a minimum production level. These production quotas have a way of influencing advisor behavior.

Michael J. Patton is an independent advisor based in Baton Rouge, Louisiana. He can be reached at integritywealth@cox.net or via his blog, *The Road to Independence* at www.investmentadvisor.com.