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# Success as a Financial Advisor

for dummies®
A Wiley Brand

Master the seven core competencies

Foster strong client relationships

Deliver value to your clients


**Ivan M. Illán, CFS**

*Forbes* Finance Council and *Financial Times* Top Financial Adviser

# Success as a Financial Advisor

**by Ivan Illan**
Financial adviser

for dummies
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# Contents at a Glance

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# Introduction

Success as a financial advisor requires that you practice as a financial advisor. Most people unfortunately who practice as financial advisors aren't really financial advisors. At best, they're portfolio managers. At worst, they're salespeople looking to score big commissions. That's not what I mean when I use the title *financial advisor*, and it's certainly not *the* measure of success in this field.

The problem is that no single standard authorizes someone to practice as a "financial advisor." Unlike other professions including medicine, law, and accounting, financial advisory has no single governing or regulatory authority charged with their members' oversight. Doctors have medical boards, lawyers have bar associations, and accountants have the Financial Accounting Standards Board (FASB), but financial advisors have no equivalent. As a result, you can find plenty of people in this profession who, for example, sell only insurance products or who are raising money in an unregistered private placement investment offering. No wonder that consumers are so confused and leery of financial advisors; too many who operate under this designation are just commissioned salespeople, not actual *advisors*.

When I say success as a financial advisor requires that you practice as a financial advisor, I mean you can achieve success in the profession by always placing your clients' needs above yours and by providing superior comprehensive and cohesive financial advice. This advice covers all aspects of a client's family finances, including buying a home, paying for children's education, saving and investing for retirement, protecting assets against unforeseen tragic events, reducing the client's tax burden, and more. Simply put, you achieve success as a financial advisor by delivering consistently superior holistic service to your clients. With this point of differentiation, you can just about corner the market wherever you practice.

## About This Book

Welcome to *Success as a Financial Advisor For Dummies*, where you discover how to achieve your success by helping clients achieve theirs. The two key terms in the title of this book capture what this book is all about:

- *Success* means not only financial success, but also personal satisfaction, job satisfaction, self-respect, and personal and professional fulfillment. The more you work with clients, the more you realize that money and what it buys is only one key component in achieving happiness and fulfillment. My guidance in this book, just as the advice you give (or should give) your clients, is holistic. By following my advice, you can achieve success in your career however you choose to measure it.
- *Financial advisor* means a professional who delivers holistic financial advice to clients and upholds the *fiduciary* standard — always advising and recommending products and solutions that are in the client's best interest and with total compensation transparency.

This book covers all aspects of being a successful financial advisor, from deciding whether you're a good fit for the profession to starting your own firm and everything in between. To make the content more accessible, I divided it into six parts:

- Part 1 brings you up to speed on the basics. Here, you conduct a self-assessment to figure out whether this is the right career for you, decide whether to join or firm or start your own practice, and scope out the regulatory landscape.
- Part 2 guides you in developing the foundational knowledge you need to practice as a financial advisor. Here, I identify the core competencies, point you in the direction of where to go to obtain your formal education and get licensed, and explain asset and liability management, budgeting, estate planning, taxation, and behavioral finance.
- Part 3 leads you through the process of onboarding new clients, so you can target your services to their unique needs; developing a personalized financial plan for each client; and offering collaborative advice by teaming up with your client's lawyer, tax advisor, and other professionals. Here you also discover how to tier you service to different clients to optimize efficiency and how to measure performance.
- Part 4 presents three ways to acquire and retain clients, the most effective of which is to *earn* clients by delivering superior service. I also provide guidance on how to market and network to raise your profile and how to team up with other professionals to improve service while expanding your referral network.
- Part 5 discusses how to transition from solo practitioner to business owner, structure and run your business, attract and retain talent through equity participation and other means, and develop a business succession plan to preserve your legacy in the event you choose to retire or you experience a situation in which you're no longer able to run the firm.
- Part 6 features ten tips for achieving success as a financial advisor and ten tips for growing your practice. This part also includes an appendix that provides

several lists of valuable resources, including professional development resources, professional licensing bodies, trade publications and resources, and business valuation and formation resources.

In short, this book explains first how to become a holistic, fiduciary financial advisor and then how to raise your game to build on your success.

## Foolish Assumptions

As a financial advisor, or someone who wants to be a financial advisor, you should realize that all assumptions in this field are foolish and potentially dangerous, so I hate to admit to making foolish assumptions as I wrote this book. However, to keep the book focused on the right audience and ensure that it fulfilled my purpose in writing it, I had to make the following foolish assumptions about you:

- You want to be a financial advisor aligned with my definition of what that means. You don't want to merely sell investment and insurance products and solutions to earn a buck.
- You're committed first and foremost to each and every clients' financial success in all areas of their financial life and what that wealth represents for each client and your clients' family.
- Your knowledge of and experience in the field ranges from nothing to substantial. At any point in your career as a financial advisor, and even before you take the first step, you can benefit from the guidance I provide in this book.
- You're eager to acquire knowledge and skills and willing to change, especially if you're entrenched in bad habits and practices or stuck at a firm that doesn't support the highest standards of practice. My hope is that this book will be transformative to most readers, setting them on the right path to becoming holistic, fiduciary financial advisors.

## Icons Used in This Book

Throughout this book, icons in the margins highlight different types of information that call out for your attention. Here are the icons you'll encounter and a brief description of each.

REMEMBER

I want you to remember everything you read in this book, but if you can't quite do that, then remember the important points flagged with this icon.

TIP

Tips provide insider insight. When you're looking for a better, faster way to do something, check out these tips.

WARNING

"Whoa!" Before you take another step, read this warning. I provide this cautionary content to help you avoid the common pitfalls that are otherwise likely to trip you up.

## Where to Go from Here

You're certainly welcome to read this book from cover to cover, but I wrote it in a way that facilitates skipping around. For a quick tutorial on how to achieve success as a financial advisor, check out Chapter 1, where I touch on the key topics. Review the table of contents or the index for a topic that piques your interest. Flip to any number of chapters and start reading. For an extra Cheat Sheet chockfull of interesting tidbits that you can refer to again and again, check out `www.dummies.com/successasafinancialadvisor`.

# 1

# Getting Started as a Financial Advisor

**IN THIS PART . . .**

Wrap your brain around what's required to be a successful financial advisor.

Figure out whether you have the right characteristics to be a financial advisor, such as problem-solving, intention, and service-oriented.

Discover how to leverage your education, experience, and former career(s) to transition successfully into the role of financial advisor.

Weigh the options and make the call of how to practice — working for an established firm or starting your own business.

Get up to speed on the rules and regulations that govern financial advisors, so you can avoid doing anything that gets you into trouble and be positioned for where the regulatory and legislative trends are headed.

IN THIS CHAPTER

» Deciding the kind of financial advisor you want to be

» Conducting a quick self-assessment

» Getting up to speed on the basics

» Building and growing your client base

» Making the leap to starting and running your own firm

# Chapter 1

# Looking at the Big Picture

Becoming a successful financial advisor is a process that involves deciding the kind of financial advisor you want to be, developing the personal and professional attributes that make you a natural for the job, obtaining the formal education and training required, gaining on-the-job experience, and then honing your skills as you build your practice.

The acid test is whether you consistently enable clients to achieve their financial goals. This test sounds easy enough, but like any marathon or triathlon, the path to victory is strewn with potential pitfalls. Success depends on your ability to carefully balance your clients' risks and returns (their liabilities and assets) while keeping them from veering off course. To achieve success, you must serve clients in a way that they understand *how* your guidance keeps them heading in their desired direction and *why* your role is so important to them.

This chapter provides a bird's-eye view of how to become a successful financial advisor by touching on the key topics covered in this book. The remaining chapters take a deeper dive into these topics and other areas you must attend to in order to achieve success as a financial advisor.

## Understanding What a Financial Advisor Does (or Should Do)

A *financial advisor* is a person who helps her clients plan and manage their finances to achieve their short- and long-term financial goals. Ideally, every financial advisor should meet the following two criteria:

- **Fiduciary:** A financial advisor has a *fiduciary* responsibility to her clients, meaning that the advice provided is in the best interest of the client instead of what's best for the advisor, such as commissions received for the sale of a financial product or solution.

  REMEMBER

  Serving as a fiduciary is easier said than done, considering that so many financial advisors work for firms that have institutional agendas (to sell specific products or solutions) that compete with this standard.
- **Holistic:** A financial advisor must attend to all aspects of a client's family finances to not only grow wealth but also protect it in ways that are carefully planned to meet the client's goals and objectives. Financial goals include buying a home, paying for children's education, affording a comfortable retirement, starting and running a business, supporting a charity, passing down assets to heirs and beneficiaries, and more. Holistic financial advice also includes ensuring that the client is properly insured against events or incidents that could undermine the client's ability to achieve those goals.

REMEMBER

A financial advisor doesn't merely sell insurance policies or manage investment portfolios, but that doesn't mean that the advisor must do everything. Financial advisors often outsource many of the tasks required, such as referring a client to a lawyer for estate planning or using a turnkey asset management program (TAMP) instead of personally managing a client's portfolio.

Unfortunately, there's quite a bit of confusion in the marketplace as to *how* someone serves clients as a financial advisor. Many financial advisors focus on certain investment or insurance-related financial products. Others are licensed to advise on a product purchase or are registered to provide holistic financial advice that's not product related. The variety of roles and the complexity involved in addressing all of a client's financial needs present big challenges, but they also offer a world of rewarding opportunities.

### A GOOD TIME TO BE A FINANCIAL ADVISOR

Financial advisory is one of the most personally and financially rewarding professions you can pursue, and your timing couldn't be more perfect. Baby Boomers are retiring in record numbers, creating an epic intergenerational wealth transfer in the trillions of dollars. These Boomers and their heirs and beneficiaries are in need of reliable and trustworthy financial advice now more than ever.

Adding to this vast and growing opportunity is the fact that relatively few people who call themselves "financial advisor" meet the criteria to serve in that capacity. Most are either salespeople who have transactional relationships with their customers, or they serve as portfolio managers who ignore all other aspects of their clients' financial health and well-being. Chances are good that by acting as a true fiduciary financial advisor, you can essentially corner the market wherever you choose to practice. All you need to do is deliver optimal financial outcomes to your clients, which is what being a successful financial advisor is all about.

## Evaluating Yourself: Do You Have What It Takes?

Not everyone is cut out to be a financial advisor. Certainly financial knowledge and skills are necessary but aren't sufficient. Interpersonal and communication skills are also essential. You have to love being with, talking with, and, most importantly, listening to people — all day, every day. As with any profession, your ability to acquire clients is directly related to your ability to add value to their lives. In addition, your interactions with clients and others is the fuel that keeps you going when the inevitable roadblocks, rejections, and market crashes dampen your spirits.

In this section, I encourage you to conduct a self-assessment to determine whether you have the qualities and qualifications to become a successful financial advisor, and I lead you through the process. Chapters 2 and 3 provide more detailed self-assessments, with Chapter 2 focusing on your personality and motivation and Chapter 3 examining your personal and professional qualifications.

## Do you have the right personality?

This profession has a place for all personality types, as long as you choose a role that fits. All firms need financial advisors to fill the following three roles:

- **Minders** run the business/practice, organizing, managing, hiring/firing, and setting goals and agendas. Typically, these are partners who've been in the business for many years, made the business-building mistakes, and learned from them. To be a minder, you must be a leader with excellent organizational, interpersonal, and communication skills. You may not be working closely with clients, but you'll be leading and mentoring associates and staff.
- **Finders** source new clients. These advisors are great at filling a pipeline and marketing services and solutions. Finders can be any age and at any level of experience, but they must have excellent interpersonal and communication skills and genuinely enjoy interacting with prospective clients.
- **Grinders** do research, analysis, illustration, and paperwork. Whether it's the research that drives discussion at investment committee meetings, or running several insurance carrier illustrations, these advisors are the worker bees of the business. This is a great position for new college grads, because it gives them the opportunity to figure out how the business runs from the inside-out. It's also great for those who aren't exactly people-persons.

See Chapter 20 for more about these three roles and how to team up with other financial advisors to build productive synergies. If you choose to practice as a lone wolf, you'll have to fill all three roles.

REMEMBER

You can be an introvert in this business and be successful, but only if you're teaming up with complementary advisors. Forcing yourself to become a finder when you love manipulating spreadsheets all day isn't the best use of your time or career development. This profession has room for all personality types, but you need to be honest about who you are and what you enjoy doing before taking the leap.

## What's driving you to consider this career?

If you're looking for money, you'll find it in this business. However, just because you've uncovered methods to routinely ring your cash register doesn't mean you've achieved success as a financial advisor. If you're motivated solely by the promise of a six-figure income, you probably won't become successful for two reasons:

- You'll be focused on your own success instead of that of your clients, and your clients and prospective clients will sense it.

» You'll be more prone to conflicts of interest, which could get you into legal trouble or at least tarnish your reputation in the community in which you practice.

REMEMBER

Nothing's wrong with wanting to earn a good income, but your motivations should also include the following:

» A desire to have a positive impact on your clients' lives (and a genuine concern for their well-being).
» A desire to serve on a team and to coordinate the team's efforts and expertise to improve your clients' financial outcomes.
» A hunger for relevant knowledge and skills to continually improve your ability to serve your clients. To be successful, you must keep up on rules, regulations, tools, and techniques.
» A desire to teach others the importance of careful financial planning, disciplined management, and the reasoning behind the plan you develop for each client. The desire to gently but firmly guide, educate, and direct action is paramount to your long-term professional success.
» A desire to work in a challenging career.

REMEMBER

You achieve true success when your clients arrive at their desired destination. This goal can take many years, usually decades, to achieve. When you're doing it right, you serve more as a financial steward than anything else, preventing clients from making decisions when they struggle to see the long-term consequences or negative impact of certain choices.

Being a successful financial advisor requires nerves of steel and the ability to talk people off ledges and navigate them through troubled waters. When a family crisis or market instability causes panic, you need to be the calm captain with the steady hand who keeps the ship on course.

## What are your qualifications?

Just finished college studying basketweaving? That may not be the best initial training for becoming a financial advisor, but I've heard worse, such as a high school dropout who entered the business at 18 with an insurance license who was selling policies door-to-door. You don't need a great deal of formal education and training to be a successful financial advisor, because the best preparation is on-the-job training. However, you do need to have the following qualifications:

» **Interpersonal skills:** You must be able to engage with a wide variety of clients if you hope to have any clients.

- **Organizational skills:** Organization is essential in record-keeping, financial planning, and presentations to clients.
- **Communication skills:** Explaining the financial plan you developed and the need to stick with the plan is essential for keeping clients on track to meet the agreed-upon goals and objectives.
- **Analytical skills:** A big part of the job involves shopping for financial products and solutions that fit with the client's financial plan. To do so, you need to be able to analyze and compare options.
- **Computer skills:** Increasingly, financial advisors rely on technology to do their work, so you need to be comfortable using a computer. However, you don't need high level skills such as programming.
- **Basic education and training:** You need to know the basics about asset and liability management, budgeting, estate planning, taxation, and behavioral finance. (See the later section "Taking Inventory: What You Need to Know.") You can (and often should) outsource the more complex tasks or anything you're not really good at, such as estate planning or even portfolio management.

If you've studied economics or finance in college or graduate school, you'll certainly have a knowledge base that gives you confidence and enables you to sound super-smart. However, knowing a bunch of fancy terms and how things work is of value only if you're able to convey your knowledge in a way that's relevant and comprehensible to clients.

REMEMBER

Financial advisory is a people-business first and financial-business second. For example, if you have the best investment portfolio in the world, but your clients don't understand the path you've mapped out for them, then you won't achieve the desired level of success, and you may not last very long in the business.

## Deciding Whether to Fly Solo or Work in a Firm

Critical to longevity and success in this profession is having the right work environment and conditions. For some, living the dream is hanging out in shorts on their patio with their laptop and smartphone, whereas others need to dress in a business suit and meet with clients in a professional office setting to make them feel as though they're really in this business.

The first choice is whether you want to work for a firm, operate as a solo practitioner, or start your own firm. In this section, I briefly describe the potential benefits and drawbacks of each option. (See Chapter 4 for additional guidance on deciding whether to work for a firm or set out on your own.)

## Weighing the pros and cons of working in a firm

If you're just getting started or you prefer working in a more structured office environment or you want to avoid the hassles and costs of running your own operation, working for a financial advisory firm may be the best choice. Consider the pros and cons.

The pros are as follows:

- An existing firm is likely to provide at least some training and may cover part of the cost of getting certified and continuing your education.
- The firm covers the hassles and costs of providing office space, utilities, technology, business management, and support personnel.
- You can focus solely on client acquisition and service. Typically, you can delegate financial planning, portfolio management, and other planning and management work to others in the firm.
- You're an employee, so you don't pay self-employment tax, and you may qualify for benefits, such as retirement, paid vacations and leave, health insurance, disability insurance, and other fringe benefits.
- You're in closer contact with other financial advisors and personnel, so you work in a more supportive environment.
- You have an office and regular office hours, so you have a clearer separation between work and home.

And, the cons are

- You have regular office hours, so your schedule is less flexible.
- You're managed to some extent, meaning your daily activities are monitored, reported, reviewed, and assessed weekly. (Performance metrics are usually related to sales and not financial advisory work.)
- You build a client base for the firm, not for yourself. If you leave the firm, you're likely to be prohibited from taking your clients with you.

- You may be pressured or required to recommend certain financial products or solutions favored by the firm that are not necessarily in the best interest of your clients.
- You earn less of the revenue you generate, but it is often offset by the amount saved (in time and money) by not having to run your own business.

## Considering the option of operating as a lone wolf

Many financial advisors choose to set up shop as sole proprietors, which provides the ultimate in freedom and flexibility but burdens the advisor with the most responsibility. This option is typically practical only if you've been in the business for a few years. Before you make the break from working for a firm to working for yourself, consider the pros and cons.

Here are the pros:

- You make your own hours.
- You answer only to yourself and your clients.
- You have no restrictions on your financial planning and management activities; you can recommend any financial products or solutions that are in your clients' best interests.
- You keep all the revenue you generate, less operating costs.
- You build your own client base for yourself, not for someone else.

And, the cons are

- Running your own business costs time and money and distracts from your focus on client acquisition and service. All the day-to-day management, administration, and other operational concerns are yours to deal with — on top of the normal client interaction and financial advisory work.
- Without management oversight, you must be self-motivated, and you receive no professional feedback on your performance. However, by being accountable to clients, you do receive some oversight and feedback from them.
- You have limited contact with colleagues unless you reach out to other financial advisors and relevant professionals.

## Thinking about starting your own firm

If you have some experience in the field, you've probably already thought about starting your own firm with one or more other financial advisors, associates, and support personnel. You can start your own firm in any number of ways. For example, you may hire an executive assistant to manage the business while you focus on acquiring and serving clients, team up with another financial advisor and divvy up the workload, or create a major operation with multiple advisors and support staff.

Depending on the size and complexity of the firm, the pros and cons vary.

Consider these pros:

- You have many of the benefits of working at a firm, including close contact with colleagues.
- You own the firm, so you call the shots. You can serve clients however you determine is best and require everyone in the firm to uphold the same standard of care.
- You have the opportunity to earn more revenue and leverage the cost savings of scaling the business.
- You delegate the work, so you can focus on the activities you're best at and enjoy most.

And, check out these cons:

- Starting and running a firm is a major commitment that carries big risks.
- Someone must run the business, either one of the financial advisors (maybe you) or an office manager you hire.
- You must attract and retain the right mix of talent — a minder, one or more finders and grinders, and support staff.
- Your initial investment of time and money may be significant, depending on the size of the firm. However, after it's up and running, assuming the business is a success, you can scale back your hands-on involvement.

See the later section "Moving Up: Starting Your Own Firm" for additional details on starting your own firm and the chapters in Part 5 for even more guidance.

# Taking Inventory: What You Need to Know

In addition to basic skills, such as organizational and communications skills, you must master certain core competencies. In this section, I touch on each of these areas, which I cover in detail in Chapters 5 through 12.

## Complying with financial regulations

Legislative and regulatory proposals and actions are giving financial advisors something extra to concern themselves with lately. The purpose behind these proposals and actions is noble; the goal is to ensure that anyone providing financial advice to consumers is acting as a fiduciary — that is, in the best interest of the consumer. Unfortunately, the legislation enacted and proposed often adds to the confusion and bureaucracy without actually benefiting consumers, as I explain in Chapter 5.

To comply with federal, state, and local rules and regulations and uphold a highest standard of service, I advise you to do the following:

- Be a true financial advisor, which means providing holistic financial advice that covers financial planning, assets and liabilities management, estate planning, tax planning, and any other area related to a client's financial health and well-being. You don't need to be an expert in every area; you can add other specialists to your team. However, every area should be addressed in a client's financial plan.
- Honor your fiduciary responsibility to your clients. Don't succumb to temptation or to pressure from your firm to sell products or solutions that aren't the best for your clients.

  TIP

  If you work for a firm that pressures you to recommend certain products or solutions, a good rule is to recommend one of those products or solutions only if something better isn't available.
- Whenever recommending a product or solution that pays a commission, fully disclose the commission to your client.

REMEMBER

By adhering to these three guidelines, you not only comply with any current or future regulations, but you also differentiate yourself from the majority of practitioners in the market who call themselves financial advisors but are actually functioning more like salespeople.

## Brushing up on budgeting basics

If a client loves to spend, spend, spend, and has credit card debt to show how good she is at her favorite pastime, you can deliver value to the client by engaging her in a financial fitness program. In Chapter 7, I present two common approaches to budgeting:

- Set up spending categories and estimates for each category so that a sufficient amount of monthly income remains at the end of the month to allocate to the client's various financial goals.
- Siphon funds automatically from the client's earnings to allocate to various accounts tied to the client's financial goals. This technique is commonly referred to as *paying yourself first.*

REMEMBER

One of the first steps in financial planning involves evaluating what you have to work with, and that depends on how much money your client earns and spends. Unless your client can free up some income for building and protecting her wealth, she won't have any money to put to work for her, and you won't have any assets to manage.

## Wrapping your brain around asset management

*Asset management* involves the planning, monitoring, administering, and disposing of everything a client owns of value, especially her investment portfolio, but also including real estate properties and any business(es). You can approach asset management as a step-by-step process:

1. **Establish the client's goals and objectives and the amount of money needed to achieve each in the given timeline.**
2. **Develop an investment strategy that accommodates the client's risk tolerance while meeting the agreed-upon goals.**
3. **Establish various accounts, as necessary, such as retirement accounts and college savings accounts.**
4. **Design a portfolio of stocks, bonds, cash, and other assets to execute the investment strategy.**

   Investment choices must be based on several factors including expenses, taxes, risks, and returns.

5. **Review the portfolio regularly with the client and make any adjustments necessary to keep the portfolio and the client on track.**

   Much of your work here involves managing client expectations and reminding the client of the strategy, goals, and objectives.

As a financial advisor, you have choice as to whether to dive into the deep end in this fundamental area or outsource it to others (for example, TAMPs or specialist colleagues). Regardless, your clients will demand a portfolio return that meets or exceeds their expectations. You need to deftly set and manage your clients' portfolio and expectations, getting them from today to their future goal.

REMEMBER

Even though a great debate rages as to whether active investment management is all but dead (as reflected in the trade publications), passive management hasn't proven to be the silver bullet that it's been touted to be. No investment strategy is a panacea. Refer to Chapter 8 for more discussion about asset management.

## Knowing what liability management entails

If an unforeseen event blindsides your client's household, then no matter how great the portfolio performance, your client will be spending her assets to meet the unexpected need. Whether it's a disability, illness, death, job loss, living longer than expected, or any number of other unanticipated burdens of withdrawal on a portfolio, you must make sure these risks are actively identified and hedged against. You don't need to hedge against 100 percent loss, but including some protection in the financial plan is critical to your client's positive financial outcome. Chapter 9 discusses liability management in greater detail.

## Looking at what estate planning involves

Estate planning sounds like it's just for rich people, but that's far from true. Anyone with assets they plan to pass on to heirs needs a plan to ensure that more of those assets pass to loved ones than to the government and that the transfer of wealth goes as smoothly and quickly as possible. An estate plan makes that happen.

Although your client's lawyer will write the estate plan, you play a key role by doing the following:

- Making sure your client has an estate plan, and, if she doesn't, referring her to a great lawyer in your network to prepare the plan.

» Collaborating actively with the client's estate planning lawyer and tax advisor, well in advance of any event, to ensure that the client's intentions for her assets are properly organized and administered.

» Ensuring that all of the client's accounts have the correct beneficiaries listed.

See Chapter 10 for more about estate planning.

## Identifying key tax issues

Whether your clients are employees earning a regular paycheck or business owners whose income is tied to the profits from the business, you must identify key tax issues and be sure that your clients financial plans take advantage of any qualified tax breaks, such as tax-advantaged or -deferred accounts and financial products. Charitable interests can make a big tax difference too.

TIP

Find and collaborate with one or more tax experts in your professional network. One of the best ways to deliver value to a client is with a referral to a tax advisor, if the client doesn't already have one. Don't give specific tax advice unless you have the expertise to do so.

See Chapter 11 for more about helping clients reduce their tax burdens.

## Comprehending behavioral finance

Because your clients are human, you have one major impediment to your daily work — that your clients *are* human. Behavioral finance takes this fact into consideration by acknowledging the psychological and emotional factors that influence how people feel about money and how they make their financial decisions. For example, in one study, 401K plans that required participants to opt in had a 68 percent participation rate after 36 months of employment, whereas plans that enrolled participants automatically and required them to opt out had a 98 percent participation rate, indicating that people were often reticent or just too lazy to sign up for the plans.

Familiarizing yourself with a variety of investor biases and sentiments and training yourself to keep your own emotions at bay when your clients get the jitters serve you and your clients well. See Chapter 12 for more about behavioral finance.

## Providing Superior Service to Your Clients

Although your daily activities as a financial advisor are likely to be diverse, they all boil down to acquiring and serving your clientele. I could even argue that being a successful financial advisor all boils down to serving your clientele, because if you do that well, you won't have to spend much time finding new clients — they will find you. In this section, I cover the basics of providing superior service to clients.

### Performing your due diligence

Each client has different financial needs, so the first order of business with any new client is to perform your due diligence. I recommend a framework I developed to use in my own practice called The Four As of Due Diligence:

- **A**ssessment: Ask big questions.
- **A**udit: Dig into the details on current products/solutions.
- **A**ction: Close the gap from what's in place versus what the client needs.
- **A**lignment: Monitor changes to maintain alignment with financial products and/or services used and the household's situation.

REMEMBER

This formal process enables you to identify the areas where you can deliver the most value to your client, and it keeps you mentally organized. More importantly, it forces you to stay within a consultative boundary, thus avoiding an off-putting sales routine. See Chapter 13 for details about how to use The Four As of Due Diligence to your and your clients' advantage.

### Creating personalized financial plans

As you perform your due diligence, you uncover each client's unique needs. The next step is to formulate a personalized financial plan that meets those needs. Even though certain planning items, such as retirement, life insurance, and estate planning, are mainstays, others may differ from client to client. In addition, the allocation toward each depends on household-specific factors, including whether the client is married, has children, is an employee or business owner, has a high or low risk tolerance, and more.

In Chapter 14, I present a framework for building a holistic and cohesive personalized financial plan for every client. I call it the "Three Cs of a Holistic Financial Plan":

- **Copy:** The written documentation or family governance paperwork, typically prepared by the family lawyer, that spells out the family's intentions for its assets. Copy includes a family trust or will, medical directives, and powers of attorney, which collectively delineate how assets will be distributed and how the family is to act in the event that the matriarch or patriarch is no longer able to make decisions and issue directives.
- **Capital:** Capital includes all assets and claims on those assets, including a home and the mortgage on that home, a family business, investments, savings, and belongings.
- **Consequences:** Consequences are the various scenarios that a family wants to avoid, such as the loss of income when a major breadwinner dies unexpectedly. Consequences are usually covered by various insurance policies.

WARNING

Don't embrace a one-size fits all mentality. You must remain flexible to develop a plan that meets each client's unique needs and concerns.

## Teaming up for superior service

One of the biggest mistakes a financial advisor can make is to try to be everything to everyone. You have two primary responsibilities as a financial advisor:

- Assess each client's unique financial needs.
- Ensure that all those needs are met.

No rule exists that you must be the person to meet all those needs. At the very least, you should consult with the client's attorney and tax advisor and follow up to be sure that they're doing what they need to do and you're doing what you need to do to provide holistic financial planning, management, and administration. (See Chapter 15 for details.)

## Creating a tiered service model

As you grow your client base, your time becomes more precious as you have less time to devote to each client. To continue to grow beyond 100 clients or so, you need to work more efficiently. You can improve your efficiency in several ways, including making better use of technology and hiring an assistant to handle routine tasks.

Another way to improve efficiency is to create a tiered service model. In Chapter 16, I suggest a precious metals approach, dividing clients into the following four groups, which are generally based on their revenue-generating potential (either directly through services they need or indirectly through referrals):

- Platinum
- Gold
- Silver
- Bronze

Using various demographic and psychographic criteria, you can assign each client to one of these groups, so you know how much relative time and effort to devote to each client.

## Assessing your performance as a financial advisor

Unlike other professions, where success may be easier to measure (for example, percentage of patients cured or lawsuits won), for financial advisors it's more complicated, and the timespan is longer. As a financial advisor, you may not witness success until your client sails into retirement on his brand new yacht. Then again, you may experience success much sooner when you hand your client's widower a check from the life insurance policy you convinced your client to purchase only a few months ago.

In Chapter 17, I provide a few benchmarks for measuring success, primarily in terms of your clients' portfolios. The two key benchmarks in the area of investments are the market indexes and the personal benchmark, which I prefer. With the personal benchmark, you measure your success based on how well your client's portfolio meets the agreed-upon goal. With this approach, you have a fixed benchmark tied to the client's needs and dreams instead of to a fluctuation benchmark index.

REMEMBER

To hold yourself accountable and provide your clients a clear assessment of how well you're doing managing their assets and liabilities, you need a benchmark that quantifies success. This benchmark enables you and your clients to know when all is well and when adjustments need to be made. It may also give your clients peace of mind by letting them know they're making progress even when they're convinced they're losing ground.