Managing the Complexities of Wealth

Concentus Wealth Advisors
Part I: Time Is The Stuff That Life Is Made Of

The Rule of 168

Do you really want to have a great quality of life?

If so, I can share the secret with you. Like most important truths in life, it’s really pretty simple. In reality, there are three and only three facts that really matter to the quality of your life here on earth, which together I call “The Rule of 168”:

1. There are only 168 hours in every week. No matter your age, how much money you make, how much power you accumulate, or how smart you are, there are no exceptions to this fact. Your quality of life is a direct function of how you choose to spend those hours.

2. Some things in life can be delegated, but many of the most important things cannot. You can’t pay someone else to spend time with your family for you, take a vacation for you, read a great book for you, or play golf for you.

3. The key to a high-quality life is to focus on the truly important things, which are most critical to your quality of life and cannot be delegated, and find someone else to take care of all of the less important things.

In other words, it is smart to pay someone else to mow your lawn, launder your shirts, change your oil, or clean your gutters, so that you can do all the things that you can’t pay someone else to do, like exercise, spend time with your family, take vacations, play golf, volunteer for a charitable cause, or become better in your career.

The quote above from Henry David Thoreau is incredibly insightful about what it really means to be “rich.” One of the primary benefits of worldly riches is that money can buy you the FREEDOM OF YOUR TIME and allows you to multiply the number of things you can “afford to let alone,” and pay someone else to do for you. After all, as Ben Franklin said, “Time is the stuff that life is made of.”

That’s it— it’s that simple. If you can simply master this rule, spending your precious time on the things that are really important and not wasting time on things that are not important, you will have an amazing life.
The good news is that, in America today, we live in a service economy. Most Americans embrace the idea of paying for services we don’t want to do ourselves, and our economy revolves around the service sector. As a result, there is no shortage of interesting opportunities to offload things you don’t wish to do yourself, and to pay for services to make your life better.

The financial services industry is no exception. Firms try to differentiate themselves among a crowded field by making claims of better investing performance, lower fees, smarter advisors, or more exclusive brand names. We believe, at the end of the day, the true value of professional financial advice is that it should allow you to:

*Delegate the management of your wealth to an advisor who you trust, so that you can simplify your life and focus on the things that are more important to you.*

This value hinges most importantly on the phrase, “An advisor who you trust.” After all, if you don’t trust the people handling the details of your money for you, it is impossible to feel comfortable delegating that job. Unfortunately, the public perception of the trustworthiness of the financial advice industry is less than pristine. As a result, many providers have difficulty making a credible claim to a value based on trust. Instead, many choose to base their value on something which is unpredictable, and difficult to deliver consistently...the promise of superior investment performance.

Investment performance is by nature unpredictable and inconsistent — even the very best investors endure periods of time when their “relative performance” is disappointing. Although having an experienced advisor gives you a better probability of achieving investing success than if you tried to do it on your own, there is no “black box” or “magic formula” to investing success. Financial advice firms who make a promise to clients that they will always consistently provide superior results will invariably disappoint. As a result, it is very common for clients to become disillusioned by their advisor when performance lags, and end up jumping from advisor to advisor, in search of the “holy grail” of investing success. Instead, they end up missing out on the consistency and confidence that comes from a long term relationship with an advisor based on mutual trust.

In reality, a great advisory relationship should be based on your ability to offload the management of your money to someone more experienced, and more focused than you, so you don’t have to worry about it and can focus on more important things.

**Is it Worth it?**

By promising consistently superior investing performance, it is easy for a financial advisor to justify charging a big fee. After all, if your advisor helped you to “beat the market”, even after paying her fee, then she is worth every penny. If her value proposition is to enable you to delegate the job of managing your wealth, it may be more difficult to command a big fee — until you consider what you are actually delegating:

**THE 10,000 HOURS TO MASTERY**

- In his best-selling book *Outliers*, Malcom Gladwell explores the idea that mastery of any complex task requires a critical, minimum level of practice, which researchers have identified as 10,000 hours.
- For most people, planning their long-term financial success is the most important project they will ever undertake, and is one that requires mastery of the subject matter. It is probably a good idea to pay someone who is willing to (or already has) spend those 10,000 hours, so that you don’t have to.
There is an old legend that Henry Ford once balked at paying $10,000 to General Electric for work done troubleshooting a generator in his manufacturing plant, so asked for an itemized bill. The engineer who performed the work sent this:

Making chalk mark on generator: $1
Knowing where to make mark: $9,999

Ford paid the bill. When you pay a financial advisor, you are paying for his ability to know “where to make the mark,” which probably took him a lifetime of experience to learn.

**THE STRESS, WORRY, AND MENTAL ENERGY OF DEALING WITH UNCERTAINTY**

- Investment markets are inherently uncertain and unpredictable. The practice of managing money is essentially a challenge to remain focused and disciplined, even in the presence of the massive amount of fear, greed, uncertainty and emotion that exists in the markets on a daily basis.

- This practice can cause a great deal of stress, anxiety, self-doubt, and burnout among even the most seasoned professional investors. Investing can be a mentally and emotionally draining pursuit, particularly for those who don’t do it for a living, and particularly when your own personal financial future is on the line.

- Paying a financial advisor is your ticket to freedom from the stress, distraction, and uncertainty of dealing with investment decisions. It is your permission slip to free your mental and emotional energy from worrying about what the stock market is going to do tomorrow, so you can use that mental energy on something you really care about – because you are paying someone else to do your worrying for you.

**GUILT OVER WHAT YOU DON’T KNOW**

- Most of the financial media, and people who sell financial products, magazines, and information spend a lot of advertising money trying to convince you that you need to “become educated” about finance and wealth management topics. They have a vested interest in making you feel stupid, inadequate, or you are “missing something” if you don’t educate yourself.

- You hire a great financial advisor so you can free yourself from that guilt, and from the time it would take to learn all that stuff – because your advisor already knows it. When you trust someone who has spent the 10,000 hours to master the topic, there is no need to become educated. After all, as the old saying goes: would you prefer to take the time to learn how to build a clock, or do you just want to know what time it is?

**LAST BUT NOT LEAST, KEEPING TRACK OF ALL OF THE DETAILS**

- Of course, the actual administration and management of your financial plan, and keeping your house in order, is a big job that takes a lot of time.

- There are forms to keep track of, applications, elections to make, logins to remember, planning checklists to attend to, and details to monitor. There are investment, tax, cash flow, insurance, and estate planning disciplines to consider, and to find and manage professionals in each of these areas.

- Doing all of this work accurately and efficiently, without making important mistakes, takes a lot of time, and for most people is probably fairly boring as well.
Trust is the Key

Planning your financial future is clearly much different than mowing your front lawn. If you hire a landscaper and he makes a mistake mowing your lawn, just wait a couple of weeks and it will grow back. If your financial advisor makes a big mistake, or even worse, violates your trust, your entire financial future could be in jeopardy. This is why this value promise hinges so importantly on the phrase “an advisor who you trust” – after all, if you don’t completely trust someone to handle the details of your money for you, it is impossible to feel comfortable delegating that job.

Fortunately, recent developments in the financial advice industry are making advisors more “client centric” in their behavior, and should hopefully improve the overall trustworthiness of the industry. Our next article [PART II: TRUST ME!] focuses on these developments, and how you can be on the lookout for an advisor who is suitable to act as your family’s trusted advisor, and a fiduciary for your best interests.

The Buffett Rule

There is great wisdom in the recognition that time and personal energy are the most precious resources any of us possess, and that both should be spent wisely. The key to a great life is to focus both on the things that are most important to you, while saying “no” to the things that are not.

As Warren Buffett puts it, your success in life will be more a function of the things you say “no” to, than the things you say “yes” to. He recommends a simple process for focusing your time and energy in life:

- Make a list of the top 25 things you want to do in life.
- Then take the top 5 and separate it from the bottom 20.
- NEVER LOOK AT THE BOTTOM 20 AGAIN!

If managing your personal finances is not in your “Top 5,” I recommend that you immediately go find a financial advisor you trust to do it for you.
Part II: Trust Me!

Do you really want to have a great quality of life?

There are certain universal truths or laws of nature which are important to understand and embrace if we wish to live a happy and fulfilled life. There are certain things which we must accept as being true and unchangeable, and our happiness is largely based upon our ability to accept these truths, and not live in denial or avoidance of them. Life is better when you choose to handle the truth.

One such universal truth is the rule of 168, which states that there are only 168 hours in every week, for every human. No matter your age, how much money you make, how much power you accumulate, or how smart you are, there are no exceptions to this fact. You don’t get any more, but you do get to choose how you spend your 168 hours. The quality of your life is largely dependent upon that choice.

Most people would be best served to spend those 168 hours focused on those things that are absolutely critical to their happiness — like spending time with their family, developing their career or profession, exercising and taking care of their health, and spending time on leisure activities like travel and hobbies. For those who have the financial ability to do so, it is smart to pay someone else to do the things in life that are not on this list — things like mowing your grass, laundering your shirts, or cleaning your gutters — because these are all functions in your life which are important, but not critical to your happiness, and which can easily be delegated.

Personal financial management is a job that may be on this list as well. Done properly, the management of your wealth is a time consuming endeavor which requires years of experience and knowledge, but which you can easily pay someone else to do for you. Our last article [PART I: TIME IS THE STUFF THAT LIFE IS MADE OF] suggested that the true Value of any wealth manager or financial advisor is to allow you to:

Delegate the management of your wealth to a highly capable advisor who you trust, so that you can free your time to spend on the things that are more important to you.

“TRUST IS THE GLUE OF LIFE. IT’S THE MOST ESSENTIAL INGREDIENT IN EFFECTIVE COMMUNICATION. IT’S THE FOUNDATIONAL PRINCIPLE THAT HOLDS ALL RELATIONSHIPS.”

— STEVEN COVEY
The Two Kinds of Trust

The cornerstone of this value promise is the phrase: a highly capable advisor WHO YOU TRUST, because it is impossible to feel truly confident in delegating your personal financial matters to someone, unless you feel the highest possible level of trust in that person.

Planning your financial future is clearly much different than mowing your front lawn. If you hire a landscaper and he screws up your lawn, just wait a couple of weeks and it will grow back. If your financial advisor makes a big mistake, or even worse violates your trust, your entire financial future could be at stake. This is why trust is so important. As Steven Covey suggests in the quote above, trust is the essential foundation of every human relationship, but when it comes to your financial advisor, a relationship of trust is the one ingredient that is absolutely necessary.

In my view, there are actually two different levels of trust to consider. A lot of people think of trust in the sense that “I know my advisor would never do anything to harm me”, that he or she would never knowingly cheat them or do them harm. I call this the “Madoff Test”...the belief that your advisor is not going to defraud you and run off with your money. While this level of trust is obviously very important, it sets a fairly low standard. Unfortunately, this is the standard that most clients use, and as a result they trust their advisors – just a little, but probably not enough.

There is a higher standard of trust, which is the trust that you should expect from an advisor who pledges to act as a fiduciary for you and your family. By definition, an advisor who commits to act as a fiduciary for you is bound to always act in your best interest, and will proactively do the things for you which have the greatest probability of advancing your success. My informal definition for this is that your advisor should handle your money and financial decisions as you would do for yourself, if you had the benefit of all of the same knowledge and experience he or she has.

The first definition of trust is that you trust that your advisor will NEVER DO THE WRONG THING FOR YOU. In the second definition, you trust your advisor will ALWAYS DO THE RIGHT THING FOR YOU. These are not just two ways of saying the same thing, and there is a difference.

Financial Advisors as Fiduciaries

If you search the word “Fiduciary” on Wikipedia, you will find the following definition:

A FIDUCIARY is a person who holds a legal or ethical relationship of trust with one or more other parties. In a fiduciary relationship, one person, in a position of vulnerability, justifiably vests confidence, good faith, reliance, and trust in another whose aid, advice or protection is sought in some matter. In such a relation good conscience requires the fiduciary to act at all times for the sole benefit and interest of the one who trusts.

This is a perfect definition of the ideal relationship between a financial advisor and his or her client, which should ideally hinge on the client’s implicit trust that the advisor will, at all times, act solely in the best interest of the client.
Fortunately, most financial advisors are fiercely client-centric in their advice and their fees, and behave like fiduciaries for their clients. However, the financial services industry, and its various regulatory bodies, have employed a vague set of suitability guidelines and compensation schemes which have muddied the waters for many consumers, and have left room for potential conflicts of interest. It is not always clear to consumers that their advisor is acting as their fiduciary, and in particular, that their advisor’s financial interests are aligned with their own.

Fortunately for consumers, the financial services landscape is changing rapidly and in dramatic ways. In particular, there are two significant trends at work which are likely to make it much easier for consumers to feel highly confident in their trusting relationship with a financial advisor:

**Trend #1: The Triangulation of Advice**

In recent years, as the financial services industry has consolidated, several very large financial services companies have emerged, based on a service model which delivers several services from a single “Silo”: The combination of financial advice, custody and safekeeping of your assets, and delivery of products and services all delivered under one roof.

This model has worked quite well, as it has allowed big firms to create efficiency, scale, and profitability, while also offering consumers the promise of convenience. Big firms have the size and scale to do all three jobs quite well, and consumers can achieve “one stop shopping,” when your advisor works for the same firm which acts as custodian of your money, and produces many of the products and services you utilize.

However, the downside of this “single silo” model is that compensation arrangements can become less than clear, and conflicts of interest can result. In particular, when products and services are bundled with the delivery of advice, you may be uncertain how much in fees the firm is charging on the custody, products and services you use – and how much of that compensation is flowing to your financial advisor. As a result, you may be left unsure of whether your advisor is advocating the use of certain products and services because it is best for you, or because he and/or his firm makes more money that way.

Recently there has been significant growth in the population of advisors who are joining a trend we call “The Triangulation of Advice” and moving from being captive employees, to becoming independent advisors with no affiliation to any custodian, or product and service provider. In so doing, many advisors can now provide advice separate from where products are sourced and client assets are held in custody, and clients can access each function separately:

1. **ADVICE.** As potential conflicts of interest are removed, clients can feel more confident in receiving advice that is 100% transparent, objective, and conflict free, from an advisor who is acting as your agent and fiduciary in selecting the most appropriate products and services, without any affiliation with any single financial institution.

2. **CUSTODY.** Decisions about where to hold your investment assets in custody can be made independently and objectively, as opposed to being forced to hold custody at your advisor’s firm.

3. **PRODUCTS AND SERVICES.** In this new model, and thanks to the advent of technology, clients and their advisors can now become “a client of Wall Street”. An independent fiduciary advisor is now in a position to seek the very best from every firm on Wall Street – from trading, to investment products, lending services, life insurance, etc – on your behalf.

By “Triangulating” these 3 critical areas of service delivery, many advisors are now in a position to act as a true fiduciary for you and your family, and to maximize the level of transparency, objectivity, and freedom from conflicts of interest which you require.
**Trend #2: The Fiduciary Rule**

One of the casualties of the financial crisis of 2008 was the public perception of the trustworthiness of Wall Street, and the financial services industry in general. As a result of that crisis in confidence, industry regulators and politicians have taken a keen interest in forcing the industry to become more client centered, and to eliminate conflicts of interest. The latest development in this area is that the Department of Labor recently announced a new set of regulations called “the Fiduciary Rule,” defining the fiduciary standard for providers of financial advice. The clear intention of this new rule is to ensure that the single motivator of a financial advisor’s advice is the best interests of her client.

In particular, these new regulations appear to target the compensation structures which are commonly used in the advice industry, and to remove potential conflicts of interest. Because there has historically been great variation in the way clients pay advisors for their services, it has been difficult to ascertain exactly what some advisors are charging because of how information is reported on client statements. Combine this with the fact that, historically financial product providers have used financial incentives to entice advisors to sell their product or service as long as it was “suitable” for their client, it has been hard for clients to hold advisors accountable to the expectation that the advice given was in their best interests, and not motivated by an incentive to the advisor.

These new regulators appear to be forcing the industry to take yet another step away from the traditional “brokerage” relationship, in which fees are not always transparent, and advisors are required to sell products which are “suitable” for their client, toward an advisory relationship, in which the advisor has a highly defined responsibility to act as a fiduciary, with the client’s best interest always at the forefront. In the words of DOL secretary Thomas Perez: “Putting customers first is no longer a marketing slogan – it’s the law.”

* Note on Definitions: Regulators have paid a great deal of attention to defining the differences between advisors selling products which are “suitable” for their clients, compared to providing advice which is “in the best interests” of their clients. Historically, many of the activities of Financial advisors have been held to a “suitability standard” by regulators, and have been required to only sell products which can reasonably be argued to be “suitable” to the client’s situation. However, there is some debate that what is “suitable” may not always by definition be in the “best interests” of the client. The fiduciary standard holds advisors to this higher standard to not only sell products which are suitable, but to also always act in their client’s best interest.

**The Dawn of a New Era**

Both of these developments – the “Triangulation of Advice,” as well as the advent of new regulations, should come as great news to any family who is seeking an objective, conflict-free relationship with a financial advisor they can truly trust. The financial advice industry is moving to a new era, in which advisors are more easily held accountable, client interests are to be made a priority, and consumers are empowered to understand the value of the services they are receiving. The regulations are an act of consumer advocacy that add another layer of expectations that clients will get the best possible advice from their advisor – setting a higher standard for advisors in serving their clients.
The Brady Rule

“Never announce that you are a knight, simply behave as one.”
– ETHAN HAWKE FROM HIS BOOK RULES FOR A KNIGHT

These important industry trends are a wonderful step forward in helping families to establish a trusting relationship with a financial advisor – but is this enough? Just because regulations are forcing advisors to a more accountable standard, does that guarantee that all advisors will automatically act in their clients’ best interests, and be worthy of your complete trust? Unfortunately, the answer is probably not. Just because industry regulations compel advisors to act as a fiduciary for their clients, does not guarantee that all advisors will behave in a trustworthy manner. Although these new trends will help consumers to hold advisors accountable, they don’t eliminate every possible conflict of interest.

So how are you to know? What standard can you apply to make sure that your advisor is worthy of your trust? How can you find that rare advisor who has both the competence and trustworthy character to guide your family’s wealth planning? How can you find someone who will actually care as much as you do about your family’s financial well-being and quality of life?

The answer is: Observe whether she BEHAVES IN A TRUSTWORTHY MANNER. In contrast to the “Fiduciary Rule,” I call this the “Brady Rule”:

A Super Performer

On February 1st, 2015, the New England Patriots played the Seattle Seahawks in one of the most entertaining, and closely contested Super Bowl games in recent history. Late in the 4th quarter of that game, with only 6:52 left on the clock, the Patriots took possession of the ball deep in their own territory, losing 24-21. This was crunch time for the Pats: If they were able to mount a long scoring drive, the odds were they would win. Turn the ball back over to Seattle, and the outlook was not good.

New England’s Hall of Fame quarterback Tom Brady stepped into the huddle to start the drive, and except for the players on the field that night, nobody really knows exactly what he said to his players when they took the field. However, there is one thing I can guarantee he DID NOT say. He didn’t have to take time to explain to his offensive linemen who he was, what his credentials are, and that he is Tom Brady, one of the winningest quarterbacks in history. He didn’t need to tell them that they should do what he says because he has 3 Super Bowl rings and 2 Super Bowl MVP’s, and is the ultimate, last minute comeback player. He didn’t have to announce his greatness to inspire confidence in his teammates – he just had to behave like a great quarterback, tell his troops what to do, and execute with greatness. HE DIDN’T HAVE TO EXPLAIN THAT HE IS TOM BRADY, HE ONLY HAD TO BE TOM BRADY.

(By the way, Brady proceeded to lead his team down the field on a surgical, 9 play drive, culminating with his touchdown pass to Julian Edelman, helping to win his 4th Super Bowl ring.)

The lesson? As Ethan Hawke suggests, those who are great in any field don’t need to explain or brag about why they are great. They just act that way. You can tell by a person’s behavior and demeanor if they are great at what they do – they just walk into a situation, act like a real pro, and operate at the highest standards.

Concentus Wealth Advisors
This lesson can be helpful to remember when choosing or evaluating people to trust in your life as well. You can judge a potential friend, business partner, CPA, lawyer, or financial advisor much more by the way he or she behaves, than by what he or she “announces” about him or herself.

This is particularly true in the financial services industry: for any family that plans to delegate the key decisions about their financial future to an advisor, trust is of utmost importance. While there is no shortage of marketing messages out there from Wall Street firms that “announce” how trustworthy they and their advisors are, unfortunately not everyone in the industry “walks the talk” and behaves in a trustworthy manner.

So how are you to know? What standard can you apply to make sure that your advisor is worthy of your trust? How can you find that rare advisor who has both the competence and trustworthy character to guide your family’s wealth planning? How can you find someone who will actually care as much as you do about your family’s financial well-being and quality of life?

It’s simple: OBSERVE WHETHER HE OR SHE BEHAVES IN A TRUSTWORTHY MANNER. Here are a couple of important ways you can tell if your advisor fits the bill:

**Do they take their craft seriously?**

Make note of how long they have been in practice, as well as any professional designations or other evidence that they take their profession seriously and are dedicated and committed to a lifetime of learning and staying current. Also note the kinds of services they provide and how client-centered they are. At a minimum, be sure that they offer regular review meetings and accessible client contact. Many advisors limit the number of clients they work with in order to provide top quality attention and care. This is a great sign as well.

**Are they focused on YOU?**

A great advisor makes it ALL ABOUT YOU, so take note of the questions that your advisor asks. I always chuckle when a personal finance magazine or web site scares you into thinking that you need to have a whole list of technical questions for prospective advisors. The truth is that trustworthy professional advisors reveal more about themselves by THE QUESTIONS THEY ASK YOU RATHER THAN HOW THEY ANSWER THE QUESTIONS YOU ASK THEM. The best advisor is someone who wants to know all about YOU — your values, your goals, what is important to YOU — and is not shy about asking you. You should always walk away from a meeting with your advisor with a feeling that your relationship with him or her is all about you, a feeling reinforced by the questions directed to you.

A trustworthy and competent advisor who passes these tests is worth entrusting with all of your money. Follow his or her financial advice completely. Be grateful that you have found a lifetime partner in your family’s financial success, and then go out and use all that time you once spent worrying about your money to do the things that really matter.
Part III: Financial Advice: The Value Equation

The Value of Financial Advice

In the first article of our series, we explored the “Rule of 168,” which is a Law of Nature which states that there are only 168 hours in every week, and that the quality of your life is largely dependent upon how you choose to spend those hours. We proposed the idea that the true value of any personal service provider is to enable you to pay someone else to do some task for you – like mowing your lawn, laundering your shirts, or filing your taxes – that you prefer not to do for yourself. In that light, the true value promise of a financial advisor is to enable you to:

Delegate the management of your wealth to an advisor you trust, so that you can spend your time focused on the things that are more important to you.

In our second article we analyzed the phrase “an advisor you trust” as part of this value statement. After all, if you plan to delegate the management of your financial future, it is of utmost importance to develop a very high level of trust in your advisor. We explored recent developments in the advisory business which are moving the industry into a more “client friendly” direction, and which may help to address the perception of mistrust that much of the investing public has in our industry.

In this final piece, we will explore the “value equation” you should expect when you engage with a financial advisor. Presuming you have found an experienced advisor who you can trust to act as your family’s fiduciary, what should you expect to pay, and what services should you expect to receive, and how can you evaluate the “value” you are receiving for those fees you are paying? In this article we hope to create a framework for answering these questions.

Wealth and Complexity

As we know, there are KNOWN KNOWNS; there are things we know we know.

We also know there are KNOWN UNKNOWNS; that is to say we know there are some things we do not know.

But there are also UNKNOWN UNKNOWNS – the ones we don’t know we don’t know. And if one looks throughout the history of our country and other free countries, it is the latter category that tend to be the difficult ones

– DONALD RUMSFELD, FORMER SECRETARY OF DEFENSE
If the true purpose of financial advice is to allow you to delegate the function of managing your wealth, the value of that service will rise in direct proportion to the level of complexity at stake in your wealth management. In the discussion below, we explore the service offerings you should expect from a highly competent financial advisory firm, and what you should expect to pay for them. As a preface to that discussion, it is worth developing an understanding of the relationship between wealth and complexity.

Unique Success

As we survey the financial services landscape in America today, we find that there are roughly 30 million people who are more successful than average, and who find themselves in need of paid financial advice. As depicted in the diagram below, there is a large population of people who are less successful than average, and who do not seek financial services.

However, there is a small population of people, typically the top 10% of the population, who have achieved the status of “uniquely successful”, and have accumulated significant wealth, of at least $1 million in assets. This very small number of people have crossed the threshold into an unusual and unfamiliar situation. It is difficult to be prepared and knowledgeable about how to navigate this position in life until one has been there and experienced it.

Once an investor crosses this $1 million threshold into this situation, the risks and opportunities faced are very different than the average investor faces. Importantly, most financial advisors do not work in this space either, and as a result do not understand the risks and opportunities that are present there. Most advisors are very competent in working with “successful” clients, as their problems and opportunities are much simpler, but do not understand the problems and opportunities of uniquely successful investors. As a result, it is often hard for these uniquely successful families to find qualified advisors with the appropriate caliber of knowledge and insight.
The Implications of Complexity

For many people, a growing base of wealth is desirable, as greater wealth means a greater level of comfort and freedom, and a lower degree of stress. However, there is also a direct and positive relationship between wealth and complexity. Simply put, as your wealth grows, so does the complexity involved with the proper management and decisions of that wealth.

This relationship between wealth and complexity is positively correlated for average investors, but for Uniquely Successful investors, there comes a point above $1 million in wealth, at which complexity begins to accelerate, and increase more significantly. Again, because most financial advisors work with average clients, it may be difficult to obtain qualified advice to help deal with these complexities.

Wealth and Anxiety

The accumulation of wealth can also have an interesting correlation with the level of anxiety that a family may feel.

On the one hand, there can be a negative correlation between the accumulation of wealth, and the feelings of fear and anxiety. As wealth represents the key to security and freedom, investors who are able to grow and accumulate wealth are able to escape the fear of answering the question, “Will I be OK?” and develop a feeling of financial security and confidence. As wealth grows, this anxiety is reduced dramatically at first, but then the process slows down and requires more wealth to create the same level of relief. At a certain point, wealth has a diminishing marginal value.

For most families, answering the question “Am I going to be OK” is the central issue, and they are concerned for their basic financial security. It is for this reason that many families can become fixated on their investment strategy and performance, because their portfolio is their tool being used to achieve security, and their performance is the evidence of that security.
On the other hand, for uniquely successful people it can also be true that the level of anxiety may increase as wealth grows above $1 million. While the first kind of anxiety is the fear of being destitute and insecure in old age, this kind of anxiety is the insecurity that comes from coping with a complex financial life. For many wealthy families, complexity means that they don’t know what they might be missing. Importantly, they don’t know what they might be missing that could hurt them, or that they could benefit from, possibly in large measure. As wealth increases, risks and opportunities increase dramatically, but the knowledge about these risks and opportunities does not automatically accompany the complexity.

We think of the complexities of wealth as Donald Rumsfeld described the “unknown unknowns” in the quote above. These complexities are those problems, risks, and opportunities that cause wealthy families with assets in excess of $1 million to fear the question “What are we missing.” Such families are constantly chasing after the knowledge and capability they need to cope with these complexities, but may have difficulty finding that knowledge and insight, because most financial advisors also do not have the required level of insight and sophistication to understand these issues either.

**Managing Complexity: What Should you Expect?**

The value of the services you receive from a financial advisor should be generally correlated to her level of skill in helping you to deal with the complexity of your financial situation. We have created a simple diagram to visually represent the important component pieces of an effective wealth management solution, and which you may use to help evaluate potential providers. Any competent advisory platform should be prepared to demonstrate value in each of these key areas:
INDIVIDUAL INVESTMENTS

Of course, the most fundamental task of a Financial Advisor is to recommend investments. Most advisors spend a great deal of time and effort to research investment recommendations, and new fiduciary guidelines should help you to choose an advisor in a way that ensures that only your best interests influence that process.

THE PORTFOLIO

The larger foundation of your work with an advisor is your investment portfolio as a whole, which is the way he or she is able to bring together all of your individual investments into a coherent strategy, and personal Investment Policy Statement. Portfolio Construction is one of the important engines of your future financial security and the foundation of your wealth management.

THE FINANCIAL PLAN

Of course, the portfolio by itself answers only a few of the important questions that you have about navigating the complexities of your wealth, which is why the portfolio should be built on the foundation of a comprehensive financial plan. While the portfolio strategy may help you to navigate current market conditions, the Financial Plan sets the stage for a long term strategy for ensuring your peace of mind.

STANDARD OF CARE

Mike Tyson once said that “Everyone has a plan until I punch them in the mouth”. Even the best designed financial plan must be flexible enough to deal with the evolving complexities of your wealth, and changes in your situation over time. As you grow older and your wealth grows, you will inevitably face more complex decisions about your wealth, as well as your tax, estate, debt, and insurance planning. As this occurs, an advisor’s “standard of care” can act as a tool kit of multi-disciplinary knowledge and expertise to help you think strategically about those decisions, and to answer the important questions of “What am I missing that could hurt me, or that I could take advantage of?”

EVENTS, TRANSITIONS, VALUES AND GOALS

Life is a constantly evolving journey that presents your family with predictable challenges. There are normal life transitions: stages of life that we enter and leave as the years pass. Developments in each of those stages require us to adjust the plan, the portfolio and other strategies. In addition, there will be unexpected events to which every family must adapt, both good and bad. A great advisor should pay attention to what is happening in your life, observe it from the perspective of your financial plan, and make sure you get the best possible advice about how to navigate those changes.
BEHAVIORAL – FINANCE COACHING

Research has found that investors benefit from having an advisor to act as a sounding board and as a counselor when they become distressed by volatility in the markets, or short term losses in their portfolio. A great advisor should act as a source of emotional strength, self-control, and discipline when you are tempted to over-react to market developments.

Each of these circles informs the others, back and forth, all the time, but each should be present in your wealth management relationship. More importantly, there is a reason that this model is represented by a series of concentric circles explaining each characteristic of an advisory relationship: It is to demonstrate the relative importance of each of these characteristics.

In particular, this diagram is intended to emphasize that the portfolio and the products sold within it are only one small part of a larger advisory relationship – in fact the portfolio and the products are truly the servants of the more important elements of your wealth planning, such as the financial plan, standard of care, focus on your Values and Goals, and behavioral coaching. Too many people oversimplify the wealth management process thinking that the investment portfolio is the only thing that matters. In truth, investment products and portfolio management are commodity services, and do not particularly represent any unique value. The true value in an advisory relationship is in the insight and wisdom delivered through the more advanced functions of a wealth manager.

Putting Fees in Perspective

“If you think it’s expensive to hire a professional to do the job, wait until you hire an amateur.”

– RED ADAIR

The financial services industry has become quite competitive in recent decades, and today there is no shortage of options to choose from when seeking financial advice and guidance. One result of the proliferation of advisory platforms is that fees have become much more competitive.

However, it is still valuable to remember the interplay between PRICE and VALUE as you evaluate your options. In general, cheaper services tend to offer less extensive advice and little or no personal attention – for example the recent advent of “robo-advisors” is simply an attempt by financial services providers to drive profitability through automation rather than personal contact. For some families these type of cheaper services may be appropriate to their needs, but for uniquely successful families, facing increasing complexity in their financial lives, all six layers of financial advice may be a superior and necessary value.
A simple diagram may help to make this connection, and place advisory fees in the context of the value you should expect:

The first observation of this diagram is the understanding that there is nowhere you can invest without incurring some cost, and even self-directed investors who receive no advice pay something to invest. As a demonstration of this, most automated “robo-advisor” platforms offer investment selection and portfolio management for a fee of 0.25% to 0.5% of your portfolio. These platforms use technology to replace human interaction, and generally do not offer services beyond the first two circles on our value diagram.

As we ascend this pricing diagram, there is another level of services which we have termed “discount advice,” which cost a little more, but which provide a fuller service offering. Discount brokerage firms such as Vanguard, Fidelity, and Charles Schwab have developed advisory services which are generally offered for a fee of 0.35% to 1.5% of assets, in addition to the fees on the underlying investments recommended. These services offer the availability of human contact, as clients are assigned to be served by a team of trained advisors – however employee turnover may limit the ability to develop a long term relationship with an advisor who understands your goals and values. Generally, these services offer the first three levels of service described by our diagram: Investment products, portfolio management, and your financial plan. However, they generally do not include the more advanced elements of wealth planning.

Finally, the most expensive option is a relationship with a full service wealth management firm such as Concentus Wealth Advisors, or other more expensive firms. Although fees may vary at this level, most advisory firms operating with a high level of skill and personal attention will cost somewhere between 1% and 1.5% of your assets, in addition to the fees on the underlying investments you may own. For this fee, you should expect a very high level of personal contact and a relationship with an advisor who knows your family over many years. At this level, you should also expect your advisor to deliver on all 6 levels of service in our Value diagram, effectively helping your family to navigate the complexities of your wealth over many years, or even multiple generations.

Clearly, fees relate to services in a logical way: the lower the fee, the more limited the service. In order for a highly experienced and capable advisory firm to provide all of the value depicted on our circle diagram, clients must be prepared to pay a little more than they would using a discounter or robo-advisor. Given what is at stake when dealing with the more complex elements of your family’s long term wealth plan, it may be valuable to consider this higher fee rate as an investment in the family’s ongoing financial success.
Conclusion

There is an old saying that “You get what you pay for,” which is simply a way of saying that there is a natural relationship between the price you pay for something, and the value that you will receive for your money. In evaluating your family’s use of financial advisory services, you may think about the price you must pay, for assistance in answering your most complex questions:

At a basic level, you should expect to pay a highly discounted fee for help with questions about MANAGING YOUR PORTFOLIO:

- Will I be OK?
- How Should I navigate current market conditions?

For families who need additional help managing the complexity and unknown nature of their planning, you should expect to pay a little more for help with questions about YOUR FINANCIAL PLAN:

- When can I retire?
- How much can I spend?
- Should I take more risk?
- Can I take less risk?
- What if I work longer?
- How much can I give away?
- Should we pick a less expensive college?
- What are the consequences if we buy a vacation home?

For families who experience a high degree of complexity in their planning, and wish to access the wisdom and insight of an experienced advisor, you should expect to pay a premium price for help with questions about YOUR PLANNING STANDARD OF CARE:

- What am I missing from my financial strategy that could hurt me?
- What am I missing from my financial strategy that I could take advantage of and benefit from?
- How can I best express my goals and values in the implementation of my financial plan?

At this highest level, the delivery of financial advice is an iterative process: the portfolio, the financial plan and the Standard of Care must constantly evolve and inform one another. Staying current with each client is an important aspect of the value an advisor delivers.

As financial services evolve, innovation in asset management, tax law and industry regulations will require adapting the portfolio, the plan, and the Standard of Care. As clients transition into new life stages, values and goals often shift, and the type of advice needed will change. As wealth increases, new strategies become available that will benefit the client, and new hazards arise that require protection. As clients experience new levels of wealth or setbacks, values evolve and goals change – a plan that was an accurate reflection of a client’s deeply held values in her 40’s will likely be obsolete by the time she is in her 60’s.
Hopefully, this model for the delivery of advice is helpful in understanding the interplay of price and value in the delivery of financial advice, and provides a useful guide for your family in evaluating the appropriate platform for you, and what you should pay for that platform. Ultimately, it is most important to take advantage of a service level which is most appropriate to your needs, and to feel comfortable paying a fair price for those services.

At Concentus, we have developed a self-discovery tool called the **ADVISOR RIGHT FIT SCORECARD** to help people embark on the process of selecting the very best financial advisory platform to meet their needs.

You can use this tool to evaluate your own mindset and expectations, and to help you discover what is likely to be the most effective type of advisory relationship for you and your family. It may also help you avoid making a poor choice, and the bad experience of making this realization too late.

**We hope you find it helpful. Good luck!**