

Financial Marketing • SPRING 2004

Perspectives

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Firms Ready For Asset Distribution as Baby Boomers Face Retirement

By and large, life has been pretty sweet for the baby boomer generation. But as retirement draws near, consider what they are facing; portfolios that are struggling to recover from the recession, interest rates that have skirted record lows, corporate woes that threaten pensions and medical plans, and the very real possibility that they will outlive whatever they have managed to put aside.



Despite the hits their nest eggs have taken, boomers are still a wealthy bunch. According to a new AARP report, “The State of 50+ America,” this group holds two-thirds of the nation’s assets. But with multiple sources of income—pensions, Social Security, IRAs, annuities—boomers are unsure how to structure their finances to avoid taxes, minimize risk, maximize growth, and live comfortably all at the same time.

Asset management firms, in particular, have realized that when asset accumulation by a generation of boomers gives way to asset preservation and retirement income, their financial services demands will change. Some financial services firms have started to focus on how income distribution will be a more significant part of their business. They recognize that having the systems, products and marketing niche to participate in the “golden” years of this generation could mean the difference between inflows and outflows. A number of firms have already stepped out in front:

- Fidelity has a new Income Planning Service that helps clients develop what one customer service rep called a “lifetime strategy.” This written plan helps clients balance out their sources of income and insure they understand the risks of retirement, like inflation. There is no charge, at least not yet, for this service.
- GE Life and Annuity Assurance Company built a retirement channel nearly two years ago. According to *Investment News* it’s been a success, offering annuities and long-term health care, with more products on the way.
- TD Waterhouse and American Express have sections on their website devoted to post-retirement planning. This makes a lot of sense since nearly 50% of the 50+ population has Internet access at home, according to the AARP.

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New Financial Adviser Business Model: Choose Your Channel

With financial advisors controlling trillions in client assets, the race is on to attract and retain advisors and their assets in a changing business environment. Broker-dealers and custodians are providing multiple options for affiliation, and it looks like advisor choice will be the wave of the future.

Clearly the power is shifting, and as clients have gained power and a greater array of choices, so have their representatives. It only makes sense that as advisors' practices vary, their desired business models will force vendors to expand their choices.

Chief among their evaluation criteria are the quality of the technology platform and the marketing and sales offerings these providers offer advisors eager to grow their business.

Commission-based brokers are reexamining the type of advisor they must become to survive in the intense competition for investors' assets. High net worth advisors may shift business models from an asset focus to a more comprehensive practice in wealth management. Reinventing themselves, brokers and advisors often discover they need to look beyond their own backyard for advances in open architecture, technology and marketing support.

As these service providers know, the needs of advisors vary based on their business model, client composition, asset base and skill sets.

The new choices let advisors decide how much, or how little, they wish to outsource. In fact, an advisor can now be independent and have almost as much support as a full service broker, minus the brand name and advertising budget, of course.

The lines between broker and financial advisor have blurred, and platforms like Schwab Institutional, Fidelity Investment Advisor Group and T. D. Waterhouse are growing. They often



support an eclectic array of advisor business models — from fee-based investment managers to advisors looking to access third party products, and everything in-between. Some firms

find flexibility is working: net new assets at Fidelity Registered Investment Advisor Group were up \$20 billion last year and up \$6 billion at T.D.

Waterhouse Institutional. Waterhouse plans to double the sales team to 40 to deepen relationships with advisors and add new ones to the platform.

Traditional brokerage firms have recognized the lure of advisor independence and are in the game to attract new advisors and retain current ones. Touting

its AdvisorChoice program, Raymond James is currently promoting no less than five affiliation options: traditional employee, independent employee, independent contractor, fee only firm and bank and credit union. "We are a professional support organization," says Chet Helck, president and chief operating officer of Raymond James Financial.

Wachovia Securities has long believed in the power of sales distribution, as evidenced by the Prudential Securities merger — they wanted the salesforce and left everything else. Wachovia boasts four channels and told *Registered Rep* that the firm is developing a comprehensive training and orientation approach to help advisors switch channels within the firm.

Industry observers expect more firms will fill out their channel alternatives in the months ahead.

Advisors are transitioning from other independent platforms and wirehouses, we hear. A variety of factors motivate these advisors to reconsider their channel: desire for independence and higher payout, cultural "fit", declines in commission business, firm economics, and desire to offer their clients greater product options and enhance their technology support.

Your Turn We want to insure "Financial Marketing Perspectives" has your view in mind too. Please let us know:

Which article was the most interesting in this issue?

- Firms Ready for Asset Distribution as Baby Boomers Face Retirement
- New Financial Adviser Business Model: Choose Your Channel
- The State of Investor Confidence

Which advisor model do you think is likely to experience the most growth in the next five years?

- Traditional employee
- Independent employee
- Independent contractor
- Fee-only firm
- Bank and credit union

What topics would you like to see covered in future issues?

Name

Company

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Dear Friends and Colleagues:

“Got any new numbers we ought to roll around in?” former Treasury Secretary Paul O’Neill used to ask Fed Chairman Alan Greenspan. Thus the former colleagues would begin hashing out the complex indicia of economic signals over breakfast, according to the O’Neill memoir, “the Price of Loyalty.”

Rolling around in the arcane is something we know a thing or two about. As consultants to companies in the financial services industry, we are constantly rolling around in the issues that impact asset growth, marketing, client satisfaction, messaging and business strategy and applying them to investment management, mutual funds, financial advisors and broker-dealers. Here are just a few of the areas we have been exploring for our clients in recent months:

- Positioning a firm that is bouncing back from visible across-the-board performance disappointments;
- Gauging the impact of declining research coverage in a survey of Wall Street analysts in one financial services sector;
- Exploring the psyches of high net worth investors through focus groups to enhance a firm’s penetration of \$1 million-plus relationships;
- Digging into AIMR Trade Management guidelines to position a firm’s superiority in Best Execution.

We wrote a lengthy perspective on the mutual fund scandal and the unintended perils of more regulation that was published in the Sunday Outlook section in the *Baltimore Sun* a few months ago. We now write a monthly “how to” column on marketing for financial advisors for the trade magazine, *On Wall Street*. Recent columns discussed how to talk reassuringly to clients about the mutual fund morass and master networking for new business.

Experience with asset management and brokerage products and our extensive industry knowledge are the reasons firms engage us for their marketing and product development initiatives. If you have something coming up that you’d like us to roll around in, please give us a call.

Sincerely,



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- Merrill Lynch, *The New York Times* reports, is testing “a service that will gather income from an investor’s different funds and deposit it in a Merrill account.”

And the opportunity will only grow larger. Cerulli Associates, in a new study on funding retirement income, reports, “By 2012, investors in the latter part of their retirement years will control over half of the addressable market assets in retirement mode, where portfolios are typically more conservative, and required minimum distributions from retirement markets become mandatory.”

How can your firm get in on the action?

First, by making the mental switch from accumulation to income management. If your firm has made the transition from transactions to relationships, a shift toward income management is similarly about the long-term.

Second, by organizing around the retirement income market. This means matching clients’ financial needs with the right products.

| Client Need | Product |
|------------------|--|
| Income | Laddered bonds, reverse mortgages, annuities. |
| Asset Management | Stocks, bonds and mutual funds |
| Asset Protection | CDs, money market accounts, long-term care and health insurance. |
| Wealth Transfer | Life insurance, trust accounts |

Along with the right products, your firm will need the appropriate support services such as systematic withdrawal programs, retirement income calculators, retirement distribution estimates and asset allocation programs including rebalancing. While many firms have most of the products and services this market needs, coordinating them can be a thorny challenge. It is important to view the firm’s offerings through your clients’ eyes, and not be tempted to let siloed product offerings become an impediment to serving this market.

Third, consider retention strategies if you already manage 401(k) assets. The majority of 401(k) accounts are moved at retirement, so there is a need to balance the search for new clients with efforts to protect the ones you have. Recognizing that retirement is one of the greatest of life’s passages, some firms are focusing on the lifestyle implications of retirement, reflecting the reality that the retirement fund is only a small part of retirement.

Fourth, get the word out that you’re there to help. We are often amazed at the wonderful but unheralded products and services we uncover at firms. Don’t assume that if you build it they will come, although if you do it right you may in fact help clients find their own field of dreams.

The State of Investor Confidence

Shaken by the scandals from the NYSE to Tyco, the investment public's perceptions of the securities industry remains at an all time low. Dishonesty is the main issue facing the securities industry, investors say, and brokers or firms putting their own interests in front of those of the investor are a "big problem," according to the newly-released 2003 Securities Industry Association survey of Investor Confidence.

Dishonesty remained a key cause for the public's unhappiness, with 66% citing the industry's reluctance to punish wrongdoers a big problem and 55% the lack of internal controls. Only 10% of the survey group have a "very favorable" opinion of the securities industry.

Concerns about investing in the stock market show acceleration. Unaided, 63% name volatility or fear of losing money as their main concern in making investments in the stock market, up from 46% in 2002. When read a list of specific concerns, 60% say they are concerned about accounting fraud at U.S. corporations, 57% are worried about corporate governance and 54% are troubled about the U.S. economy. (And less we fear the worse is behind us, this survey was conducted when the mutual fund imbroglio was still in its early stages.)

While investors may have lost faith in the industry and the markets, they still have generally kind feelings toward their financial advisors. Along with a lift in the stock market last year, investor satisfaction with their advisors increased slightly in 2003, with 88% saying they were "very" or "somewhat" satisfied with their advisors. This was still down from the 1995 to 2000 period, when it ranged from 94% to 96%. Other measures of satisfaction, such as the amount of time their advisors devote to their accounts, the extent to which their advisors help educate them, and their satisfaction with their advisor's invest-

ment recommendations registered little increases as well, at 81%, 82% and 83% respectively.

As in the past, a large proportion of investors, 82% in this survey and the last, agreed the industry should be doing more to educate the public on investing. In this year's survey participants were asked how important various measures would be in helping educate investors. According to investors the most important actions are:

- Education materials personalized to their specific needs (61%)
- Specific buy or sell recommendations from their advisors (47%)
- Investor-related website (45%)

Since we know there is no shortage of information out there, educational and otherwise, that's not the problem. Making it relevant is.

Start by creating a standard of business conduct within your firm that sets the bar high for client dealings. This could be codified in a statement of vision and values or a Client Bill of Rights, (the latter is a significant step that should be coordinated with your legal department.)

Firms should undertake a communications audit to evaluate their effectiveness, and consider how their marketing collateral and client communications can better meet investors' educational needs. The more personal the communications, the better chance the firm has of becoming a customer's primary source of information. And being a customer's first choice is what it's all about.

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