



It's All About the Relationship

Working with consultants and referral networks

BY ED MCCARTHY

Developing prospective clients and bringing in new assets can be a challenge. The demands of portfolio management and administration leave little time for marketing, forcing many advisers to rely largely on referrals from clients and affiliated professionals. These referrals are a proven method for increasing assets, but they can be sporadic.

Some wealth management firms have found that investment consultants and brokerage company referral networks can be good sources for new clients. Carole Cox, CFA, senior vice president and portfolio manager at Global Capital's Private Client Group in Atlanta, Ga., USA, reports that these referrals account for roughly three-quarters of her new clients. These new referred accounts average almost US\$800,000, and the clients "run the gamut in terms of age and risk tolerance levels," she says.

Cox believes that focusing on a specific investment strategy improves the likelihood of attracting assets. "Consultants often work in a market niche, such as high-net-worth restrictions and compliance issues," she says. "If the manager's methodology lends itself to working with those particular clients, the manager has an edge in getting those assets."

She also stresses the need to develop relationships with consultants instead of taking a mass marketing approach. "Advisers sometimes spread themselves too thin," says Cox. "They think they can call on consultants once, tell them what they do, and then assume they will naturally get business if they have a good record. That's rarely the case. You have to maintain the relationship, keeping the consultant up to date on your results and what you're doing. That can help you get more referrals in the future."

Cookie-Cutters Need Not Apply

From the consultant's perspective, identifying investment managers is a multi-faceted process. Brian Breidenbach, CFA, managing principal of Breidenbach Capital Consulting in Louisville, Ky., USA, serves as a manager of managers. He spends much of his time evaluating investment managers for possible recommendation to his clients.

Breidenbach's advice to managers who want to work with consultants echoes Cox's recommendation to avoid a mass marketing approach. "If you have what I would consider a 'star' product, that's the one you should focus on and avoid trying to sell your entire product line," he says.

He also recommends that managers understand the consultant's requirements for information so they can provide that data in the preferred format. "Managers shouldn't be put off when the consultant asks for additional information," Breidenbach says. "Find out what they want specifically — don't just send the generic packet you've designed. From my perspective, it's like a first test. If I ask for some information, how timely does the manager get it to me? And how accurately did he meet what I asked him to do? If he fails in those areas, I get a sense of expectations that aren't very good going forward."

Business with the Big Boys

The strategy of putting your best foot forward also applies when approaching large consulting firms. Bill Muysken, global head of research for Mercer Investment Consulting in London, UK, points out that Mercer IC can only research the investment products that are in its database — a fact that managers often overlook.

"The first step is to let Mercer IC know what products you offer," says

KEY POINTS

- Understand the investment consultant's requirements for including your firm in its database.
- Provide communications in the investment consultant's desired format.
- Brokerage firm referral networks are a growing source of new business for participating registered investment advisers.

Muysken. "Different consulting firms use different approaches, but with Mercer, it's very simple. We have an online manager database: the Mercer Global Investment Manager Database, or GIMD for short. Managers contact us, and we e-mail them the information needed to access GIMD. They log in and complete their entry by providing some firmwide information and information about the specific strategies they want to offer. It doesn't cost them beyond the time required to fill out the entry."

Getting into the database doesn't guarantee success, of course. Muysken explains that no investment-consulting firm has the resources or the inclination to research every available product. Instead, Mercer IC targets its research on the firms it identifies as the top candidates.

"First, we review the information in the database to see how impressive it looks on paper," says Muysken. "Then we review any other information that we receive from the investment managers. It also doesn't hurt to get directly in touch with the researcher responsible for researching the product. You won't be able to secure a meeting over the phone, but you can offer to send some material so that the researcher can form a view on whether your product is really one of the best in its category."

The odds of making the cut and being placed on Mercer IC's recommended list are long but not insurmountable. As of late April 2004, 2,150 managers had listed 11,695 products in the database. Mercer IC has research opinions on 3,809 products, of which 1,159 rank high enough to merit recommendations to clients. The potential rewards for making the short list are

appealing: In 2003, Mercer IC conducted 740 manager searches that placed US\$66.7 billion worldwide, with the average placement at US\$90.1 million, plus an additional 407 searches for US defined-contribution plans.

Referrals: The Upside

Investment managers can also benefit from local brokerage office referrals. Boston, Mass., USA-based Fidelity's AdvisorAccess program provides referrals from its branch offices to registered investment advisory firms (RIAs) who meet the following requirements (among others):

- have at least US\$50 million in assets under management at Fidelity on a discretionary basis;
- are compensated primarily on fees, rather than commission;
- offer individual securities and mutual funds as part of their investment management services.

In addition, the individual(s) providing advice must meet the following criteria for education and experience:

- holds (along with the other principals in the firm) either a bachelor's degree and has five years' experience managing money and investments as a primary occupation, or
- is a CFA charterholder and has three years of experience managing money and investments as a primary occupation, or
- has 10 years of experience managing money and investments as a primary occupation.

The program requires a US\$500,000 account minimum. Investors who qualify complete an online profiling questionnaire with a Fidelity representative at one of the company's local branch offices. Fidelity then matches the investor with at least two local RIAs. The investor can contact the RIA directly or ask the RIA to initiate the contact. As of March 2004, the program had generated over US\$2 billion for participating advisers, with an average account size of over US\$1.3 million.

The Schwab Advisor Network of San Francisco, Calif., USA-based Charles

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NORMAN BOONE
President
Boone Financial Advisors

Schwab has participation requirements that are similar to Fidelity's. The program has produced a large number of referrals. From its launch in April 2002 through December 2003, the program has delivered over 30,000 referrals that led to US\$7.9 billion in new assets. Advisers in the network pay Schwab a percentage of the asset management fees they charge newly referred clients, while there is no cost for participation in Fidelity's program.

PacWest Financial Management has benefited from its affiliation with Schwab. According to PacWest president Mindy Ying, assets under management at the firm's San Marino, Calif., USA, office have almost tripled since September 2002. Part of the growth came from existing clients' referrals and seminars, but she attributes much of the new business to participation in Schwab's Advisor Network and referrals from its Global Asia Pacific Services, which markets services to Asian immigrants and Asian-Americans.

“Since April last year, Global Asia Pacific Services started to promote the Advisor Network Program more actively,” she says. “Those referrals have definitely contributed to the growth we've seen.” Ying also receives occasional referrals of Asian-American prospects from a local Fidelity office, although she does not participate formally in their adviser network.

Referrals: The Downside

Are there any drawbacks to working with the brokerage referral programs? Norman Boone, president of Boone Financial Advisors in San Francisco, Calif., USA, is in the Schwab network, but he didn't focus on developing those referrals until recently. His reluctance was caused partly by the difference between his firm's approach to prospective clients and the referring Schwab representatives' mindsets.

“We've found that the Schwab reps understandably are focused on getting clients to sign up with that RIA and investing the money because that's when the Schwab reps get paid,” says Boone. “But that tends not to be our process. We tend to do more than investment management, and I think the decision to hire a financial planner and pay a fee is more difficult for the client. Getting Schwab reps to understand our process has been more involved.”

Boone cautions other advisers against underestimating the time needed to benefit fully from a referral network. “You must dedicate time, energy, and perhaps personnel to work the program,” he says. “Ultimately, people will refer prospective clients to you because they know you, like you, and trust you. That's true whether it's Schwab or the CPA firm down the street. Most of these referral programs have an established set of relationships, so you need to not only get in and introduce yourself but you also need to get over the hurdle of being the new kid on the block. That takes a lot of work.”

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RECOMMENDED RESOURCES

CheckFree® Investment Services Mobius® M-Search (www.checkfreeinvsvcs.com)

Fidelity AdvisorAccess (ibg.fidelity.com/default.html)

Mercer Global Investment Manager Database (www.mercergimd.com)

Schwab Advisor Network (www.aboutschwabinstitutional.com)

Zephyr StyleADVISOR (www.styleadvisor.com)