



PRIVATE TRUST GROUP OF AMERICA

A Strategic Resourcing Partner for Wealth Management Professionals

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Sharing Ideas ~ Building RelationshipsSM

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Change is the incubator for success. We can embrace change and be energized by the opportunity, or we can shy away from it and become paralyzed by inaction.

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U. S. Households with a Net Worth of at Least \$1 Million Reach 9.3 Million

According to a recent research report published by TNS, a London-based market research firm, the number of millionaire households in the United States (those with \$1 million in net worth excluding primary residence) has risen for the fourth consecutive year to a record high of 9.3 million, representing a 5% increase from the previous year.

In a survey of 1,600 households with a net worth of more than \$500,000, TNS' annual Affluent Market Research Program (AMRP) also

Be Alert for Triggering Events in Your Clients' Lives

The mutual fund industry's largest trade association group, Washington, D.C.-based Investment Company Institute, (ICI) recently reported that nearly half (48%) of the fund owners surveyed said that hiring a financial advisor was due to a special triggering event.

Within that demographic, the following triggering events were most frequently cited:

- A lump-sum disbursement, such as inheritance or a rollover from a previous job (27%);
A change in their household such as marriage, the

found that online trading among millionaires with Internet access rose to 32 percent, which

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represents a 45% increase over the past five years.

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birth of a child or a death in the family (21%);

- To meet financial goals, such as saving for retirement or education (40%).

Also included in the survey results:

- Most owners of mutual funds are not as young or as tech savvy as other investors;

- Those who do not go online for investment information are nearly twice as likely to have ongoing advisory relationships compared with shareholders who do use

Of those who do not use a financial advisor, 46% said, "I feel I do better managing my own money," while 31% said, "the wealth of information [available to me] makes a professional advisor unnecessary."

In a separate study, Boston-based Fidelity Registered Investment Advisor Group profiled how millionaires use financial advisors. Of the 2,500 investors with assets of between \$1 million and \$10 million participating in the study, 70% have had an advisor since an average age of 43. Within this group,

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the Web;

- Other fund owner groups that are more prone to having ongoing advisory relationships include older shareholders with household financial assets of \$250,000 or more and women who are responsible for their household's investment decisions.

The ICI report reinforces what most of us already know. However, it does serve as a timely reminder to everyone in the organization to be aware of triggering events that affect members of our local communities.

U. S. Households with a Net Worth of at Least \$1 Million Reach 9.3 Million (Continued from Page 1)

22% said that they get advice from independent advisors and they place more of their financial assets with independent advisors than any other category of advisor, an average of 56% of their assets. Over a third (34%) have two or more advisors.

Of the 30% that do not have an advisor, nearly half said they plan to find one within a year, and “more than a quarter of those are likely to use an independent advisor,” according to the study. Reasons for selecting inde-

pendent advisors include, “putting the client’s interests ahead of the firm’s (73%)”; “making objective recommendations (68%)”; and “not pushing a particular firm’s products (61%).”



Are You Taking Advantage of the Growing Directed Trust Market?

The following excerpts are from a recent article written by PTG’s Staff. For a complete copy of the article, please visit our website at: www.privatetrustgroup.com, or call Sandy Forbes, Manager of Data Aggregation Services at 978-463-9099.

Unlike previous generations, when wealthy families were generally more conservative investors and looked to the institutional stability of banks as their trustee and investment advisor/manager of choice, a common theme among today’s wealthy class is that they prefer a specialized approach that gives them the flexibility to choose their own investment advisors/managers.

This provides clients with the best of both worlds – the comfort and stability of a local, regulated financial institution to serve as trustee and the broader benefits of being able to choose from a wide universe of investment advisors/managers with extensive research capabilities and contrasting investment styles.

This “separation of powers” has created a new paradigm wherein the trust market is being bifurcated into two distinct business lines. One

provides the stability of an administrative institutional trustee with limited or no investment responsibility, and the other provides the flexibility of investment choice.

Turning Adversarial Relationships Into Strategic Partnerships

Institutional trustees and outside investment advisors/managers may have more in common than they realize. Rather than view Registered Investment Advisors, Finan-

ce” and, at worst, you get the referral by default. That is not the way to cultivate a strategic partnership that could have such a far-reaching and positive impact on your respective businesses and the added value it brings to your clients.

For a true strategic partnership to succeed, all parties to the transaction must have a vested interest in the outcome – which, first and foremost in the trust business, means doing what is best for

strategic partners, and clients benefit from the services and specialized expertise each strategic partner brings to the relationship.

Some Barriers to Providing Advisor Friendly Directed Trust Services

The most significant barrier to providing advisor friendly directed trust services has already been mentioned, which is that the institutional trustee should not directly manage investments.

Since managing investments is perceived as a direct threat to their client relationships, most investment advisors/managers will avoid, at all costs, directing business to any institutional trustee that directly manages investments. The obvious way around this for institutional trustees is to have an open-architecture investment environment whereby they use a variety of external advisory relationships instead of an in-house investment advisory staff.

Another significant barrier is that most investment

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cial Planners and Brokers as adversaries, trust officers should cultivate strategic partnerships with them.

Contrary to common belief, accepting an occasional trust client from one of these wealth management professionals – regardless of how many times the two of you play a round of golf together – is not a strategic partnership. At best, it is a “partnership of conven-

the long-term interests of your client.

This is precisely the reason it makes so much sense to turn what has always been considered an adversarial relationship between institutional trustees and outside wealth management professionals into a successful strategic partnership. The institutional trustee and investment manager benefit from sharing clients and becoming

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Are You Taking Advantage of the Growing Directed Trust Market? *(Continued from Page 2)*

advisors/managers insist on controlling where each client's assets will be held for custody purposes, which puts the trustee in the uncomfortable position of not having direct, real-time access to account information. This problem is compounded when several different custodians are used by the same investment advisor/manager, making the "shadow accounting" and reconciliation process even more cumbersome.

Modern technology provides the resources to manage these different custodial relationships much more efficiently and cost effectively than in the past. Data aggregation and custodial integration software is now available that will download transactions and asset positions from various custodians via a secure Internet connection and dump that information into spreadsheets or word documents.

More sophisticated technologies will go one step further and upload the information into some trust accounting systems on a daily basis, but the information must still be manually reviewed for mapping issues and reconciled to the custodian's positions.

These are far from insurmountable barriers. In fact, as we have written elsewhere, the first (providing an open-architecture investment platform) can be turned into a marketing advantage – and the second (data aggregation

and custodial integration) can easily be remedied with software tools that are proven and readily available.

An open-architecture investment environment, combined with advisor friendly directed trust services that include multi-custodian data aggregation and account consolidation capabilities, should have broad appeal among community banks' trust departments.

The Economics of Becoming an Advisor Friendly Directed Trustee

As the two reports cited in this article suggest, wealthy individuals look to investment advisors to manage their assets – not to banks. If these investment advisors cannot find advisor friendly institutional trustees to partner with, they will continue to set up their own trust divisions – and banks will continue to share a smaller piece of the trust services pie.

Based on our own experience of providing similar services to clients, institutional trustees offering directed trust and data aggregation services can expect to add double digit bottom line revenue to their trust department's income statement.

The economics of offering advisor friendly directed trust services with data aggregation and custodial integration capabilities are most compelling when an outside service provider is engaged to coordinate information between various investment advisors, their custodians

and the bank.

An outside service provider has established relationships with multiple custodians, so many of the data mapping and related issues have already been resolved. Furthermore, an outside service provider allows a bank to enter the business without incurring the significant start-up costs of hiring and training additional staff to integrate and oversee new software applications, and monitor the various outside custodial relationships.

These service providers already have the technology in place, have been through the data and transaction mapping process with most major custodians and have trained personnel dedicated to the daily reconciliation process for each custodian in their universe.

Moreover, they can customize statements to match those already being provided to the bank's customers, thus eliminating the need to change existing trust accounting systems or to develop a costly interface that requires additional staff to maintain and monitor.

Summary

Advisor friendly directed trust services can be a forceful new marketing advantage for community banks – especially when combined with the added-value of data aggregation and custodial integration services that provide consolidated reporting capabilities for clients' assets held with multiple custodians.

Services can be structured as a separate business line within an existing trust department with no upfront costs and without disturbing trust accounting relationships that are already in place.

Advisor friendly directed trust services also provide an excellent opportunity to build strong, mutually beneficial strategic partnerships with other wealth management professionals that control a large segment of the investment advisory business.

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Surge in Outsourcing Expected for Investment Management Firms

Investment managers have figured out that they can no longer afford to be distracted by some of the administrative, operational and regulatory burdens of their business, so many have decided to outsource those areas to third party service providers specializing in each non-core business function.

According to a recent survey by PricewaterhouseCoopers,

outsourcing ranked number one on the list of their top 10 issues facing the investment management industry.

One-third of the firms surveyed indicated that they are planning to increase their use of outsourced back-office functions within the next two years.

One-third said they would be outsourcing to cut costs and

40% said they will outsource to better focus on their firm's core competencies.

It is clear from the survey that the investment management industry understands the value of concentrating its resources in the areas of its greatest strengths, which are basic research, portfolio analysis, asset allocation and investigating alternative investments.

If bank trust departments are to remain competitive, they must follow suit. Those who understand the importance of balancing local client relationships with the added value of leveraged back-office outsourcing solutions and open architecture investment options already enjoy a significant competitive advantage.

Competition Gives Bank Trust Departments an Opportunity to Shine

Competition for trust services is once again heating up and it's time for community bank trust departments to defend their traditional role as the institutional trustee of choice.

Despite the ever expanding encroachment into trust services by large brokerage houses and mutual fund sponsors, community bank trust departments still enjoy a significant advantage, which is local knowledge with a personal touch.

Granted, the competition is trying to chip away at this advantage by hiring local representatives and opening community branches. The fact remains, however, that most people prefer dealing with a local institution that has been a fixture in the community for generations rather than a behemoth that is headquartered in a low-tax state and can only be

reached by dialing an "800" number that rings in India.

Community banks should take advantage of the high-priced advertising dollars being spent by some of these companies by pointing out the advantages of working with their local institutions.

To be successful, the focus must be, first and foremost, on the advantages of providing the stability that a local financial institution can offer as an independent trustee to carryout the terms of the governing trust documents.

A local institution, for example, provides a stable group of core bank officials and trust officers, many of whom have deep family roots that have been woven into the economic fabric of the communities they serve.

Although many local community bank trust depart-

ments are well-equipped to handle most, if not all, responsibilities of an institutional trustee, they should resist the temptation to be all things to all clients.

Most clients expect and, in fact, the law demands that trustees exercise sound judgment by delegating certain responsibilities to outside experts if the trustee lacks the specialized expertise of a particular function. Don't be afraid to delegate such critically important functions as tax, legal and investment matters if they fall outside the expertise of the bank's staff.

The ability to reach outside the bank to partner with world-class advisors and experts to complement the bank's strengths provides clients with the best of both worlds—the comfort and stability of working with a local institution and the flexi-

bility of choice beyond a large institution's captive products and services.

Take advantage of this new surge in competition by:

- 1.) Promoting the simplicity of providing core trust administration services in the form of a stable, locally owned and managed financial institution.
- 2.) Adding value by offering the economies of scale and international reach of some well-selected service partners to round out the bank's local expertise.
3. Reassessing the bank's true position in the marketplace by focusing on its strengths and coming to terms with its weaknesses.



Private Trust Group of America specializes in providing administrative and operational support to trust departments and wealth management offices nation wide. Our executive staff has over 100 years of combined trust and related technology experience, and our professional staff's average experience exceeds 22 years. Please take a moment to review our website at www.privatetrustgroup.com for an overview of our services.