Triweekly Series

Ideas and Nuggets of News *You Can Use!*

LINDNER INSIGHTS

Transitioning From Transaction

"It is not necessary to **change**. Survival is not mandatory."

—W. Edwards Deming

LCA
LINDNER CAPITAL ADVISORS, INC.

A Registered Investment Advisor

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"Big enough to deliver, small enough to care"

by Chris Briggs, CFP®

Transitioning from Transaction (commission-based) to Fee-Based Advisory Accounts

The industry, as many of us have known it, continues to change. Regulators focus on many aspects of our business, from how and what we get compensated, to what we can legally call ourselves. Like many of you, I started in the business quite a few years ago (28 years). I was hired in late 1989 by a major New York "Wire House". My training was very specific. Over a six month period, I spent time working in all the major "product" departments of the firm including exchange listed and over-the-counter stocks, corporate and municipal bonds, syndicate, mutual funds and commodities. They were very clear on what we were there to do, learn to represent the firm and its product and distribution capabilities. My first business card said, Chris Briggs, Registered Representative, on it which was a very accurate description of the job we "stockbrokers" did. We were licensed and registered to represent the firm in the marketing and sale of investment products. The training programs at most major firms taught their representatives to recite scripts and distribute products, not provide financial advice. Over the years, as more securities and financial products became easily accessible, being compensated for a simple product purchase or sale was becoming increasingly hard to justify. So Wall Street invented the "Financial Advisor". I received a new card with this new title, but my job did not change. I was still required to distribute to the public what the firm told me to. I was conflicted; did the public and my clients believe I always acted in their best interest or did they understand I did what was best for them within the products my firm instructed me to offer? The process of selling a client on each new security the firm wanted me to distribute from their inventory was tedious. Eventually, I decided I could not serve two masters and decided to become a fee only advisor. It took me about 5 years to transition my entire book of business.

The transition was worth it, but more difficult than I anticipated. Being compensated for executing transactions for clients, even based on a well determined strategy, limits an advisor to the number of clients he or she can personally handle. This transaction based model misaligns compensation and the incentive to continue to service accounts who already paid commissions up front, which is why it is being scrutinized by the regulatory agencies. It creates a very unique challenge as clients who paid their fees up front need and are entitled to the same level of care and ongoing advice as new clients. The transaction focused advisor must face each new month/quarter/year with little recurring revenue. Admittedly, no advisor can have long term career success without some focus on transactions for business growth. However, fee based advisory practices, over time, offer more financial stability for your business as your focus can be on meeting client needs and generating new sources of recurring revenue each month.

One of the first steps is to clearly define the reason/s you are changing to a fee structure. Consider the benefits for both you and your clients. Regulation is part of the equation but it is a hard concept to explain. Technology is allowing investors to participate in markets that were inaccessible and very expensive even just a few years ago. Pricing for transactions continues to fall. The advertising for most discount brokers point to transaction price differentials between full service and discount. However, the commercials fail to address how much actual advice costs. A fee structure allows for ongoing oversight, knowing what to buy, the proper amount, when to sell, and if a new investment fits the clients objectives is what we actually get paid for.

Many advisors have and are currently employing a duel-registered hybrid approach to our business when providing this oversight. Advisors who offer “full service financial planning” make recommendations ranging from life and long term care insurance to various wealth accumulation strategies. Combined with the fee based model, this provides the advisor the ability to be compensated for the substantial time and effort required in gathering client data, processing, developing, and implement a plan.

Most clients understand that advisors should be compensated for investment management and monitoring as well as the upfront work. Making a commitment to do annual updates to financial plans or retirement projections and being available throughout the year to answer their ongoing questions will make you a valued partner in their future success. As well, regulators expect that you can demonstrate a process of monitoring client investments, review the accounts, and conduct periodic meetings to substantiate an ongoing fee.

I made several mistakes when I transitioned my book of business from commissions to fees. When I began the transition, I made the mistake of using far too many and different products from multiple providers. Thinking I was getting the best of everything through the volume of choice. I used close to a dozen insurance carriers and an even greater number of asset managers. The process of monitoring client accounts and simply preparing for regular meetings was difficult and very inefficient. The majority of my clients had similar asset allocations but the sheer number of investments I was forced to keep track of was driving me crazy. When my business was driven by transactions, the task was simple. I would print a fresh Morningstar report from a hot fund and discuss replacing the client’s poor performers with a new in vogue option.

I learned that to operate an advisory practice efficiently, the approach needs to be systemized, disciplined and consistent. Standards maintained. Clients will have different goals, objectives and/or risk tolerances. The client’s individual circumstances will determine the appropriate amount, if any, to varying degrees of exposure to equities (domestic and foreign), fixed income and even some alternative investments. As a fee based advisor acting in a fiduciary capacity, our job is to choose investment solutions that produce consistent results over the long term. A huge variety of products is not necessary and can actually be detrimental. Quality not quantity. Use quality investment managers and build risk based models from these common solutions. Occasionally a portfolio component will need to be replaced. Target allocations for each asset class is a good practice. Then consistently rebalancing investments to their target allocation maintains the strategy's consistency over time.

Once the decision is made to transition from transaction business to fee only, a good starting point is to identify clients whom will require your help over a long period of time, clients that will have an ongoing need for advice. When transitioning clients who are accustomed to paying for transactions, a good strategy that worked for me was to introduce them to an investment you have determined is a good fit for them but is not offered in a commissioned format. As time goes on the client will likely prefer the ongoing fee arrangement. The added flexibility it gives both you and them is one of the primary reasons it is becoming the new standard for our industry. As I am sure you are aware, regulators are heavily scrutinizing this issue. Clients who do not have an ongoing need for advice should not have a fee based account. In the long run, most of us will need to determine if we should support those clients at all.

Lindner Capital Advisors provides fee based solutions to your commission-based accounts that warrant fiduciary oversight. I am available to discuss my failures and successes with any of you, as well as how LCA can help you with the transition of accounts.

About LCA…

Lindner Capital Advisor, Inc. is a federally Registered Investment Advisor based in suburban Atlanta, Georgia, with representation throughout the United States. Our investment platform provides access to institutional fund strategies and exclusive money managers that are not readily available to the retail market. Our portfolios are designed to be consistent with a client's unique investment objectives, individual time horizon, and tolerance for risk. LCA has been CEFEX certified since 2006 and is committed to our fiduciary responsibility.

Ask your Relationship Manager for a copy of "The Educated Investor" written by Robert Lindner.

For more information, call (770) 977-7779 or email portfolios@LindnerCapital.com.

Visit LCA's website at www.LindnerCapital.com

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