

Cultivating *the* Affluent

...and building *your* ideal advisory business

A Tool for You

In the premiere issue of *Cultivating the Affluent* we discussed the components of success in the advisory business – technical proficiency, personal awareness and practice management – and our commitment to helping you acquire the knowledge, skills and motivation to reach your goals. We reviewed the framework of a well-balanced business that draws on your unique capabilities, a degree of familiarity with the affluent market that enhances your prospecting and servicing initiatives, and a sense of ownership and accountability for your business. As such, the goal of *Cultivating the Affluent* is to strengthen your overall effectiveness with data, case studies, diagnostic tools, analysis and developmental exercises structured around you, your client and your business.

We also began to share the results of an industry study of advisors conducted exclusively for the readers of *Cultivating the Affluent*. The summary findings revealed four distinct business models – the generalist, the product specialist, the wealth manager and the multifamily office provider – a link between business model and financial success, and an overwhelming desire among advisors to make more money.

This issue includes a similar combination of competitive benchmarking, high-net-worth insights and professional assessment tools that will help you get a better sense of your current status, your goals, and what you need to do to bridge the gap.



What's the Right Business Model for You?

In the October 2007 issue of *Cultivating the Affluent*, we discussed the four business models used by advisory professionals throughout the financial services business. They are:

Generalist (48.9% of advisors)

This type of practitioner offers a range of products and services to clients based on product availability, trigger events and client needs but often without an overarching financial plan.

Wealth Manager (28.3% of advisors)

These professionals use a broader range of products and services, but they also differentiate themselves by operating in a customized and consultative fashion based solely on their clients' goals and objectives.

Product Specialist (17.1% of advisors)

These advisors derive 70% or more of their income from a single product or capability.

Continued on page 7



You Personal Mastery

Cultivating the Affluent will help you define and build your ideal advisory practice and become the best professional you can be for your clients.



Your client Client Mastery

Cultivating the Affluent will deliver the industry's best insights on the affluent market, along with the skills needed to attract and retain them as clients.



Your business Practice Mastery

Cultivating the Affluent will help you identify and navigate the business decisions and activities behind higher profitability and client satisfaction.



Filling the Pipeline

Most of our advisory clients say that finding their next big prospect is a constant worry. They recognize that many of their wealthy client relationships came about serendipitously and are searching for a more consistent method of capturing new, qualified business. The same is true of other advisors as well, with three-quarters expressing concern about their ability to source new affluent clients. And the anxiety is not eased by success as the advisors with higher incomes were more likely to be worried about the future than those with lower incomes.

Many of our elite advisors, in fact, tell us that a big part of their success is due to the systematic application of proven methods. They have identified the activities that are the most

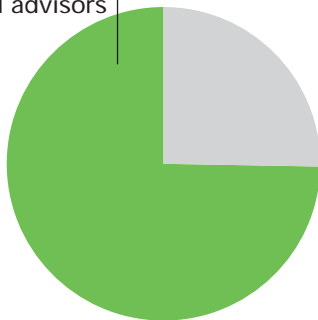
effective for them and developed an actionable, step-by-step process that can be implemented repeatedly, with limited variation, and produce results.

Very few advisors have adopted a systematic approach to prospecting, and even those that have, don't do it consistently. The first step toward success is adopting a system that works for you, then incorporating it into your business so it becomes part of your routine. One of our coaching objectives with advisors is to help them combine the two to be consistently systematic.

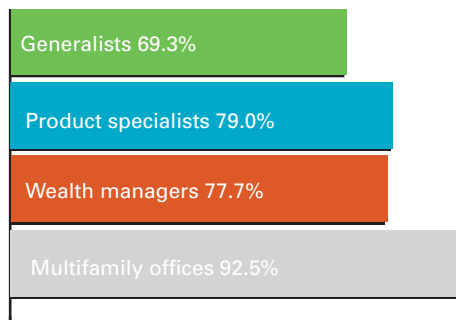
In a future issue we will take a closer look at the various methods used by leading advisors to find ever wealthier clients.

{Very Worried About Finding New, Wealthy Clients}

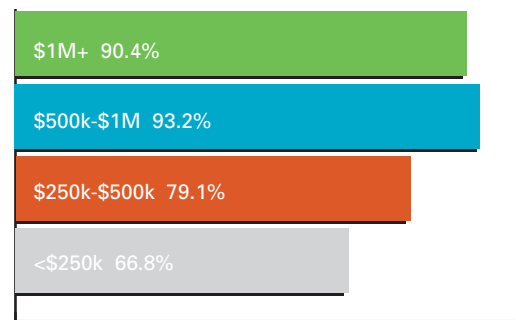
74.6%
All advisors



Types



Income



Not unexpectedly, each method has its own strengths and weaknesses, and we will focus most closely on those prospecting efforts that yield the greatest number of prospects and the highest net worth clients. We will also discuss the intricacies involved in the execution of each method and how it can be adapted by an advisor in a systematized way without disrupting the current business environment and practices.

Food for Thought

- Do you have a process that you use to find new clients?
- How are you measuring the success of this process?
- Based on those measurements, how are you refining the process?
- How do you ensure that the process is implemented in a consistent manner?

Cultivating ^{the} Affluent

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Leverage the Allure of Alternative Investments

The ultra-affluent are used to getting their way – and if they can't get it through their power and status, they buy it. They are used to high-touch service and exclusivity in all areas of their lives. It follows that, given their profile and proclivities, today's super-wealthy want to put their money into investments that are not available to the less-affluent, and that means alternative investments such as hedge funds.

We surveyed more than 600 private jet owners, each with an average net worth of \$89.3 million and a median net worth of \$41.2 million, about their use and interest in specific types of investments. Given their substantial wealth, they were able to

invest in a variety of alternative investments (Exhibit 1), and, looking ahead, they were interested in putting even more money into these vehicles (Exhibit 2).

There are clearly opportunities for you, or someone in your network of professionals, to provide these kinds of products to your extremely wealthy clients. At the very least, you should use this information as a door-opener to a wealthy prospect who is receptive to a discussion about the latest product structures and most consistent investment returns. Even if the meeting doesn't result in a sale, it creates a forum for you to engage with a highly desirable client or a prospect in a value-added capacity.

{Exhibit 1: Current Use of Alternative Investments}

Alternative	<\$35M	\$35M+	Total
Hedge funds and fund of funds	17.8%	39.7%	28.1%
Private equity funds	4.6%	21.5%	12.6%
Direct investments in private companies	0.9%	9.9%	5.1%
Real estate funds	1.4%	8.3%	4.7%

*N = 661 jet owners
Source: The Sky's the Limit, CFPN, 2007*

{Exhibit 2: Interest in Alternative Investments}

Alternative	<\$35M	\$35M+	Total
Hedge funds and fund of funds	45.3%	63.5%	53.9%
Private equity funds	35.2%	37.2%	36.2%
Direct investments in private companies	29.8%	34.3%	31.9%
Real estate funds	11.2%	22.8%	16.6%

*N = 661 jet owners
Source: The Sky's the Limit, CFPN, 2007*

Reaching the Wealthy continued from page 2

Prospecting Effectively

There are as many ways to find potential clients as there are potential clients and most of them work in some way, shape or form. In fact, if you have a unique method of prospecting that has been successful for you – by all means, keep using it! Our experience tells us there are some rules of thumb about prospecting that are worth knowing. The first is that some methods are more effective based on the personal style and skills of the professional using it. For instance, a

particularly eloquent, knowledgeable and persuasive public speaker might have significantly more success with seminars than someone with less refined skills. We also know that there are some methods that work better with certain types of clients. Our research with wealthy women shows that more than 80 percent of them turned to their accountant or their attorney for a recommendation when seeking their current financial advisor – so forget about advertising and direct mail if you're trying to reach this market.

Next Month

- > Uncover Your Clients' Referral Networks
- > More Client Knowledge Equals More Personal Wealth
- > Leveraging Your Limitations



Curing the Sunday Afternoon Syndrome

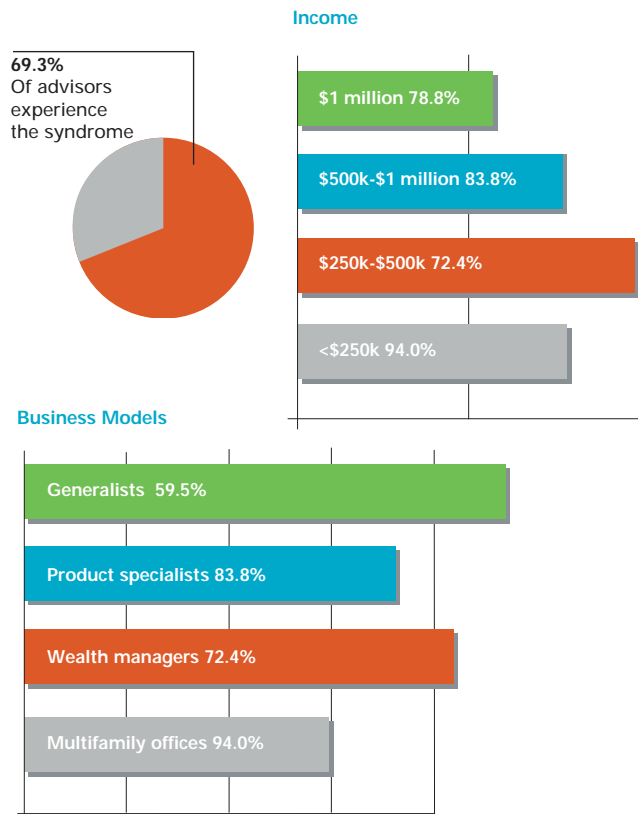
You just don't know what it is about Sundays. You were perfectly calm on Friday afternoon and looking forward to the weekend. You spent Saturday with your family and did some long overdue work around the house. But on Sunday afternoon you found yourself in a cold sweat wondering if you would ever make a dime again. You paced around the house restlessly or flipped from channel to channel with the remote, waiting for Monday to roll around so you could get back to work.

It might not happen every Sunday. Maybe it happens late at night. Sometimes it happens in waves, occurring two or three days in row and not surfacing again for months. It might be triggered by a certain client, or market volatility, or a full moon... heck, just about anything. But one thing is sure: just about anyone that has ever been entirely responsible for creating their own livelihood has felt this way at one time or another. If you can't do business, can't touch it or manage it or cultivate it or protect it, you wonder if all your efforts will simply disappear leaving nothing to show for all your sleepless nights and sacrifices.

If this sounds familiar, you are not alone. The majority of advisors we surveyed, 69 percent, told us they suffered from the Sunday Afternoon Syndrome (see charts). No business model is immune to it, but multifamily office providers are most likely to experience it followed closely by product specialists. When viewed from another vantage point, we found a higher incidence of the syndrome among advisors in the top two income brackets.

And, believe it or not, highly successful advisors feel it just as acutely. In fact, just recently one of our biggest advisory clients called Russ around 3AM in a panic. The first words out of his mouth were "It's over!" After determining that he was fine and no one in his family was ill or in harm's way, the real

{Sunday Afternoon Syndrome}



On Sunday afternoon you found yourself in a cold sweat wondering if you would ever make a dime again.

issue emerged. The markets were closed, his clients were asleep, he couldn't make any calls, and he felt paralyzed – no longer in control of his business or his life.

We suggested he channel his energy, and fill his free time by answering the questions in the box to the left in preparation for the coming week.

The next time you feel the onset of the Sunday Afternoon Syndrome, use these questions to focus your thoughts and maximize your time on Monday.

- Step 1. Who will you call? Name at least 10 clients or professionals.**
- Step 2. What will you talk about? Be explicit.**
- Step 3. How is it going to make money? Use your time effectively; how can you turn a service or social call into a business generating interaction?**



Lessons from the Leaders

We asked leading practitioners how they found their best new clients and learned that most of them rely on two principal sources of new business. Slightly more than half, 54%, got their clients from another professional (i.e., an attorney or advisory teammate) with whom they have a strategic partnership and 43% attribute their new clients to an existing client.

Some important trends are revealed when we look at the prospecting methods used by business model. Generalists are more likely to grow their business through client referrals, product specialists overwhelmingly get their new business from other advisors that turn to them for specialized capabilities, and both wealth managers and multifamily office providers are most likely to rely on professional referrals for new, wealthy clients.

Another vantage point is provided when prospecting methods are linked to the net worth of the clients they produced. The wealthiest clients come from other professionals — the practitioners that have detailed knowledge of their clients' financial affairs, most pressing needs and working styles — and are in the best position to provide an authoritative referral that will be followed.

Without question, referrals are the best way to find new,

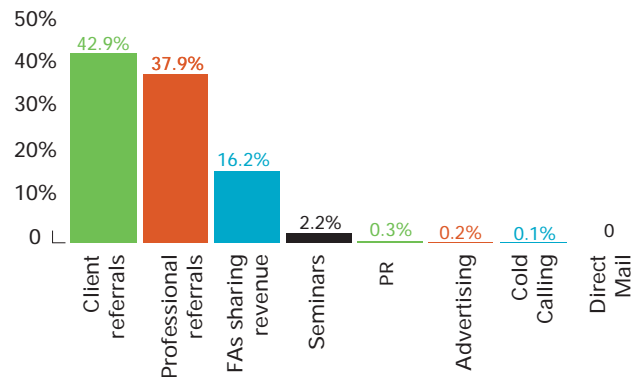
{Prospecting by Business Model}

	Generalist	Product Specialist	Wealth Manager	Multifamily Office
Client referrals	61.7%	4.9%	38.7%	16.7%
Professional referrals	31.7%	17.5%	57.9%	52.3%
FAs sharing revenue	2.1%	77.1%	1.2%	29.3%
Seminars	3.4%	0.5%	1.6%	0.3%
PR	0.3%	0.1%	0.3%	1.4%
Advertising	0.4%	0.0%	0.1%	0.0%
Cold calling	0.2%	0.0%	0.1%	0.0%
Direct mail	0.1%	0.0%	0.1%	0.0%

{Prospecting by Client Net Worth}

Source	\$1 million+	\$500k - \$1 million	\$250k - \$500k	<\$250K
Client referrals	5.8%	22.6%	39.7%	50.8%
Professional referrals	76.9%	65.1%	41.3%	28.0%
FAs sharing revenue	17.3%	12.0%	9.9%	21.2%
Seminars	0.0%	0.2%	2.0%	2.9%
PR	0.0%	0.0%	0.5%	0.4%
Advertising	0.0%	0.0%	0.3%	0.2%
Cold calling	0.0%	0.0%	0.2%	0.2%
Direct mail	0.0%	0.0%	0.1%	0.1%

{Most Important Way They Found Newest Wealthiest Clients}



qualified, wealthy clients – and, as indicated by the research, there are two kinds of referrals that consistently deliver the results you want. You can get referrals from your current clients and you can also get referrals from professionals. The rules of engagement are different for each situation, so you should think about them as two distinct processes. In future issues of *Cultivating the Affluent* we will go into detail on the most effective ways to cultivate these referral systems and identify the referral network of your clients.

Business Model continued from page 1

Multifamily Offices (5.7% of advisors)

Truly sophisticated practitioners, they have evolved the wealth management approach into a full-scale, total solution for their wealthy clients that extends beyond the strict scope of finances.

We also demonstrated a link between business model and income that revealed the most lucrative structure is the multifamily office and the model with the least upside is generalist. Wealth managers and product specialists were fairly evenly tied with typical incomes somewhere in the middle.

So it's not surprising to find that some business models are more effective with certain types of clients, likely a confluence of the following factors: the client's needs and expectations, the range of products and services used, the cost of the business infrastructure, and the professional's mindset and capabilities. Take a look at the chart to the right and you'll see that some combinations are seemingly perfect while others are downright disappointing.

Research Conclusions

The least wealthy clients are the least profitable for a product specialist. But as a client's net worth increases, so does the product specialist's income. Clients with net worths between \$5 million and \$25 million are the most profitable for product specialists, but the intricacies of dealing with ultra-affluent clients impact their profitability and their per-client income dips when clients have more than \$25 million in overall assets.

The breadth and flexibility of the wealth management business model allows it to be the most consistently profitable across all levels of client wealth – and to benefit exponentially as client wealth increases. This means when a generalist earns \$100,000 from a client with a net worth of \$25 mil-

Understanding the Chart

We used the generalist as the baseline since it is the most pervasive business model. Look across the chart to understand how the income of each business model is impacted by a client's level of wealth. For instance, in a scenario where a generalist earns \$1,000 in income from a client that has a net worth of less than \$500,000 a product specialist's income would be \$280, a wealth manager's income would be \$1,630 and a multifamily office provider's income would be \$480.

NOTE: To create this chart of comparisons we used our data and many other sources of industry information to develop a broad-based view of the dynamics at play in the advisory business. The data in this chart does not account for the particulars of a specific industry (say the difference between a P&C generalist versus an investment generalist). While it is representative of the trends in the market as a whole, your experience and its relevance to your business may vary.

{Income by Business Model}

Client's Net Worth	Generalist	Product Specialist	Wealth Manager	Multifamily Office
<\$500K	\$1,000	\$280	\$1,630	\$480
\$500K-\$1 million	\$1,000	\$690	\$2,540	\$740
\$1-\$5 million	\$1,000	\$1,240	\$3,470	\$1,210
\$5-\$10 million	\$1,000	\$2,650	\$6,820	\$5,160
\$10-\$20 million	\$1,000	\$3,090	\$7,590	\$16,770
>\$25 million	\$1,000	\$2,370	\$10,710	\$22,540

Food for Thought

1. How well does your business model fit your client base?
2. If it's not a good fit, what steps will you take to increase your client profitability?
3. If you're considering a new business model, what's it going to take to do it?
4. Are you prepared for the cost differential?
5. Can you consistently capture the types of clients you'll need to operate profitably?

lion, a wealth manager earns ten times as much, or \$1,071,000. Wealth management is also more profitable with less wealthy clients than any of the other business models, but markedly so when compared to product specialists and multifamily office providers.

By contrast, the expense of the comprehensive and sophisticated platform at most multifamily offices is not economically feasible for clients with

less than \$5 million. And the sweet spot for most multifamily offices is a client with \$10 million or more.

Despite the variations in advisory roles — life insurance agents and accountants, for example — when it comes to working with the affluent, you must have a clear sense of how well you are able to service clients with various levels of wealth and what the impact is on your profitability and your income.

The Authors

Hannah and Russ, the masterminds behind *Cultivating the Affluent*, are industry professionals with complementary backgrounds. Russ draws on his academic and social science background to deliver the most insightful empirical research on advisor best practices and trends in private wealth. During her tenure in financial services, Hannah worked closely with advisors and their wealthy clients. She draws on this experience to structure Russ's research findings so they can be adapted by any type of advisor.

They have worked together for more than a decade to conduct

research, write books and columns, consult with the media and, most recently, launch *Private Wealth* – the first and only magazine for advisors with exceptionally affluent clients. The mainstay of their business is coaching advisors and consulting to the ultra-affluent. And it is those real-life experiences, in conjunction with their research, that provides the basis for *Cultivating the Affluent*.

They've got the experience and insight to help you acquire the knowledge, skills, and motivation you need to transform your business into the ideal advisory practice.



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