



PRIVATE TRUST GROUP OF AMERICA

Managing Wealth Means Managing Expectations

The term “*wealth management*” is so overused it has become a cheap marketing slogan and is in danger of losing its true meaning. It sounds sexy, so it gets tossed around without much thought as to what it really means to “*manage*” wealth; and it has become so pervasive that it’s surprising the government hasn’t tried to regulate it. When it comes to seeking true wealth management, an unsuspecting public would be well advised to dust off another term that does not get used nearly enough. It’s called “*Caveat Emptor.*”

Since wealth management has become such a widely misunderstood and often misused term, it is important for anyone providing wealth management services to carefully define the term as it will be used to promote those services to prospective clients. The purpose of this article is to examine some of the factors that can be used to define the term in a way that shapes expectations for everyone from the Board of Directors of your organization to your wealth management clients.

Differentiating Wealth Management From Wealth Management Services

Some might say that “wealth management” and “wealth management services” is a difference without distinction. Actually, quite the opposite is true. There can be a vast difference in meaning, depending upon the expectations of the provider and the client.

We can all probably recall our very first childhood experience of actually providing a service for financial gain. Whether it was delivering newspapers, mowing lawns or babysitting, we were suddenly faced with the uncertainty of how to “manage” our newfound riches. Fortunately, we were probably still accepting the largesse of our parents, so there was no reason to allocate any of our earnings to household expenses, mortgages, credit card debt, etc. Instead, we had disposable income that gave us our first, albeit primitive, exposure to “wealth management.”

Surely, we all have much different views of what constitutes wealth management today. As with many things in life, the meaning depends on our own subjective views and the relevancy we place on them. The meaning of “wealth management” and “wealth management services” is, therefore, in the eye of the beholder.

Wealth Management, in its purest form, can be described as an integrated process of managing the accumulated economic value of one’s possessions and liabilities during his/her lifetime; and assisting with the creation of a succession plan to take effect in the event of disability or upon death. Unfortunately, the term has been applied so often and so loosely to the individual disciplines within that integrated process that it has lost some of its true meaning.

A wealth management professional should view his/her role as one of great consequence to the overall economic success of the family unit – in much the same way a good CEO guides the economic value and success of a business enterprise. This means providing expertise, either directly or by coordinating the collective efforts of other specialized professionals, in such areas as asset protection and risk management; investment management; cash flow; debt management; tax; retirement and estate planning.

In essence, wealth management is the umbrella that protects the family unit's accumulated economic wealth from neglect and other eroding forces that threaten its financial independence and security. And the wealth management professional is the family banker, lawyer, accountant or other trusted advisor with a steady hand on the umbrella – and a thoughtful mind focused on the future.

Wealth Management Services, on the other hand, encompasses the many individual disciplines that are necessary to manage wealth. While each of these service disciplines is important in its own right, they do not rise to the level of wealth management unless they are bundled together to create the “integrated process” mentioned earlier.

The distinction between “wealth management” and “wealth management services”, and the expectations attributable to each, can be further defined by where clients fit on the wealth management spectrum.

Defining the Wealth Management Spectrum

By accepting the premise that *wealth* includes everything from a few dollars of accumulated disposable income earned from a paper route to the enormous and complex holdings of someone like Microsoft's founder, Bill Gates, one can more easily understand the vast spectrum that *wealth management* covers. Since no single wealth management organization can realistically cover the entire spectrum, each must carefully define where its slice begins and ends based on its institutional objectives; the professional qualifications of its staff; and its ability to provide potential clients with a compelling reason to use its services. It's easier said than done.

Institutional Objectives – Carefully considering institutional objectives is a crucial first step in setting expectations for a successful wealth management practice. It is also one of the least understood. The objectives should be more than just a vague reference to “making a profit” or “serving a market niche.” They should be written into the organization's business plan or enumerated in a separate “Statement of Purpose”, where they will serve as benchmarks for setting expectations and provide a road map to guide management in carrying them out.

Without written and well-understood institutional objectives, the organization will lose its focus and drift outside its intended market. The drift is rarely on the upside; it invariably occurs on the downside, resulting in the organization accepting business that it cannot service profitably and disappointing its clients in the process.

The institutional objectives must also carefully define the target market, and articulate the means and methods of serving that market in a clear and unambiguous way. In doing so, one must be cautious about setting the parameters that define its slice of the wealth spectrum – since that is what will ultimately determine the organization’s best opportunity for success. If the parameters are set too low, they could result in adding unwanted and unprofitable business; if they are set too high, they could result in unrealistic expectations that lead to disappointed and unhappy clients.

Professional Qualifications – The qualifications of an organization’s professional staff will depend, in large part, on the institutional objectives noted above. If the objectives reflect a desire to attract anyone with financial assets in excess of, say, \$50,000, that would suggest that the organization will probably not be attracting many clients with financial assets in excess of \$10 million – which has a direct affect on the staff’s professional qualifications. In this example, it would probably not be necessary to require a CFA designation as a minimum professional standard.

On the other hand, if the objectives point to targeting clients with financial assets of at least \$1 million and a total net worth of at least \$2 million, the professional qualifications dramatically change. If these numbers reflect the lower limits set by the parameters mentioned earlier, then the higher parameter limits will probably be a multiple of at least 25 to 30 times the lower ones. This sets the stage for much higher professional qualifications and justifies setting minimum standards for education, professional training and board licensing.

The professional qualifications of the staff not only reflect the institutional objectives of the wealth management organization; they create an atmosphere of heightened client awareness of the services being offered, thus making it even more important to effectively manage expectations.

Compelling Reason to Use Services – Strong competition for providing wealth management services has created a multitude of choices along the entire wealth management spectrum. To be successful, therefore, one must provide a compelling reason for clients to seek out a particular organization’s services or otherwise entrust it with their financial future. The danger here is to over-promise, or unnecessarily increase a prospective client’s expectations.

Contrary to popular belief, promising better investment returns or offering more personalized attention are not necessarily among the most compelling reasons to cite when trying to attract new clients. Investment returns are subjective, and can be justified under all but the most egregious circumstances. And virtually all reputable wealth management professionals go out of their way to provide personal attention. There are exceptions, of course, but when poor investment performance or inferior service is given as the reason a client is considering a change, there is usually a greater underlying issue that gives rise to such discontent.

Demonstrating an ability to listen is probably one of the least practiced yet most important attributes a wealth management professional can convey to a

potential client. Listening intently to a client's questions, concerns and problems provides an opportunity to focus on issues that are important to the client and may, in fact, expose the root cause of his/her dissatisfaction with the current provider. If the root cause is something that can be overcome, it gives us a decided advantage by focusing on how we can help. Conversely, it could just as easily uncover reasons for not accepting the business.

It is not necessary to have in-house banking, legal, accounting, investment, insurance or other experts as long as the client is comfortable with the idea that we have access to top-notch professionals in all of those disciplines. In fact, wealthier clients understand that to be the case and often look to their wealth management professionals as a "gatekeeper" who coordinates and manages other professionals and service providers with unique talents.

Less emphasis should be placed on "selling" wealth management services and more on "listening" to what clients are communicating to us. If we want to give clients a compelling reason to do business with us or our organization, we should focus on listening carefully to what they have to say – then offer thoughtful solutions. Never try to "sell" a prospect or client anything – particularly if we want to turn them into long-term relationships. Selling usually sets false expectations, which inevitably leads to unprofitable business and/or dissatisfied clients.

Client vs. Customer

Despite being overused, misinterpreted and often misapplied, the term "wealth management" still has snob appeal among many professionals plying the trade and among certain segments of the public. The term elicits a certain exclusivity that is usually reserved for the very wealthy among us. Therefore, the term has become a highly desirable moniker for service providers and consumers alike.

Wealth management services differ greatly from most other services provided by a bank or other financial institution, and so does the relationship between service provider and consumer. Most other products and services are generic and have become commoditized with little to distinguish them from one institution to another. These products and services are similar to non-financial products and services that are sold to customers looking for convenience and special incentives.

Generally, people seeking wealth management services are more discerning than those seeking other bank and related financial services – and they expect to be treated accordingly. It is important, therefore, to make a clear distinction when addressing those seeking wealth management services if the purpose is to build a "client" base and not a "customer" base. Selling to customers is not the same as building long-term relationships with clients, and everyone in the organization should understand the difference.

Managing Expectations

In today's nomenclature, wealth management can be narrowly interpreted to fit almost any financial service offered in the marketplace. For example, assume a

client has \$500,000 in retirement assets managed by a broker; \$500,000 in marketable securities managed by a bank; \$500,000 in financial assets managed by a registered investment advisor, and \$500,000 in a funded revocable trust managed by his/her accountant. Is there any question that the broker, banker, registered investment advisor and accountant are providing wealth management services? The answer depends on their own interpretation of the services being provided and how they are marketed – but, more importantly, it depends on that client's expectations.

If the client expects each one to manage \$500,000 individually (without regard to overall sector weightings or overall asset allocation), and does not expect any of them to provide oversight beyond those assets directly under their control, the broker, banker, investment advisor and accountant are providing wealth management services and not an integrated wealth management solution. If, on the other hand, the client designates the registered investment advisor to provide oversight of the others based on an overall Investment Policy Statement, the registered investment advisor would more clearly fall into the category of providing an integrated wealth management solution.

Managing expectations also requires the careful completion of all documents and agreements, which gives the client a sense of professionalism and serves as an important first step in building long-term client relationships. Regardless of where a client falls on the wealth management spectrum, some basic agreements are necessary to protect both the client and the wealth management professional and his/her organization. Depending on the size and type of the relationship, an agreement can be in the form of a Letter of Understanding, an Agency Agreement or Trust Instrument. In more complicated or sophisticated relationships, clients may require the wealth management professional to complete a Request for Proposal (RFP), which will be followed by a Letter of Engagement if the client accepts the proposal. All of these documents serve a useful purpose when it comes to managing clients' expectations.

Banking and investment regulators mandate many documents and agreements, while others are entirely optional. Surprisingly, one of the most important documents a wealth management professional can have on file, an Investment Policy Statement, is completely optional. Whether managing financial assets directly or overseeing that relationship, every wealth management professional should insist that one be completed and signed by each and every client and his/her investment advisor.

All of these statements, documents and agreements, taken as a whole, represent the basic building blocks upon which the relationship will be measured and, ultimately, whether or not it will succeed. But, as essential as proper documentation is in establishing benchmarks and setting the standards from which to measure success, it must be accompanied by an ongoing dialogue that continually challenges the assumptions and tests the results. This is done through continuous and coordinated communications with the client and the various professionals, but under the watchful eye of the gatekeeper/wealth management professional responsible for the overall relationship.

Managing expectations is a complicated but necessary process that is vital to the success of any wealth management practice. It is an ongoing process that begins with a clear understanding of the institutional objectives or "Statement of Purpose" referred to earlier. Without those institutional objectives, services will not be uniform; professionals within the organization will not have a clear sense of purpose; and clients will not be well served.

Managing clients' expectations uncovers early warning signs that could mean the difference between having a happy client and losing an unhappy one. And, as everyone knows, there is no more compelling reason for a new client to give you his/her business than getting a recommendation from a happy one.

About Private Trust Group of America

Private Trust Group of America is an employee-owned company specializing in providing administrative and operational support to trust departments and wealth management offices nation wide. With an executive staff that has over 100 years of combined trust and related technology experience, and a professional staff whose average experience exceeds 22 years, Private Trust Group of America offers an unusually high degree of frontline sophistication to its client base.

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