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INSIDE INFORMATION

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

Special to this issue:

MASTERING THE SPECIFIC

Here's a great explanation for why it's so hard to make practice management progress, and a better method for achieving it.

Everybody who reads this article knows that there are ways to create more efficiency in your practice, which will give you more time for the things that really matter, and will probably also improve your client service and profitability. You're already convinced about THAT. The question isn't whether those opportunities exist; it's how do you go about taking advantage of them? How do you know where to start, and what to do, and where do you get the confidence that your time and energy will result in beneficial results instead of wasting precious time?

Believe it or not, there are clear answers to these questions, although you probably haven't found them in any of the practice management articles in any of the industry magazines. And after reading this article, you'll realize that it's really not your fault that practice management seems hard, that moving forward toward greater efficiency feels like groping around in the dark, that you've tried and given up on various strategies over the years.

Spenser Segal, president and founder of ActiFi (www.actifi.com), says that the first thing to recognize is that much of what advisors are asked to do on a daily basis is not--and never will be--a core competency. "These are typically not things that an advisor

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EARLY WARNING

• In a couple of weeks, we'll start getting the most interesting benchmarking survey data in years: with 2008 profitability and performance data, helping measure the impact of last year's market downturn.

Of the three major surveys, the surprise leader in terms of participation was Quantuvis Consulting's Advisor Ascent, with just over 1,000 advisor responses. Quantuvis makes each advisor's results available online, with live comparisons and statistical benchmarking analysis for each data point against other respondents. (The written report will come out in mid-September.)

The Advisor Ascent business performance survey was the first of four. Its second survey--covering business development (marketing)--is now open and inviting respondents, benchmarking new clients gained or lost in 2008 and this year to date, growth in AUM and revenues: www.quantuvis.com.

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is trained in, even though they need these things done," he says, listing activities like maintaining client files, monitoring expenses and revenues, marketing and bringing in new clients, building effective teams of employees--actually, by now he's talking faster than I can write, and every single item on the list is daunting.

"Most of the time, when somebody wants to move forward," Segal adds, "they have a fairly clear goal in mind, like increasing assets under management. But there isn't any clarity about the specific things that they can or should be doing to get there. And, of course, the way you achieve goals is to have a clear plan with specific, actionable items at every step of the way."

Segal believes that most advisory firms get stuck almost immediately after the goals are articulated. Why? Because it requires a great deal of practice management expertise to translate that goal into those specific action steps and measurable interim milestones. Asking advisors to build efficiency into their practice is a little like asking them to build their own automobile; they may know what they want, and generally how they want it to work, but that doesn't mean they have the expertise to assemble what they've so clearly defined.

This is where ActiFi steps in. Some of you may know the company as the advisor management consulting firm that has partnered with TD Ameritrade. TD Ameritrade offers RoadMap to its 5,000 advisory affiliates, giving them access to a customized version of an online management tool ActiFi has created to help advisory firms become more efficient. The service has also been licensed by several independent BDs as a private-label front-end to their own advisory office support services, and can be purchased by independent advisory firms directly through ActiFi--along with consulting services that ActiFi provides to help with the implementation.

How does it work? If you log onto RoadMap's main screen, its ActiFi (generic or uncustomized) version lists a variety of business objectives which are the sort of things that you probably would like to have in your own practice: more Expertise, Growth, Profit, Reduced Risk, Satisfaction, Time and a higher Value for your practice.

Suppose you decide that "growth" looks good. You would like to grow your firm.

But what, exactly, do you mean by that? Click on the "growth" tab, and the screen asks you to choose a more specific definition of this goal. Do you want to grow profits? Top-line AUM? Number of clients? Do you, instead, want to grow your capacity by taking on new employees?

If you select "profits," the screen takes you to a variety of options related to increasing revenue and reducing expenses, and each of those leads to specific action steps. Click on "increase AUM," and you get a different decision tree: you can acquire another practice, or deepen relationships with existing clients, or create new services for clients, or get new clients.

Suppose that you decide you want to increase AUM from existing clients. Click on that tab, and the screen invites you to quantify your goal. Let's say you select $20 million in new assets. The screen still isn't satisfied. By when? You decide that you want to achieve your goal by December 31.

"Notice," says Segal, "that you have moved, in a matter of minutes, from this very nebulous idea of 'growth' to the very specific goal of increasing assets under management by $20 million by deepening the relationships you have with your existing clients, and you want it to happen by the end of the year. The first thing RoadMap does is get you to really define what you mean when you set your business goals."

The next question is: HOW you're going to do this? RoadMap presents some options. You can develop new solutions or services for your clients. Or you could develop strategies to deepen relationships with small business owner clients. Another possibility is to uncover some unmet needs through a client needs survey. In passing, Segal notes that TD Ameritrade, in its customized version, has added other solutions here and elsewhere, and provided links to the company's consulting team and various kinds of content. "One of the problems that custodians and broker-dealers have is that they've created 500 different programs to support their advisors, some of them very good, but they never mapped them specifically to an advisor's goals," he says. "The value-added for them is that this is a way to help their advisory firms connect to, and better understand and use, the company's service platform."

The next level of Roadmap helps you create a tracking system for the steps you've decided to take to achieve the goal. You might check the "unmet client needs survey" action item, which takes you to a tracking module. You list the steps you need to take (create a survey, send out the survey to selected clients, etc.), type in who in your office will be responsible for completing each action item ("Fred;" "Sally") and the time it needs to be finished by.

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The process is exactly the same for other top-line goals. Click on "profitability," for example, and the system asks you whether you want to increase revenues, decrease expenses, or both. You want to decrease expenses. The system invites you to either work on reducing fixed costs or shifting fixed costs to variable costs.

Click on this, and you get some plausible suggestions. One is to consider moving your technology to an on-demand platform hosted by a software vendor, meaning you would get, say, your CRM services on an as-needed basis. Instead of spending $5,000 on a server, you variablize that expense where you pay as you add users at $50 a month. Another suggestion: shift salary compensation toward incentive pay. Or: outsource a variety of activities that are currently performed in the office.

Then, as you select from this menu (or create your own solution/action item), you enter the tracking system and decide who's responsible and by when.

As you go through this process from general goal to specific action items, you end up with an overall report that might be titled 2009 Growth Strategy, which lists multiple goals and gives you a master list of things that will need to be done, who will be accountable for getting them done, plus a time-frame--so you can check in with these people periodically to see their progress. Segal says that this checklist should become a routine part of your team meetings, which helps create accountability and allows you to make course changes as needed--just as you would in doing financial planning for a client.

"You know that no financial plan works out exactly according to plan; it changes based on a lot of variables," says Segal. "The same is true with a business plan. You need to measure and monitor your progress, where you are doing well, and where you are not."

The final piece of the RoadMap puzzle is a cost/benefit worksheet. Segal believes, I think correctly, that the very last thing an advisory firm needs is a 50-page cost/benefit analysis on every investment in the business. But you DO need to have some idea what kind of return to expect when you commit expenditures into this or that actionable step. "This helps advisors begin to think like business owners, and realize that their practice is not an expense, but a place where they can invest capital," Segal explains. "Just as if they invest in the markets, they should expect certain returns on various types of investments."

In fact, as the worksheet makes clear, the turns should be considerably higher than those you get in the stock market (especially lately). Input your average AUM rate and identify how much you anticipate, as a result of these steps, your AUM to go up in this

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year and future years.

In one hypothetical example, your goal is to bring in $2 million in new assets each year, and you type in that you charge a .96% blended AUM rate. That means, if you follow the course of your action items, the firm will take in $19,200 in additional revenues in the first year, $38,400 in the second, $57,600 in the third. The cumulative revenue increase over those three years: $115,200.

Of course, you will have to spend money to achieve this result. Lower on the RoadMap screen, you can input what kind of return on investment you want from your expenditures, and the default rate is 70%--"just like," Segal says, "a venture capitalist would expect."

The system runs the numbers, and it tells you to expect to invest $70,588 in this particular initiative. You might spend less, of course, but if you want a 70% return on investment, then this becomes the upper limit of what you put in your budget for these related activities.

The important thing, says Segal, is that these be plausible estimates. "Every investment return projection is imprecise," he says. "The key is to help the advisor think about investments in the business strategically, and form a realistic idea of what can be done and what to expect."

At this point, the missing link between deciding what you want to happen in your practice and making it happen has become a bit clearer: you have to master the specific. "You always come out of this with a laundry list of great things that you can do," says Mark Nahlovsky, ActiFi's director of application development. "The trick isn't coming up with more great things the advisor can do; it is actually: which ones are going to yield the most results? Which ones are you actually going to do? Where do you want to spend your limited resources? We've created an online mechanism for focusing in on an objective that is tied to a business metric, and taken it down to the tactical level of someone actually doing something by a particular date."

After a lot of one-off coaching with advisory firms in ActiFi's early years, Segal has learned that effectively moving your business forward seems to always boil down to three issues: achieving clarity, setting up clear accountability, and having an ongoing conversation about how it's working.

"Do I care if the task is 72% completed or 78%? That doesn't really matter," he says. "What I really care about is, if Mark is working on that task, Mark, where are you at? Is Mark really, no-kidding, doing it, or is it just another good idea that goes unimplemented that was a great idea for a week, but a quarter later, it is nowhere to be seen. The main thing I want to see is, is this being focused on; is there actually calendar time on Mark's calendar to do this activity? Does he have the will, the skill, is he really going to get it done?"

"The business benefit is mostly derived from the effective execution of these activities," Segal adds. "We're all interested in more and newer and better strategies, but at the end of the day, execution of an inferior strategy yields 100 times more results than nonexecution of a superior strategy."

This, to me, is a very important takeaway from this conversation--that many advisors have floundered, not from lack of will or effort, but from an understandable lack of specificity, not knowing the steps that will take them from here to there. No wonder you're hesitant to make changes to your practice! Now, there's a way to at least explore that issue right there on the computer screen.

Adds Segal: "The biggest issue we see with advisors is not lack of good ideas. There are all sorts of fantastic ideas. The challenge is the lack of execution on the good ideas that they are already aware of."

Believe it or not, that's only half of the picture.

To see the other half, click on another of RoadMap's top-line goals: "Increase the value of your business." Click for suggestions on how to turn this goal into action items. Do you want more profitability? Systematizing the practice and making it less dependent on a single principal? Increase revenues?

Click on "systematize my business," and there are many suggestions. You click on the client service model. Suddenly you are sorting through a whole new level of complexity. "Most advisors know how to sell a plan and get a client initiated into their system," says Nahlovsky. "But there are issues with the ongoing service, especially when you start to get up to 300 clients."

At that point, a different software element, called BluePrint, comes into play, and leads the advisor into the beating heart of practice management: creating well-defined systems and procedures to accomplish the tasks that need to happen in the office.

How? Interestingly, much of RoadMap's functionality came out of ActiFi's early work helping advisory firms incorporate CRM software into their practices. "That was when we first ran into this fuzziness," says Segal. "We'd have people come to us and say they needed a new CRM package. I'd say, why? The answer would be, well, I have to organize stuff. But there wasn't any business case, no clear idea of how they were going to use it, no clear idea what was going to be different from using Outlook. We'd force them to have that conversation about process improvement, about determining what processes are going to improve, what changes they will have to make happen, how they were going to deal with the productivity drop that they were going to encounter as they installed and trained on the new system."

At this point in the profession's evolution, none of this granular process development is--or can be--standardized from practice to practice. "We have never met two advisors with exactly the same definition of what a defined process is, or what their processes should be," says Segal. "So that became our area of specialty as consultants: we spend a fair amount of time on the ground, in advisory practices, creating executable-level processes that get things done without having to make it up every time, and with everybody knowing what part they play in it."

BluePrint does essentially the same thing that RoadMap does, except that where RoadMap forces the advisor to get specific about goals, BluePrint demands a more specific approach to the work that advisors routinely do for clients.

In many cases, the fuzziness has to be attacked from the top. "We often see advisors create a process, and one of the boxes is: 'create a financial plan for the client,'" says Segal. "At level 1, that's accurate. But you have to go deeper. There are actually six components to creating a financial plan," he adds: "engage, gather, analyze, recommend, implement and monitor. At level 3, you break each component down to the task level: how do I gather data? Do I have information-gathering forms? Who is creating my checklists?"

At level four, he says, you get to a step-by-step process: have the client sign an advisory agreement; get out the PDF for the client data form under the T drive folder gathering/gathering.doc; pull that and e-mail it a week before the meeting to the client; pull the e-mail text out of the CRM system and here are the clicks you use--so that if somebody came into the office, their first day on the job, there would be a manual which would show them exactly what they needed to do and how.

In fact, BluePrint has an entire library of processes, and each advisory firm defines its own by pointing, clicking and moving around--creating your own unique proprietary folders of processes, with a process diagram for each one.

"We can collaborate with our clients on these processes in real time," says Segal. "We try to hammer home with our client advisors the fact that the world's greatest and best-documented processes will yield you absolutely no business results unless you effectively implement those processes in a way that fundamentally improves either the client experience, the economics of your business, or the scalability of your practice. With BluePrint, we are chunking those processes

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down into things that can be directly embedded inside their CRM."

Based on his experience, Segal believes that 95% of advisors are not good at configuring the workflow functionality of their CRM--and he says that this isn't surprising, given the complexity and specialization of the task.

"The number one reason they get stopped," he says, "is that they haven't defined the process at a level of detail and granularity that allows it to be easily implementable in a dumb computer. A CRM system is a rules engine, and you have to talk to it in its language. It doesn't speak human. It speaks machine. If you cannot codify your requirements at this level of specificity or granularity," he adds, "then you can't tell the CRM system what you want it to do. That is what we are really really good at," Segal concludes: "helping the advisor tell the CRM what they want it to do for them."

This systematization, in turn, will help unravel some of the other difficult knots that come up when managing a practice. The system forces the advisor to think through job descriptions, changing them from "Suzie" and "Joey" to "lead advisor," "servicing advisor," and/or "client service representative." It prompts you to think about different job descriptions and roles, and also to articulate what makes the firm different, in terms of client service, from other firms.

Having defined roles within defined procedures makes it far easier to figure out who to hire, and what the job descriptions will be, and what the career path will be based on taking over more responsibilities in the procedures manual. What will the firm look like, big-picture, depends on what needs to get done. Until that's defined precisely, then hiring and managing will always be an ad-hoc affair, and job descriptions will be made up on the fly.

For advisory firms that either don't have the time or the inclination to follow the online processes, ActiFi's employees will come to your office and make things happen on your behalf. "One of our differentiators from other consultants or coaches," says Segal, "is, to the degree that the advisor would like, we will actually take ownership of the tasks. If we can agree that this task is something they want to get done, internally, and we know you are not going to get it done, then you can assign it to us."

Often, he says, outsourcing it will be the fastest, cheapest, most efficient way to handle it, when all the time, staff and training costs are calculated--and when the possibility of failure is factored in. "If you assign it to somebody who doesn't have the will, skill or the time to do it, then everybody just gets frustrated," he says.

Interestingly, ActiFi has recently come out with a third online service, which might not interest anybody reading this, but which could have a huge impact on the profession as a whole. The product does essentially what RoadMap does, but focuses on specific action items that will be needed to help a broker move his/her business from a large brokerage firm either to an RIA or independent BD business model.

In other words, the software translates the vague "I'd like to leave the brokerage world" into a process for talking to custodians and BDs and asking specific due diligence and procedural questions, estimating costs, creating timelines and task lists (buy software in different categories, rent an office, hire staff, etc.), all the way down to calculating the multi-year return on investment. A questionnaire helps the broker identify the business model he/she would prefer to move to.

Overall, I think the ActiFi profile goes a long way to explaining some of those issues that we started with, which can be boiled down to: why it's so hard to make progress. We need to translate broad goals into specific action items, which none of us are trained to do. And we are even less well-trained in creating well-defined office systems and procedures--and yet this is the key to so many other things: staffing, job descriptions and a lot of other practice management issues which, when looked at in isolation, seem unbearably complicated.

One of the frustrations we've all had with practice management articles is that they typically offer up a handful of fuzzy tier 1 goals, and then they exhort you to get moving. Here, at last, is a clear explanation not only of how, but how to think about moving forward in more specific and measurable steps.

I also think this conversation crystallizes the benefits of hiring a coach who happens to be good at doing things that you were never trained to do, and who can put the thought and even implementation effort into activities that you don't have time for. You know the benefits of outsourcing, but the biggest benefit of all may be to outsource responsibility for your progress, for your business growth and evolution.

One thing is clear: a huge number of advisory firms are suddenly finding a need to get over a very difficult hump as their principals become older and more successful.

Indeed, finding ways to master some very specific steps forward may be the challenge of our age, the most significant hurdle we have to leap over at this stage of the planning profession's 30-year evolution. "Over and over again," says Segal, "we run into companies where the principals have grown their practice to the point where they need to get the stuff out of their heads, when future growth depends on whether they can institutionalize the business so they can deliver the same high-quality client experience, even if they're not doing everything themselves."

If this sounds like you, ActiFi is a resource to consider.■

Practice Marketing

Marketing as a Fiduciary

Is the usual marketing advice too "salesy" for you? Here's an approach that's compatible with a fiduciary mindset.

Bill Losey, of Retirement Solutions, LLC in Wilton, NY, says that right now most financial planners are living in the middle of a contradiction. On the one hand, most advisors need to grow their top-line revenues to make up for the still visible declines in portfolio values (and revenues). And (still on that same hand) they know that this prolonged downturn, when brokerage firm customers are restless, is one of the best times to offer their services to the public.

On the other hand, most of the advice they receive about marketing themselves and their services comes to us from the brokerage or sales world. For the fiduciary advisor, it's unpalatable or downright unworkable.

"There are a lot of sales programs that tell you to say this or that, here is the languaging that we want you to use," says Losey. "But it's always a very slick approach, which ultimately repels consumers who are looking for something better than the brokerage relationship. And that sort of slick marketing really doesn't resonate with fee-compensated RIAs who come from a fiduciary standpoint."

Today, Losey offers a coaching program that helps planning firms and fiduciary advisors with their own marketing, based on a system that he created four years ago. The program is called Savvy Advisor Marketing (http://www.SavvyAdvisorMarketing.com). It is designed to help advisory firms think outside the box in their marketing efforts, and--more importantly--to market themselves as a fiduciary rather than as a peddler or asset-gatherer.

To understand the program, it's helpful to know the trial-and-error process that Losey went through to acquire his own expertise. Back in early 2006, starting his own firm after having worked as a staff planner in the Albany, NY area, he looked for a way to stand out from the crowd. Step one was to spend thousands of dollars on marketing systems that would cleverly induce fear or open wounds in prospective clients, and which offered clever scripts and persuasive answers to every conceivable sales objection. None of it felt right. "I finally stopped going to industry conferences, because it was the same thing all over again, over and over," he says.

Finally, Losey sat down and

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tried to figure out what a fiduciary should do to call attention to himself. His first instinct was to expand his service offering beyond simply money and investments--and, as reported in this newsletter some years back, he began to look around for experts in other areas of a person's life, who might contribute to a client/prospect e-mail/online newsletter that he would send out every week.

Surprisingly, they weren't hard to recruit. He talked with his son's golf coach, who didn't just say yes; he said, "that would be great." Losey had a similar conversation with a client who is a chiropractor, and a psychologist in town who does relationship coaching, and they, too, volunteered to lend their voice to his weekly message.

Later, when Losey hired a coach and attended a coaching event in Los Angeles, he met a group of successful professionals who offer advice in many of those areas cited above: nutrition, personal training and coaching in a variety of specific areas. "Most of these people have articles on their web sites," he says, "and I now have permission to use their content as long as I credit them as the source, and I include a link back to their site. They like it because it drives traffic to them without any effort on their part."

Today, the Retirement Intelligence newsletter includes articles that link to the massage therapist's web site, so you can read more about a simple strategy for keeping holiday pounds off your body, or the success coach's site to read the article about avoiding stress and finding more happiness during the holidays. Another link goes to an article on how not to settle for a paycheck when what you really want is a life, on the web site of a lifestyle career counselor.

Losey contributes his own investment column, with a personal note about what's going on in his life. He encourages everyone who receives the newsletter to forward it to anybody they know who might be interested, and simply by this pass-along method, the subscription has grown to 6,500 prospects a week, plus Losey's retainer clients, who live as far from upstate NY as California, Texas, Arizona, Nevada, South Carolina and Florida.

Along the way, Losey has learned a few things about creating synergies between different marketing efforts, and this is what he shares in his coaching program. "I've been taught that 99% of the people who come to an advisor web site will never come back there again," he says. "And the average time spent at an advisor web site is less than two minutes."

So the most basic service he offers is a 12-point audit of the advisory firm's web site. "Most advisors have the typical generic template sites, that are all about them, plus they have the stock market stuff going across," he says. "There is no way that any prospective client is going to be excited by that. You want a web site that is about the consumer, that has some catchy headlines, that has some links that will pull the consumer to various areas of their web site, where they can learn more about your philosophy, or they can download a free report or listen to an audio or watch a video. Instead of being slick, you want to appeal to people emotionally, and include content that is going to resonate with them logically and intellectually as well."

Where do you get this content? Find something to do for your clients, that they would be interested in, and repackage it. "Not long ago, I did a conference call with clients, and recorded it and paid somebody to transcribe it," says Losey. "Now, when people come to my web site, they can either listen to the actual recording, or they can download that transcript. And we put a real nice title on it: What Wall Street Doesn't Want You to Know."

Interestingly, this is also the least expensive part of your marketing effort. "On my web site, they can get free audio downloads or free reports that I have, and of course they can sign up for my free weekly newsletter." Total cost: a few occasional dollars to his teenage son to put the information on his web site, and $70 a month to a company that manages the database.

The web site audit would cost $500. A second level of Losey's coaching service would have him do a review of all of your marketing materials. "In some cases," Losey says, "advisors are not getting the results because their brochures, business cards and web sites all look exactly the same. There is absolutely no differentiation."

The most comprehensive coaching service Losey will provide is what he calls the CARS Immersion 90-day program--CARS standing for Client Acquisition and Retention System. "That will be for somebody who is willing to make an investment of three to four weeks of prep time, different phone consultations with me," Losey explains. "I'll look at all of their existing marketing and collateral materials, invite them to my home office for a full day with me, go through and show them how I do everything that I do, and then follow it up with about sixty days of additional consulting and coaching." Cost: $7,500.

Losey can guarantee one thing: it's all working for him. "Prospective clients are actually contacting me every month," he says. "So once you get this marketing in motion, it sort of feeds on itself." This fall, he plans to meet in person, for the first time, three clients who live on the West Coast.

Meanwhile, he's putting the same system to work for his consulting practice as he's set up for his advisory business. If you go to www.savvyadvisormarketing.com, and sign up with your name and e-mail address, Losey will send you marketing tips every month, with advice on yellow page marketing, newsletters, copywriting and how to find material to give away to prospects. It's a way to experience his system in action--and, maybe for the first time, get marketing advice from somebody from the fiduciary culture instead of the sales world.■

Client Services

Collaborative Budgeting

Many trends are coming together around two new online expense tracking programs--which could usher in the professional services of the future.

It's sad, it's not fair, it's reality, and I can't say that I like it. A year after the brokerage firms made off with billions and cost the investing universe trillions (and then made off with taxpayers' TARP money), a lot of financial planning clients are suddenly (how to put this delicately?) not where they expected to be on the road to financial independence. Some won't get there. For others, the only chance to drag themselves back on track will be to save more aggressively out of their monthly budget and pour more discretionary money into their investment accounts.

At the same time, we live in a sadder and wiser America, where people realize they can no longer spend slightly more than they bring in. Conspicuous consumption is no longer a family value.

Both trends, interestingly, will require the same thing. As financial planners become the leading advocates of this thriftier mindset, as they help people crawl back out of the investment hole, they will increasingly be helping clients understand and tame their budgets.

I think it's interesting that just as these trends emerge, the market is introducing two new tools that can make this service easier to provide. Both online budgeting software programs seem to do more than Quicken Online. Both offer collaboration capabilities, allowing the client to download and categorize expenses, and then making it easy for planners to quickly evaluate a client's spending patterns in broad overview and granular form.

The programs could finally make it cost-effective for advisors to help clients make all those small spending decisions that could have a huge effect on their financial future.

Let's start with something called Green Sherpa (www.greensherpa.com). The software was created by Erin Lozano, a CPA who also studied anthropology at the University of California at Berkeley, with an emphasis on the behavioral aspects of consumer cash flows and patterns of spending. In her practice, she would charge an hourly fee for a kind of specialized planning service: clients who were looking ahead a couple of years and seeing two hammering expenses on the near horizon: their kids going to college and their parents requiring medical assistance or assisted living. "My clients were

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facing were a lot of sandwich generation issues," says Lozano. "They wanted me to help them take a finer look at how they would be spending their money over the next one to five years, and come up with a more realistic plan that would get then through what might otherwise become a rough patch financially."

Lozano would also get referrals from financial planners and CPAs, who would tell clients: "Go to Erin and she'll help you clean up your cash flow picture, so then we can do the investment and tax planning."

"That's why I created the software product," says Lozano. "I wanted to make it easier for people to track their spending at a level of detail that I couldn't find anywhere else, and also to make it easier for them to collaborate with me or another professional. I really believe that you can have very powerful conversations around how people are spending their money, and how that affects them down the road."

Log into Green Sherpa, and the first thing the client sees is a dashboard snapshot of his/her finances--the credit card and bank accounts, with an opportunity to drill down and see all the checks and credit card transactions. There's also a cash flow summary, and a list of goals, and the percentage of each goal that has been saved for and funded so far. This information can get into the program one of three ways: it can be manually entered (otherwise known as "the hard way"), or exported directly from the various financial institutions, or pulled out of Quicken or Microsoft Money. "A lot of financial institutions use the OSX Direct standard, which makes the download pretty easy," says Lozano. "We've also created our own screen scraping system, where the system will enter the client's user name and password, and get the information into Green Sherpa. Over the past two years, building it up bank by bank, we've gotten to where we support about 3,000 banks."

Each transaction is assigned a category (food, clothing, car maintenance, etc.), with the flexibility to create your own budget categories which are not on the master list.

Once the various transactions are in the system and categorized, Green Sherpa automatically creates a cash flow projection based on the amounts that have been spent already. "If it has all your income, then the fixed and variable expenses will create something similar to an Excel spreadsheet cash flow projection," says Lozano. "The main difference, and it is a huge difference, is that we automate it by not only creating the cash flow projection, but also tracking against it. Each time we bring in transactions from the bank, we are posting them against that category schedule in the cash flow projections."

At the top, you see the starting balance, and you see how much is left at the end of each month, real and, in the out months, projected. Go to the end of the year, and you can see that if you spend according to the way you have been spending, at the end of the year, this is what your checking account balance will look like.

In the example that I'm looking at, with roughly half a year of expenditures in the system, the prognosis is not pretty: the client will have a deficit of $10,000. Interestingly, Lozano thinks that this is a pretty typical situation--that it is, in fact, the reason that only 10% of the human population has managed to become financially secure and independent. "People seem to have an instinctive sense of how much they take in and how much they spend, and 90% of us instinctively balance the two, right on the edge," she says. "We seem to have an innate ability to sense how much money is coming in and spend that amount more or less precisely."

But, she adds, this is before the unexpected or one-off expenses, which are not accounted for in that mental budget, and which leads people, unconsciously and with the best of intentions, to come up short every year. "You have those new tires to buy, or that party coming up, or Christmas," says Lozano; "those one-offs actually happen on a regular basis."

And they can be tracked in the budget. The projected cash flow summary shows that this person has spent a little more than she made over the past few months, and that this will lead to a deficit at the end of the year. Knowing that, she and her advisor can make changes in real time. She sees that her property taxes will come due in three months, she can budget her Christmas expenditures, and reduce what she spends in some other categories.

Overall, the software notes any discrepancies between the budget and the expenditures. "If you consistently overspend in the groceries or clothing categories," says Lozano, "a pop-up would say, for the last three months, you have overspent in groceries by $50; do you want to readjust your grocery budget? If not, do you want to take that $50 from another category?"

What about the collaboration capabilities of all this? "Our market research indicates that most people talk to maybe one or two other individuals about their finances," says Lozano. "It is usually a spouse and/or a financial planner." The client user can invite the advisor into the site, and the advisor can pull up the reports that she wants to see, take a look at the cash flow projection, and then get to the more important financial conversations more quickly. If you have 100 clients, then giving detailed cash flow advice may not have been feasible in the past, especially if you would have to manually keystroke shoe boxes full of client receipts, and categorize them, before you can do a proper evaluation. This makes it a matter of logging in, scanning, evaluating, noticing and then providing advice.

The cost? Clients pay $7.95 a month for the service, or $5.95 if they buy an annual subscription. The service went live earlier this month, and Lozano is hoping that advisors will recommend it to clients, and perhaps even offer budget planning services to the less-wealthy members of their community. She says there is also discussion of offering a licensing fee for planning professionals; a decision will be announced at the FPA Convention in Anaheim.

I mentioned that there are two programs in this space; the other online budgeting tool that allows client/advisor collaboration is called Cashflow Insite (www.cashflowinsite.com), which has been on the market from a company called Neuralis since March. Neuralis was co-founded by David Kuik, a programmer who, among other things, has worked as director of software architecture for LPL, the independent BD. He thought there was a need for a new expense-tracking product because, when he tried to do his own budgeting, he found that Quicken and Money weren't very adept at remembering where a downloaded transaction should be categorized. "He could never get the categorizations to work exactly the way he wanted," explains Connie Pretula, the company's director of advisor outreach. "So he teamed up with Alfred Wurr, our co-founder, who has expertise in artificial intelligence."

For her part, Pretula has worked at NaviPlan and EISI, the makers of Interactive Advisory Services software, after having worked as a financial advisor. She says that her experience with planning clients is that a huge percentage of them have always needed help keeping track of their budget. "Most clients know the important things, like the payments and their income," she says. "But they don't totally understand where all their money is going. They would say to me, at the end of the month, there's nothing left to invest. Sometimes there would be a deficit. What could I do?"

There was no clear answer back when Pretula was practicing, unless the advisor wanted to help the client track everything on a spreadsheet. And even that doesn't answer the most useful question that comes up when trying to create a workable budget: what are other people like me spending in each category?

Like Green Sherpa, Cashflow Insite starts when a client goes to his bank's web site and downloads the recent transactions. The software is online, but the client installs a desktop applet that interfaces with the bank to identify what formats its transaction information is available in. The client would select from one of two options: either the "Quicken" (QFX, or 'Quicken Financial Exchange' for the geekier members of our readership) or "Money" format (the more standard Open Financial Exchange--OFX). The menu screen gives you the option of downloading all available historical transactions--typically the last three months, but some institutions let you pull in a year or two's worth of data--or (if this is not the client's first download) every transaction since the most recent

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Collaborative Budgeting
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download.

If you make a mistake and download 90 days when your last download was last Thursday, the software automatically identifies duplicates, and gives you the option of correcting your mistake and not bringing those redundant transactions into the program.

The first time the client logs in and does a download, the program assigns the transactions into budget categories--subject to client approval. As you work with it, it learns which stores belong to which categories--for instance, the grocery store, once categorized as "food," will remember that category going forward. "Most of us are creatures of habit," says Pretula, "so by the end of the first month, the software will know where to assign between 80% and 90% of your transactions."

Anything that is not clearly recognized is labeled "unassigned," and the client is given some category suggestions that the software thinks might be appropriate. A variety of category options are pre-programmed into the software: bank charges, cable, car insurance, child care, clothing, credit cards, credit line interest, deposit interest, dining out, donations, entertainment, fuel--and, of course, the user can create his or her own categories by clicking an "add" button. (Pretula has created an expense category labeled "hair cuts.")

These are actually sub-categories; Cashflow Insite aggregates all the subcategories into eight "core" or "primary" categories, broad budgetary expenditures like communications (including telephone, cable and internet costs); financial expenses; pay yourself; shelter; discretionary; food; people; and transportation. (Of course, the client can also move the subcategories from one core category to another, if that makes more sense.)

Why aggregate everything into the broader core categories? This is the software's second point of distinction: each user would select a lifestyle category that best fits his/her/their circumstances, and get a model "average" expenditure (measured as a percent of the total) in each general category.

These are built right into the program. "Most people, when they are new to the budgeting process, really don't know where to start, what it's appropriate to spend in different categories," says Pretula. "The question I would always get, as an advisor, was: how do I compare to other people like me?"

The category expenditures are taken from a variety of demographic studies, each of which has an associated pattern of spending. For instance, a "rural household" would typically pay 27% of the total budget for shelter (house payments, taxes and insurance), while a "renter" would pay 31%, the "urban household" would pay 32% and the "single professional" 36%. Transportation varies from an average of 17% of expenses for the "average household" to 20% for the "rural household." The "retired with spouse" lifestyle has just a 3% "pay yourself" cost, compared with 7-8% for "couples with children," "homeowners" and the "urban household." Financial expenses and communication costs tend to be pretty standard across the board.

Each client would select a lifestyle from the list, and the software automatically prepopulates the monthly and yearly budget with the expected expenditures in each core category. The client would also select the yearly budget, based on a percentage of total annual income. (The software will also look at the historical spending pattern and make suggestions as to which lifestyle category the user belongs in, or the client can create a custom budget using sliders to adjust the percentages.)

On the summary screen, the client will see the expected and actual expenditures each month. Under the actual, you can click to drill down into the subcategories to look at how much is being spent, and from there, you can drill down to the actual transactions.

The result is kind of interesting. In the example I looked at, you see the actual and projected expenditures, and some of them start out way over budget, and then gradually, as the client becomes aware of them, they drop down to the expected levels, allowing the budget to settle into balance. Click, for instance, on "clothing," and you see all of your expenditures in April, May, June, July and August, along with the average monthly expenditure. You can look up this information for longer periods, or annually, or to date, and track your progress.

As I said, Cashflow Insite was created with the advisor in mind, and the company hopes that you will recommend the product to clients and pay the fee out of your own pocket. The cost is pretty nominal; you pay $45 a month for the privilege of having up to 100 clients on the system. When you, the advisor, log into the site, it shows you a summary screen with the names of all of your clients who you want on the system (you can pull this information directly through a link with Redtail, and integration with MoneyGuidePro is in the final stages of completion), and when you click on a client, you go to a high overview summary page to see how much they've spent overall, how much they've received in income, and whether this number is positive or negative.

This, says Pretula, answers the immediate issue that advisors will want to address. "If the client isn't really motivated to talk about spending issues, this lets the advisor see, early-on, if a problem is developing," she says. "You can address it before it becomes serious."

In general, the advisor can then see all the things the client can see except the individual transaction level details--and that's being added, says Pretula, because some advisors have such a close relationship with clients that the clients are comfortable with them seeing this granular level of detail.

On another screen, the advisor can look at how much is being spent in each of the broad "core" categories, and you can even go in and modify the budget--the amount that the client will spend (or is "allowed" to spend) in this or that category--going forward. On the screen, a simple Monte Carlo engine will illustrate how that relatively small change in the budget (typically a reduction in expenses) will add money to the retirement account--graphed each year over 30 years.

Before long, an integration with CashEdge or ByAllAccounts would allow the advisor, him/herself, to go in and do the downloads from the client accounts, turning Cashflow Insite into a planner tool rather than a collaboration platform. At the moment, the client can pull the transactions both off of a credit card web site and the bank web site, but not from a cash management account. (The CashEdge or ByAllAccounts integration would make that possible.)

There are a lot of big-picture observations to make here as you look at these two new budgeting programs. Pretula thinks that her firm's software has the potential to dramatically change advisor/client relationships, making the advisor's advice far more powerful and relevant to a client's daily life.

It could also allow advisors to work with younger, less-wealthy clients. "A lot of the advice at that earlier stage of life is going to revolve around carving out money to invest," says Pretula, "and this makes it economical for the advisor to take information the client has already entered and give advice directly."

Lozano, the former anthropologist/CPA with Green Sherpa, sees an even bigger picture. She notes that right now 90% of the human population has a default habit of spending approximately what they make, which means they are not now--and not likely to become on their own--candidates for financial planning--simply because they haven't ever managed to put any daylight between their expenditures and income.

Cash flow/budgeting software finally makes it possible for planners to address the core reason why there are so few investment management-eligible people in the population, to apply their services to the national savings rate, and attack at its roots that basic dysfunction that weeds people out from investing before they can ever access professional help.

And, of course, you have a lot of people who NEED to save more right now, to get back on that track that they were jolted off of last Fall and Winter, and still others who are looking to adopt the values of a New Frugality. Finally, there is a clear trend toward collaborative (rather than delegative) relationships with clients, and a hoped-for trend that would see advisors increasingly working with more middle-market clients as the profession matures.

Add it up, and I think the combination of financial planners and online budgeting tools could become an incredibly powerful combination. Not least important, it could also restore my own basic sense of peace in a world gone awry. As the markets do their thing in the background, it will be very interesting to see if Green Sherpa and Cashflow Insite get traction in the planning world, and what effects that will have on our troubled planet. ■

Practice Management

Effectiveness Test

An interesting new software feature may evolve into something much bigger: the help function of the future for business software.

Arguably the biggest area of practice inefficiency in the planning marketplace is under-utilization of the software already installed in the office. And by far the biggest offenses are associated with CRM software. It's not hard to see why. CRM started life as a really nifty way to keep track of clients' birthdays and the names of their children. Today, as you can see from the lead article in this issue, the better programs (Junxure, ProTracker, Redtail) have evolved and mutated far beyond the original scope, so that they now function as a core practice management engine, driving systematized procedures and also serving as the connection between client records and the endless paperless office system files.

For CRM software companies, that means that online tech support is constantly in danger of migrating deeply into the practice consulting space. Your question, after asking how to make the software do something, might easily stray into: Well, what's the best way to use this in my office? In some cases, an advisor might have to be shown how to streamline office procedures before some of the more powerful features become interesting, and a lot of potential efficiency-enhancing features are never explored at all. (Who has the time?)

And, of course, CRM vendors are concerned about under-utilization for another reason: will advisors continue to pay for a powerful practice management engine if all they're using it for is keeping track of clients' birthdays?

What to do? Greg Friedman, proprietor of the Junxure CRM program, has found a really creative way to address the underutilization and support issues, which appears to be a painless way to help Junxure users figure out what they're missing. It comes in the form of a computer applet called Junxure Checkup.

Right now, it works like this: somebody from Junxure visits your office, installs the applet on your desktop computer, pushes a button, and the software evaluates which parts of the software are being used--how many templates and in what areas, how many action sequences, how many notes attached to client files (to summarize meetings and telephone conversations), etc., etc.--all listed in past-fail, and also measured in percentage terms.

The output is a report which does several things. First, it tells you where you're using, and where you're underutilizing the program, broken down by topic. Are you using the "associates" function? If 81% of client records have other advisors, parents or children associated with them, then this function is being utilized.

But what about referrals? In Junxure, you can track which clients have sent referrals, how many and who, which helps with all sorts of things--among them, sending "thank you" messages and keeping the referring client apprised of what's going on with her friend and neighbor, and also having a sense of which clients are NOT referring you. The advisor either isn't using this function or none of his clients have sent him any referrals in the past three years.

The system looks for action sequences and templates, and the report comes with links to the part of the user's manual which shows how this function works, plus videos that offer more detailed information. (If the advisor wants more detailed support that falls into the practice management area, then Junxure also offers seminars and counseling, but this costs extra.)

"Initially, I would envision that our person on-site would look over the report with the advisor," says Friedman, "and together they would figure out what two or three things would be most beneficial to start with, to get more out of the system." He's hoping that as the firm collects these reports--anonymously--it will give him and the developers better statistical information on how to configure the program. "If we do this with 50 firms, and 42 of them failed Action Sequences," Friedman adds, "then we can tailor our efforts back to our customers about training, and how to use this function."

Friedman also hopes that this will enhance his company's concept of "plus one," where the customer support staff is trained to, when they have fixed a problem, show the caller another feature. "They'll say, hey, I notice you're working on this; did you know it does this other thing also?" he says. "Now they might say, let me just show you the Junxure Checkup, and you might want to run this yourself, and it has links to our videos, help file, and if you want more help, call us."

What I think is interesting about this concept is its potential to link the "help" system that comes with all software--usually links to a user manual--more directly to the user experience of the customer. In fact, this could be our very first glimpse at the "help" function of the future: the software not only answers questions, but anticipates areas where the user may not know the questions to ask, may not know that this or that function even exists.

Over the course of the next 12 months, Junxure will be testing the checkup function with some of its users, and evaluating whether advisors start getting more productivity out of their software. If they do, then we may remember where we saw this handy software feature first--and enter a period of enhanced productivity in the planning world. ■

Parting Thoughts

THE ROAD NOW TRAVELED

The financial planning profession has passed a major milestone, and I doubt very many of us even noticed.

To understand the nature of the milestone, look back 30 years (if you've lived that long) to the collapse of the limited partnership era. Back then, advisors were pouring investor dollars into the hottest, easiest-to-sell, highest-compensation products they could find, taking the easy path, the one that focused more on the advisor's bottom line than the client's. That easy path ran straight into a brick wall, as many partnership sponsors turned out to be thinly-veiled crooks. It was a crisis of major, major proportions for the advisory world, and roughly 25% of its members were sued out of business.

The next major financial crisis was the bursting of the dot-com bubble, and this time advisors fared better. The firms taking the easy, conflicted path were the large brokerage firms who sold junk IPOs and provided investment "research" that had more to do with sales than analysis. But advisors didn't get off scot-free; many of them had focused their service model on the more lucrative asset management rather than the broader, more time-intensive planning service, and it was not uncommon for them to add technology as a separate asset class, overweighting the overvalued.

These were both painful lessons, but the second one was far less painful than the first, mainly because the advisory culture had re-directed its focus on the welfare of its clients rather than its own bottom line.

Last Fall, of course, the next shoe dropped, and the profession participated in the general pain and suffering of a severe market correction, plus the angst that accompanies the near-demise of capitalism as we know it. But this time it's hard to fault the intent of the advisory community. You might argue that we have lessons to learn from the market meltdown, and I think everybody wishes, in retrospect, that clients could have been better warned about the ever-present chances of a market free-fall. But I did not see front-page articles inveighing against financial planners for giving bad advice, blindly following the path of least resistance or lining their pockets at the expense of their clients. In general, and with very few exceptions, advisors responded to the crisis with more concern about their clients than about themselves. I suspect that when we look back to this day from 30 years in the future, we will say that this was when the planning world truly began crossing that invisible threshold, and started to become a real profession.

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Parting Thoughts

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Interestingly, it looks to me like the brokerage firms have moved in the opposite direction during this same sliver of history. In the 1980s, brokers were still receiving investment training, and the larger firms, for the most part, were considered respectable members of the community. But as they were driven away from their transaction revenue model, these firms replaced their old income sources with new, crafty conflicts of interest--the aforementioned "research" plus opportunistic forays into bringing companies public without earnings or realistic prospects for survival. In this last crisis, the brokerage model seems to have been squarely and openly opposed to the interests of its customers, creating and selling junk securities with little regard for the underlying values.

You and I know that the future will bring us more challenges: market swoons, popping bubbles, recessions, creative investment products that crater and burn in the portfolios of naive investors. And we know, now, that there is a high road and a low road through these obstacles in our path. The planning profession has chosen to march along the high road--and I think, finally, our feet are firmly planted on it as we move into that ever-uncertain future. There is, embedded in that path, a confidence that whenever the next calamity arrives, your clients will be, if not safe, at least safer than most, and that the fallout will drop on those who are traveling on that other path below us.

This is the milestone: not only have advisors insulated their businesses from the inevitable market and economic shocks. But in addition, your competiton has decided to follow the path we renounced 30 years ago when we decided to really, truly--finally--separate ourselves and become a profession.■