byallaccounts
data for smart decisions

HELD-AWAY, NOT HIDDEN

True Wealth Advisors Should Seize the Revenue Opportunity

By James Carney

When I speak with advisors about their biggest challenge, building the business usually makes it to the top of the list. Without question, I have seen a noticeable swing in advisor activity from simply trying to retain clients to actively pursuing initiatives to increase assets under management.

Some advisors are looking to take their business to the next level by tapping deeper into client referrals. Others are looking to create meaningful centers of influence with lawyers, accountants, and other professionals. In the end I believe that true wealth managers are the best positioned for growth. They have become their clients' trusted advisor by providing a greater level of service than asset managers. Given this, I find it surprising that many are overlooking an opportunity that's much closer to home — billing for valuable advice provided on held-away assets.

True Wealth Managers Provide a Greater Level of Service and Should Get Compensated for It

It's clear that client needs — and demands — are dramatically changing. In today's environment, investors are looking for exceptional levels of service that includes advice grounded in an understanding of their entire financial picture. Gone are the days when advisors talked about estate planning without looking at a consolidated report of all their clients' assets. Clients are definitely pushing their advisors in a new direction, one where asset management services alone are no longer enough. I see a growing demand for true wealth managers, versus asset managers, and firms that fail to recognize and adapt to this change will face certain extinction.

True wealth advisors are both reporting and advising on all of their clients' assets. This includes those held outside the firm's primary custodian, such as an employer-sponsored 401(k), 403(b) account, 529 account, separately managed accounts, as well as mutual funds,hedge funds and other alternative investments held directly with the fundmanager, trusts, and off-shore accounts. So if growth is a challenge, why aren't more wealth managers capitalizing on a new revenue opportunity by billing on held-away assets? We conducted a survey of over 500 financial advisors earlier this year and discovered that many simply don't know how to do it.

Advisors Are Missing a Major Growth Opportunity

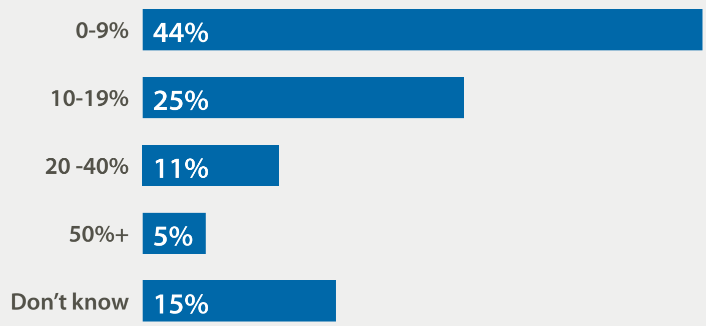
I'm not surprised to find that almost 90% of our survey takers feel it's either very or extremely important to have a complete view of a client's financial situation. Nor am I surprised to find that almost as many are providing advice on all accounts, whether they're under management, under supervision, or monitored and held-away. What is shocking is that just over 45% say they charge for advice on held-away assets. With clients driving the move to true wealth management, I believe they value the holistic service they receive and are willing to pay for it. Our clients agree. When I ask those that bill on held-away assets, what was their client's reactions when they first introduced their fees, they all say there was no push-back whatsoever.

Billing on Held-Away Assets Has Potential for Significant Revenue Gain

I have found that over half of a typical advisor's clients have held-away assets which could represent between 20% and 40% of an investor's total portfolio. Wealth managers that are providing advice on these assets — and billing appropriately — are increasing their revenues quite significantly.

Take retirement accounts as an example, where the defined contribution market alone is predicted to reach $5.5 trillion by 2015. On average, a retirement account is roughly $236,000 in size. If your firm has 100 held-away accounts like this and you bill 50 basis points for advice on the assets, it translates into an additional $118,000 of incremental annual revenue. Why wait for clients to roll this money into a directly-held IRA?

How much do you estimate that billing on heldaway assets has increased your annual revenues?
(Response percentages)



Advisor Survey Q1, ByAllAccounts

If you're guiding a client on security transactions, or helping them rebalance a portfolio, you should be adequately compensated for your time. Nearly half (47%) of our survey takers said they didn't know the best way to bill on held-away assets. For advisors who have not billed answers to the following questions are a mystery:

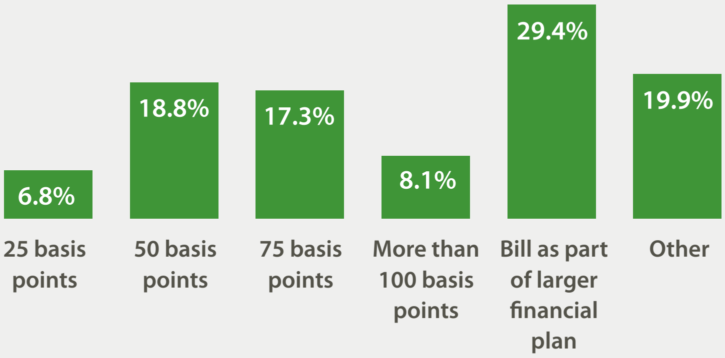
- What fee should I charge on held-away assets?
- How will I collect payment?
- How will I speak with clients about billing?

Answers to those questions don't have to be a mystery.

Setting the Fee Structure

The median asset management fee for directly-held assets is about 0.9% in today's market. Of course, you may have a tiered schedule that provides discounts for larger clients and/or that differentiates by asset class, perhaps charging less on the cash and fixed income portions of a portfolio. Whatever pricing strategy you have in place, there is a lot of flexibility to set a fee structure on held-away assets that reflects the value you are providing. If you have an asset management fee, you should be able to charge between 50 and 75 basis points for this advice. Alternatively, you can roll your charges into a larger financial plan you're providing.

On average, how much do you bill on held-away assets?
(Response percentages)



Advisor Survey Q1, ByAllAccounts

There are Three Options for Billing on Held-Away Assets

Billing on held-away assets is pretty straightforward. I asked our clients how they approach this and they use three main methods:

1. If your custodian(s) allows this, obtain client authorization to deduct fees from a directly-held account, usually a taxable account that maintains a cash balance. Your custodian service team will simply include these fees in a debit made to an investor's account and send a check to your funding account.

2. Set-up an automatic deduction from your client's cash account. While your fee will likely change from quarter to quarter, you can obtain client authorization to be the party responsible for interacting with the bank to indicate the amount of the quarterly deduction, which is often allowed up to a certain maximum.

3. Send an invoice directly to the client. While receiving an extra bill can be a nuisance for some, there is a small group that may prefer this approach.

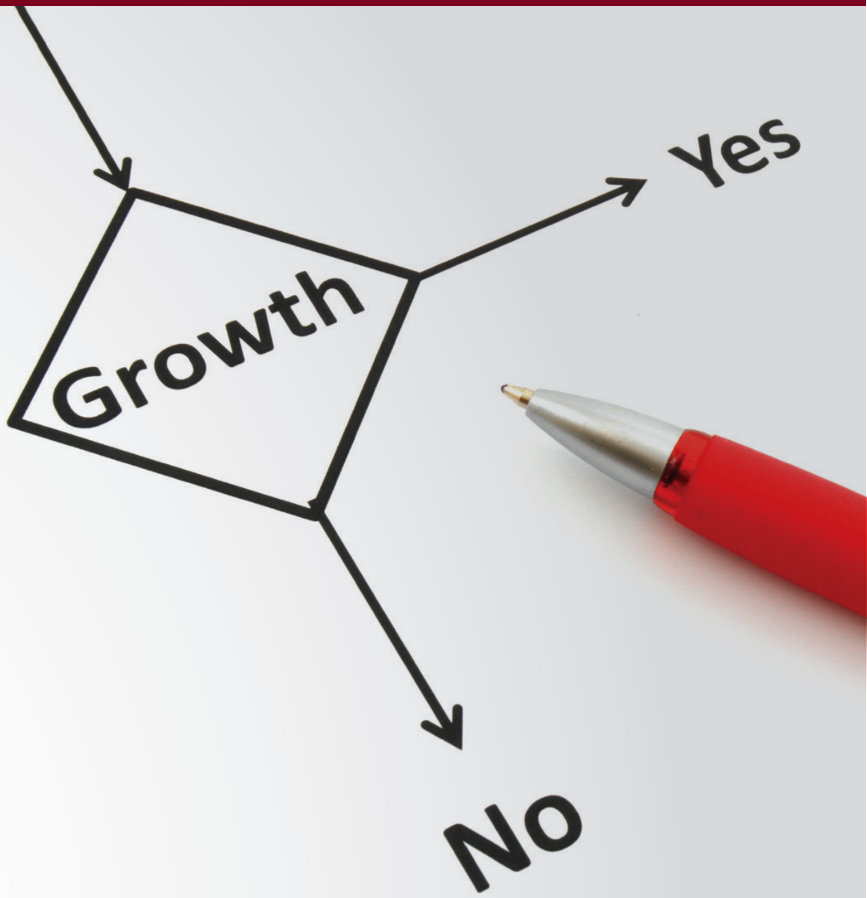
In the end, you will likely use a combination of techniques depending on the preferences of individual clients.

Be Proactive in Speaking with Clients About Billing on Held-Away

Wealth managers that are successful speaking with clients about billing on held-away talk to the clients directly during a routine meeting, or on the phone. They talk about the value that monitoring and advising on all of their investment accounts is to their overall financial picture. Most clients agree that having their advisor see all of their accounts is a service that they are willing to pay for. Some firms tell clients that they cannot provide the high quality of service that they are known for without providing advice on all the clients' accounts. Others mention that the biggest portion of a client's investments is usually their 401K. Why would they leave that unmanaged?

10 State Street Woburn, MA 01801-6820 USA | T: 781.376.0801 F: 781.376.8040

Be your Client's Financial Quarterback and Expand Your Business



What kind of financial advisor do you want to be? We are moving to a different world where it will be essential to be a true wealth manager to succeed. And that means becoming your client's financial quarterback, making the most effective recommendations on all their assets. After all, assets may be held-away, but they're not hidden. Whether you are manually entering information on held-away accounts, or using electronic account aggregation services to efficiently support your efforts to report and provide advice on a client's entire portfolio, now is the time to take the next step and bill for your services. Get started by setting a fee structure and approach to billing, and speak with your clients to adjust their investment policy agreements with your firm. My recommendation — why wait!

James Carney is the President and CEO of ByAllAccounts. Prior to co-founding ByAllAccounts, James was founder and CEO of Bidder's Edge, the largest online auction portal servicing greater than 500,000 users on a monthly basis with information available on over 8 million items on a near real time basis.

The interactive ROI calculator on our website at www.byallaccounts.com can help you evaluate the potential impact on your business of billing on held-away assets. Walk through three easy steps to incorporate your unique characteristics, and then assess the results. You'll be very surprised.