

INFORMATION

Special to this issue:

Practice Management: *A deep look at succession planning that could have you rethinking your own plans.page 6*

The Profession: *Check out the AICPA's PFP conference--if you dare.page 11*

Practice Management: *How two advisors are using iPads in their practices.page 13*

Portfolio Management: *What does Morningstar's Don Phillips think about gold and dividend investing?page 15*

Parting Thoughts: *The difference between SEC enforcement against independent RIAs and Wall Street has become too obvious to ignore.page 16*

The newsletter for serious financial advisors. (www.bobveres.com)

INVESTING FROM THREE ANGLES

Synopsis: *A panel discussion offered remarkable insights into the investment markets and the current state of the economy.*

Takeaways: *Today, it may be easier to find market inefficiency in broad macroeconomic mispricings than in mispricings of individual stocks. Look for above-average returns after periods of investor fear, and expect European stocks to surprise on the upside while emerging markets underperform.*

One of my own experiments at the Business & Wealth Management Forum in Chicago was putting together a panel discussion featuring David Marcus of Evermore Global Advisors, John Rogers of the Ariel Funds, and Michael Aronstein of the Marketfield Fund. In my introduction, I described them as three people who are routinely accustomed to being the smartest person in the room, no matter what room they happen to wander into.

I had three hidden agendas with this panel. The first was to give the audience a chance to decide if there really is a talent difference among fund managers. When these investment professionals talked about their management analyses, would we hear anything different, anything that sounds like an edge over all the other really smart people who are looking for ways to achieve above-average performance?

The second part of the plan was to explore and contrast

Continued on page 2

EARLY WARNING

•There's a lot of talk around the profession about the missing next generation of financial planners, and indeed many planning offices seem top-heavy with someday-to-retire Baby Boomers. But the marketplace has a way of filling these voids; the CFP Board recently announced that an astonishing 4,279 people registered to take this month's CFP exam--the most in history. At a 50% pass rate, there will be more than 2,100 trained advisors available for hire in the pro-

fession. The missing generation problem may be solving itself.

Meanwhile, check out Financial Planet, a blogging site where advisors can discuss professional issues with CFP advisors here and abroad, along with educators and regulators (www.financialplanet.org). The site is sponsored by the Financial Planning Standards Board, which has nonprofit member organizations in 24 countries.

Also, a conference reminder: **T3 in Dallas**, February 16-18 (<http://t32012.eventbrite.com/>).

Investing from Three Angles

Continued from page 1

three VERY different ways to approach the markets, and learn something from each of them. Aronstein is the classic top-down macroeconomic analyst. Rogers is a value investor in the Warren Buffett tradition. Marcus is not just bottom-up in his approach; he actually takes a role in helping manage some of the companies that he invests in, often by helping them restructure themselves into better, more valuable enterprises.

The third agenda was simply to give the audience the benefit of their insights. What's going on in the global big picture? What's the best way to capture that persistent value premium that academics are scratching their heads over? What kind of company situations have the best prospects for delivering a dramatic increase in value inside your client portfolios?

To get a sense of their differing investment styles, I asked each panelist to give their elevator speeches. We got three extraordinary ones.

For his elevator speech, Aronstein drew a distinction between two different kinds of inefficiencies in the investment markets. The first is mispricings that are based on macroeconomic misconceptions--investors being misinformed about the meaning of alarming lurches in the global economy. The second is what he called "localized misconceptions," such as what an individual stock is really worth after a bad earnings quarter.

The (bottom up) localized

misconceptions are hunted by thousands of traditional fund managers who are all pretty sophisticated about reading a balance sheet. Aronstein believes that mispricings of individual stocks tend to be harder to find than the inefficiencies created by investor herd behavior and misunderstandings.

"It's a little like studying the architecture of individual ships versus knowing the probability of the weather," Aronstein said. "Most of the fund industry is looking for well-constructed ships. But there are times when the weather is such that you don't want to be in any ship.

"Up to 2008, nobody cared very much for the macroeconomic approach to investing," Aronstein continued. "But the current economic environment is giving rise to generalized misperceptions that affect all markets and asset types. We look for which assets should be benefiting from or are negatively affected by the forces that are arising."

Rogers said that his approach is consciously similar to Warren Buffett's. "We believe that you want to own extraordinary businesses that have a moat around them," he told the group, explaining that the moat is a strong balance sheet that lets a company weather any temporary setbacks plus a brand or reputation that gives the firm a competitive advantage over its rivals. "We also want to invest in companies that have excellent management teams that we believe are honest and

fair with shareholders," he added, "and we want to buy them when, for whatever reason, the market is selling them at a discount to the overall private market value of the business."

What's different about Ariel, he explained, is that most of the devotees of the Buffett approach tend to invest in large cap stocks. "Over the last 29 years, we've taken that same approach to small and midsized companies," Rogers told the group. "And we are a little more focused than most managers. Our portfolios typically have 30 to 40 stocks in them. We believe that concentration is the difference in allowing us to know the companies we invest in extremely well."

This was a long elevator ride. Rogers said that when he talks with corporate managers today, they will often voice two complaints: that most fund companies are relying on young analysts right out of college to evaluate the complex nuances of their corporate strategy, and that it seems like investors are no longer owners of companies; they are temporary renters of their stocks, fixated on the next quarter's earnings estimate. "They tell me, you guys are really unusual," Rogers told the group. "They say: you come in with experienced analysts, and they ask us about three, five and ten years down the road. We've had companies in the portfolio for 25 years or more," Rogers added, "and we think that ultimately helps us get better information, better insight

from management, and have better overall relationships with management teams."

When it came time to give his elevator speech, Marcus drew an interesting distinction among all those companies that happen to be selling cheaply at any given time. His firm looks for a subset of those undervalued firms that have, in his words, "significant catalysts for value creation."

Meaning? There has to be a major change in the way a company is operating that could dramatically improve the value of the enterprise. "We want companies that are going through restructuring, turnarounds, that are bringing in new management," Marcus told the group. "When I worked for Michael Price for 14 years, he beat it into our heads that you can't just have stocks that are cheap. They have to have things going on."

Marcus spent years operating and managing various companies

under the corporate umbrella of a Swedish industrialist, which, he says, gave him an unusual perspective as an investor. "I think I've become more quizzical and cynical as a result," he told the group. "When we have a management meeting and the company says they're going to do something dramatic in the next 18 months, I find myself saying: wait; when we made something

Bottom up investing is a little like studying the architecture of individual ships versus knowing the probability of the weather.

You want to own well-constructed ships, but there are times when the weather is such that you don't want to be in any ship.

sitting with the chairman of Sony Pictures, the head of a big Russian phone company, one of Rupert Murdoch's former COOs, and we talk about ideas," Marcus told the group. "What are you seeing? What's changing in technology? How is media being distributed in different ways? Being able to tap into that network is absolutely invaluable for what we're doing."

Part four of Marcus's elevator speech was the simplest: he holds the companies accountable for the things they said they're going to do. "We aren't embarrassed to stand up for our rights as shareholders," he said. "Should we have a proxy vote? Should we vote for changes in management? Should we ask for board seats? We take it very seriously that we're an owner of a business," he added. "Our ultimate question for every investment is: would I want to own this whole company? If the answer is no," Marcus told the group, "then I don't even want to own one share."

As the conference was taking place in mid-October, many advisors were still reeling from the Summer of Discontent, when the market was bouncing around unpredictably and giving back the gains of the first two quarters. I was curious whether the panelists had any insights on how to handle markets like this--not just procedurally, but also how to kept your emotions in check when so many investors seem to be losing their heads.

Continued on page 4

Inside Information is published monthly by Robert N. Veres.

©2011, Robert N. Veres. All rights are reserved. *Inside Information* may not be reproduced in whole or in part, and particularly not without the use of medieval scribes, without the permission of the publisher, who is certainly approachable on the subject and has proved to be an easy mark in the past.

Editorial offices:

1804 Garnet Avenue
Suite 510
San Diego, CA 92109.
E-Mail: bob@bobveres.com

like that happen at one of our companies, it took a lot longer than that. How are you going to get it done in half the time?"

Finally, Marcus said that because he's been investing actively in Europe for the past 25 years, he has contacts, friends and people he's worked with who can give him insights into the broader investment environment--in effect, the bottom-up manager's source of top-down information. "After a board meeting, I'm

Investing from Three Angles

Continued from page 3

Conviction and Mispricings

So I asked the panelists: what does it feel like to be investing under these market conditions?

Rogers said that any value investor's biggest challenge in an irrational market is maintaining your long-term conviction. "During times like this, I go back and reread the great articles of all time on value investing," he said, specifically mentioning an article by Warren Buffett in a 1979 issue of Forbes magazine, and Burton Malkiel's "A Random Walk Down Wall Street." He said he also sometimes picks up the phone and talks to Bill Miller at Legg Mason and Staley Cates at Southeastern Asset Management in what is apparently an elite manager support group.

Aronstein said that this is his kind of market. "We think we know something about a world where all these broad, abstract macroeconomic factors are pushing people around," he told the audience. "We're not shy about looking at peoples' responses to certain streams of data and saying: 'Yeah, that's plausible, but it's wrong.'"

Marcus has focused most of his attention--and investments--in Europe, because he believes there is more need for corporate restructuring, and more opportunity to add value by waking up sleepy 200-year-old companies, there than anywhere

else in the world. But European stocks have gotten creamed this year, and in a flight to quality, European value stocks have been dumped with more than the normal enthusiasm. "Lately, it has been frustrating when we talk about our performance," Marcus admitted. "We're a global fund; we can go anywhere in the world, but I have to say the best opportunities we see today are actually in Europe. We have a chance to invest at remarkable prices in companies that are using the crisis to their advantage. These companies are using the downturn to bring their whole cost structure down, to consolidate their manufacturing, to move production to where their customers are." Later, he said: "I feel like somebody has yelled "fire!" and everybody is running out, and on their way they are literally dumping everything out of their pockets.

"If you're careful about what you buy, you're going to get unbelievable bargains today," he told the audience. "This is one of those periods when fortunes are made. You don't get these kinds of markets very often, so you have to take full advantage when you can. History has proven over and over and over that if you buy compelling investments when everybody else is panicking, you're going to do very well over time. And this is that time."

Patience and Volatility

Then the moderator's

questions became more specific. I asked Rogers: what's the best way to capture the value premium? "It's so important to have the courage to stay the course when it's extraordinarily uncomfortable to do so," he said.

In addition to persistence, he said, you should cultivate more than normal patience. "The markets are extraordinarily efficient, and it's really very rare that you find real opportunities to take advantage of truly undervalued securities," Rogers told the group. "Those windows of opportunity open up very rarely. It can be when an entire industry is out of favor, or when a great company has a massive earnings disappointment. During 2008 and 2009," he added, "you saw analysts who had stocks that they loved at 25, and now all of the sudden at a dollar a share they're putting a sell on it."

Later Rogers added: "To take advantage of value opportunities, you have to be willing to step up and buy during those periods when everyone else is having an extraordinary amount of fear. If you miss those opportunities, you don't get another chance to do it again. You have to be able to look past all the current noise."

When I asked Aronstein what he sees in the macroeconomic environment today, he said that we should get used to the extraordinary market volatility that we've been experiencing recently. He believes we're going to see a lot more of it.

Why? "We've eliminated all the market-makers whose job is to smooth out the natural flow volatility," Aronstein told the audience. Some of those specialists (think Lehman and Bear Stearns) are out of business. When the bid/ask spreads moved to penny increments, it created such narrow margins that many of the other Wall Street firms decided to get out of the business of making markets in stocks. Finally, the government is putting a lot of pressure on the big investment banks not to take on any risk. "With the regulators breathing down everybody's neck, these guys are withdrawing from making markets in the instruments that they used to be responsible for," he said.

Aronstein said that the current market reminds him of 1987 during the market crash. "Back then, the heads of desks around the street were walking around cutting the phone lines of their traders, or pulling them out of the wall," he told the group. "You'd call and get a busy signal, or you'd get the telephone company saying, 'There's a problem on the line.'" Well, the problem was that none of these guys wanted to take on any more risk, and now you're getting that structurally within the whole business. We're going to have to all learn to live with greater volatility, and structure our exposures and our trading methodologies accordingly," he added, "because I don't see anything that's going to make it

go away."

Meanwhile, Aronstein thinks the Summer downturn had its roots in the 2008 market meltdown. "The emotional stress of that disastrous year," he said, "comes when a fund manager says, I can't sell this, or that, or get out of the market because if the market rallies, I'll never get it back." The manager will have little cash on hand and no orderly retreat from previous positions, which may be down 50%. "In the next downturn," Aronstein said, "your customers start making the decision for you. The phone rings and it's either the margin clerk or your last two clients. Then the market sees all this involuntary selling, a lot of money being squeezed out of risk assets that may be cheap on an absolute and relative basis, and they conclude that the market must have been overvalued."

Whenever you start to see forced selling, Aronstein thinks that you've entered a period where there is more danger of missing the upside than experiencing a dramatic downside. Rogers jumped in at that point to agree. He said that he sits on a lot of boards of directors and investment committees, and never in his career has he ever seen such a focus on risk aversion. "Everybody in the endowment world is scared to death," Rogers told the group, "and people are actually bragging about how little money they have in domestic equities. I have to believe that whenever you see

people behaving this way, the next ten years we are going to see a much more positive market environment."

Sustainable Growth?

Looking at the global opportunity set, Aronstein said that he believes most investors are prepared for the worst in Europe, and stocks are priced as if there will be catastrophic defaults. At the other end of the spectrum, he said that many people expect emerging markets to deliver returns that he thinks are unrealistic. "The flows into emerging markets have created a lot of expectations," he said, "but we believe that some of the factors that accounted for the tremendous performance of emerging markets are transitory."

When asked to elaborate, Aronstein made two interesting observations. He said that the rapid economic growth in China and the Asian emerging markets came in two phases, neither of which has much to do with intrinsic growth. Phase one was the relocation of industrial capacity from the Western nations to lower-cost job markets. "When Asian currencies collapsed in the late 1990s, the cost to produce anything in the emerging market economies there went down 60-80%," he said. "That, plus the 1999-2000 slump in commodity prices put extraordinary pressure on traditional U.S. and Western European industry. Companies

Continued on page 6

Investing from Three Angles

Continued from page 5

were saying to themselves, we have to get into these less expensive manufacturing zones or go out of business."

The result was a huge boost to the local emerging economies, plus a lot of technological expertise that could plug directly into an emerging economy.

Phase two, Aronstein told the audience, came when global investors looked at the enormous growth in emerging markets, and made the mistake of thinking it was intrinsic growth, rather than something driven by a surge of capital investment from the Western economies. "All of a sudden, you had these colossal inflows of foreign portfolio capital, in equities, private equity, fixed income, anything that people could invest in," said Aronstein.

He wants to see China and Russia and the emerging economies in Asia create sustainable growth on their own before he's willing to invest, and he thinks that if they don't, there could be a lot of investors moving money out and a long period of underperformance.

I was hoping this would be the best and most informative mutual fund manager investing panel the attendees had ever seen. Based on the buzz that this session generated throughout the conference, it would seem to have been a decent success. The question now is: if the conference decides to create a discussion like this next year, who can we invite to follow this act and carry on the tradition? ■

Practice Management

Succession In Depth

Synopsis: Mark Tibergien and Matt Lynch offer new insights into the succession planning challenge for advisors.

Takeaways: Don't expect one person to take over all the duties you currently perform, and create a 'diversified portfolio' of successors. Think of succession, not as a financial transaction, but as a client transfer process.

The Business & Wealth Management Forum's opening keynote presentation was a bit unusual. Instead of bringing in a speaker who is famous, entertaining and clueless about the challenges faced by the planning profession, the conference started off with an "unplugged" panel discussion that took a deep dive into a familiar practice management issue. The panelists--Mark Tibegien, CEO of Pershing Advisor Solutions, and Matt Lynch, CEO of Capital Analysts in Cincinnati--have worked at the Moss Adams consulting group, Tibergien as its founder and CEO before moving on to Pershing. Both now offer similar consulting services to advisors who custody at their firms.

The goal was to take these two practice management experts out of the normal structured speech format and give the audience a look at how they spontaneously create solutions and advice when they walk into an advisor's office. They were asked to go a level or two deeper than the usual high-level review of important principles, and to focus on succession planning--

the subject of the hour in our aging profession.

Tibergien started by drawing a connection between succession planning and a lot of broader practice management issues. He said that advisors often think of their succession plan purely as a transfer of ownership of the firm--in other words, a financial transaction that is mostly about the proper value of the stock that is gradually transferred to the next generation, or sold to an outside buyer. Alas, this focuses their attention on the least complicated part of a successful transition, and tends to overlook a number of far more challenging issues that have to be addressed.

To navigate the succession plan with clear vision, he said, think of it as a plan to accomplish two things: to gradually transfer client relationships from you to another person or group of people, and as a gradual transfer of all the management responsibility that currently falls on your desk.

Lynch agreed. "One of the most common succession mistakes is to see it as a transaction rather than a process," he told the

audience. "People take a practice that is highly-dependent on a single advisor or two, and imagine they can, overnight, hand it over to the staff or an outside buyer as if it is a sustainable or transferable business."

All too often, he said, this undermines or destroys the value of the practice, which is measured by the client relationships and the platform that serves them on an ongoing basis.

Tibergien said that advisors can start to see the bigger picture if they step back and fully recognize their fiduciary responsibilities in the succession process. "You are supposed to be acting in the client's interest at all times," he said. "As you think about your succession plan," he added, "the question I would ask is: are you planning for the best interests of the clients who have come to trust you and depend on you for advice? If you think of the succession plan through that filter, it creates a whole different level of intensity around how you navigate the transition."

Diversified Succession

From there, the presentation addressed a lot of issues that are hardly ever discussed. For example? Is the succession planning process fundamentally different for the leveraged solo practitioner than for a multi-partner firm? In their consulting work, would Tibergien and Lynch give different advice to larger firms than to smaller ones?

Tibergien said that the two are identical in some ways. Both have to address the same basic issues: who is going to assume

responsibility for the clients, and who is going to take over the day-to-day management of the firm. "The ultimate question in both circumstances," he said, "whether you're selling the firm to an outsider or creating an internal succession, is: are you matching those clients up with individuals who can give them service at a high level, up to your standards? That's a much bigger, more complicated issue than: who will buy the stock in my firm?"

But Lynch said that the succession challenges facing larger and smaller firms are different in other ways. In fact, he said, the preparation for succession may be the time when many leveraged solo practices become multi-partner firms, simply because it isn't realistic to expect one person to take on all the roles of the founding advisor.

"The experienced advisor was likely successful because you were capable of wearing multiple hats in the business," he said. "You might be the chief operating officer, and the technician, the lead advisor, the person with knowledge of portfolio design, and the rainmaker. As you think about succession, you first have to find somebody who wants to be an owner, and take on all the risks and responsibilities of an owner, which is not always the case for the next generation coming up," he said. "Then, among that group, you have to find people to fill all those various roles, who can wear all those hats.

"Recognize that it is usually not found in a single person," he said. "So one difference between a solo firm and an ensemble is

that it is much harder to transition from one advisor who is doing everything to another advisor who is doing everything. The next generation doesn't see that as an attractive career path: working 14 hours a day doing all the things the solo practitioner has been doing for the past 25 years."

Tibergien suggested that you--whether you're a solo practitioner or one of several partners in your firm--begin by thinking about succession in terms of building a ladder portfolio of potential successors. This recognizes that some of them will not work out, while others will take on those specialized roles that are a subset of what you do. "We say that for every one owner, you want to have three potential successors," he told the audience. "They can all be at different stages of development, and do different things in the office, and they will almost certainly have different strengths. You want to have diversification," he added, "because just like a portfolio, the diversification reduces your risk of a catastrophic failure. You don't want to put yourself in the position of betting everything on one person who ultimately leaves and forces you start the whole process over again."

Lynch said that there is nothing magical about three successors; the actual number may depend on how many of your hats will be worn by the successors. "To replace you in your business might require two full-time partners," he said; "one who is in a management role, another who takes over the advisor role. It might take three,

Continued on page 8

Succession in Depth

Continued from page 7

with somebody else taking over the portfolio design and management work. That means," Lynch added, "that you might need five or six succession candidates early on, because you want to diversify your chances of filling each role."

This illustrates why the challenge is different between solo practitioners and ensemble practices. The ensemble practice is much more likely to have five or six people on staff who take on partnership responsibilities. Few solo firms have the resources to make such a dramatic staff commitment simply for succession purposes. Lynch and Tibergien said that one possible solution is for solos to seek out a merger partner--either a multi-partner firm that has a lot of succession issues nailed down, or several other solo practices where the newly-merged partners can start building scale at the same time they're building succession.

But... Tibergien warned the audience that it could be dangerous to assume that just because you are building competent staff, you are also developing future owners. He recalled a consulting arrangement where he visited a three-partner firm whose owners told him proudly that they were grooming six promising staff members to take over the firm. He sat down in a meeting with all nine of them, and quickly discovered that the six potential successors had all the right values, and were committed to the firm.

"And so the first question I asked the six non-partners was: how

many of you want to be an owner?" Tibergien told the audience. "None one of them said yes. It was one of those 'Holy crap!' moments for the owners."

Lynch and Tibergien also talked about the various misunderstandings and cultural differences between generations. You hear a lot about the generation gap between Baby Boomers and Gen X or Gen Y, but a more fundamental difference than intergenerational culture is the very different business environment that each group has grown up in. The Baby Boomer founders of today's firms created their practices in what was essentially a Wild West environment, with almost unlimited opportunities and a chance to make up their service and revenue models as they went along. Advisors coming out of college today are entering a more structured profession, less Wild West, more boomtown.

This, all by itself, has created fundamental cultural and communication disconnects between founders and would-be successors. A lot of advisors that I've worked with did not get into the business thinking they were going to own and operate a business," said Lynch. "Now, suddenly, we have what is close to a profession, with processes and associations and viable businesses. When kids come out of the financial planning programs at the college level, they don't necessarily look at the profession as an opportunity to be an entrepreneur. They're not looking to follow the same path."

Lynch added that advisors who are looking to sell their

practices often expect the younger advisors to pay their dues, but those dues were, in fact, paid long ago by the advisor him/herself, in a very different business climate than today's. "There's no need to go through those tough times of inventing the firm and the profession and the service model," said Lynch. "It creates an unnecessary obstacle to the succession process."

Tibergien agreed. "It's always interesting to hear those conversations between older generation and younger generation advisors, where the criticism is that the younger generation is not entrepreneurs," he said. "But we really don't need them to be. You've already built the business. Instead of requiring them to go through the pain and suffering of starting a business all over again, why don't you say: we have a business, but now we have to create real operating leverage and real value and a real brand in the marketplace? That way, you take well-educated, well-disciplined, motivated individuals and create this environment they can flourish in. I think how you approach your successors, and what you ask of them, can make a huge difference," he added.

During the succession process, the founding advisors will have to change their role in the firm, which can pose uncomfortable challenges. What psychological barriers should they be prepared to face?

Lynch talked about "founder's syndrome," where senior advisors have trouble not only of letting go of equity, but also to the processes they've created at the firm. "We

see advisors who are emotionally attached to their businesses, as they should be since it represents their life's work," he said. "But they are also attached to the way they do things, to the point where they unconsciously believe there is only one way to approach portfolio design, or to interact with clients, or generate reports. You've always done it this way, and it's been successful, so why would anybody want to change it?"

This attitude makes it impossible for the newer advisors to come into the firm and innovate. If they aren't allowed to make changes and contribute, how can they be expected to take ownership of how the firm does business? "These younger advisors can contribute far more than they are being allowed to do," Lynch said. "You're making a mistake if you deny them the most basic management experience, which is to try out different ways of handling situations and finding the best ones by trial and sometimes by error."

Is there a cure for this? "One way to test your candidate successors, and prepare yourself for succession yourself," Lynch proposed, "is to give them control. Let them drive the firm for a while, see how it goes. You might find that it allows you to take time off, or wear fewer hats. Let them improve the practice, so it will be worth more than they buy it."

Tibergien said that we sometimes unconsciously rob people of their grace and dignity by underestimating them. "We tend to think of our children as always being children and never adults," he said. "And we tend to think of

the young employees that we bring in as always being what they were."

As an example, he told the story of an executive retreat with 15 different advisory firms, all of which had parents grooming their children as successors. "We separated the children from their parents and vice versa, so they could be candid in conversation," Tibergien told the audience. "And the interesting thing was that, to a person, the children were saying: 'When will my parents understand that I'm an adult and respect what I've accomplished?' And the parents, to a person, would say: 'When will my children understand all I've done to build this business?' That, in a way, summarizes the generational differences that we all face," he said. "It should never be about you. It should always be about the business you're trying to build together."

So how does the senior advisor prepare for the transition from manager to mentor?

Number one, said Tibergien: recognize that people will inevitably make mistakes. If you can treat those mistakes as learning opportunities, they can be powerful and beneficial. "I tend to draw a distinction between mistakes of carelessness versus mistakes of judgment," he said. "I'll always accept the mistake of judgment, because we know that people are attempting to do things, and hopefully they will learn from it. Mistakes of carelessness, on the other hand, cannot be tolerated."

An advisor takes on the mentor role, as a developer of people, when you outline the expectations you have for your

staff members, and are willing to define the deliverables to be accomplished rather than the processes to do them. "You want people to discover and improve on your processes," he said.

Building on what Lynch said earlier, Tibergien said that the discovery and improvement process requires energy. Advisors become stuck on their current processes is because they gradually lose the energy required to dive back in and rethink how they're doing things every year or two. "You have to have a clear view of all the resources of your firm, and one of them is energy," Tibergien told the audience. "When we start in the business, we have a lot of energy and no wisdom. Then around age 55, that reverses, and we have less energy and a lot of wisdom." Applying the founding advisor's wisdom and the successor's energy is a formula for moving the firm forward.

Lynch said that another sign that the advisor has taken on a mentor role is your ability to reward risk-taking, rather than punish it. "There is a formal process where you assign problems to the next generation, and give them opportunities to make specific contributions," he said. "Go back to your office and look at a system that needs to be updated," Lynch suggested, "or have them make a recommendation on some challenge that you're facing in the firm. Allow them to suggest improvements, let them challenge you in the work you're doing. If you give them a chance to be a part of the decision-making process

Continued on page 10

Succession in Depth

Continued from page 9

early on, and not fear change," he added, "you do two things: you create an environment of innovation, and you prepare people for taking on responsibility as potential successors."

One of the more interesting hurdles to succession planning comes when the advisor and successor sit down to talk about the transfer of equity. Lynch thinks that many advisors have an unrealistic view of how much their practice is worth. If they can reach a more objective evaluation, not only will the negotiations go more smoothly, but they will also recognize the improvements they need to make in the practice as a business so that it becomes a viable entity to be transferred.

Where do you get that objectivity? Lynch has resorted to trickery. Capital Analysts offers a two-year succession planning program for its advisors, and one of the early exercises they go through is filling out a detailed questionnaire about their practices. Later, in a classroom exercise, every advisor is given a description of an advisory practice, plus basic benchmark data and some valuation tools.

The advisors are asked: what would you pay for this practice? What are the problems with it, from a buyer's perspective? "Typically, they'll tear that business apart," Lynch told the audience. "They'll point out that it doesn't really have transferable value. It's much too dependent on sources of revenue that may not be sustainable. It may be too dependent on the owner

as the rainmaker or the owner's relationship with clients."

The punchline is that the hypothetical practice is based on data very similar to what the advisors provided in the questionnaire.

"They learn that this is basically their practice they've been evaluating," Lynch told the group. "It gives them an 'Ah ha' moment, where they step back and take a critical look in the mirror and realize that an outside buyer is going to be unforgiving, is not going to buy the story that my practice is different or we're unique. They're going to just look at the numbers and the value that is transferable, what is sustainable and whether or not it is capable of growing. Is this a business," he added, "or just a book of business?"

Many advisors have a certain anxiety around growth and creating a sustainable, larger business out of their comfortable smaller practice. And the concern does not seem unjustified. The medical profession has evolved from doctors who make house calls to larger clinics, and in the process there has been greater liability and higher insurance expenses, less of a relationship with patients, more supervision of every cost and recommendation.

Are we heading toward a profession where there is a lot less personal satisfaction and personal innovation? Is the trend toward sustainable businesses taking something away as well as adding something?

Tibergien pointed out that he is not talking about creating the 1,000-employee firm, where

structure and protocol will rule over individual initiative. "I happen to believe there is real power in aligning with intelligent, motivated people in your office, to make you a better advisor," he said. "Our ability to leverage others can be incredibly fulfilling. But individuals themselves have to focus on what is going to make them fulfilled," he warned. "If you're doing things you don't like to do, then consider the larger practice as an opportunity to offload the roles and responsibilities that you're not suited for."

Lynch said that, in his experience, a lot of advisors who were happy and fulfilled when they were building their practices are now feeling trapped, tied to their desk, bogged down making human resource decisions, dealing with legal and compliance issues that they never really signed on for. "As we move to larger practices, it allows for specialization," he told the group. "It often leads the advisor who was thinking about retiring to get new motivation, because you're only involved in the things you want to do."

When the opening keynote ran out of its allotted time there were actual groans of dismay from the audience. We could easily have gone on another hour, possibly two, without exhausting the topic. My takeaway is that succession planning and building a sustainable business are virtually synonymous with each other, while preparing for succession and delegating and mentoring are also synonymous concepts. The topic of the day in our profession may be a bigger topic than we realized. ■

Beyond Advanced

Synopsis: *The AICPA Personal Financial Planning Conference offers the most substantive menu of advanced planning topics in the planning universe.*

Takeaways: *This year's schedule brings in familiar names from the CFP world, plus some interesting keynoters.*

Sometimes I call the AICPA PFP world of financial planners with an accounting background a "parallel universe" to the CFP advisor world. The cultures are actually not that far apart; all financial planners face similar challenges in managing their practices, navigating through the choppy investment markets, creating better client service models.

But there are enormous differences in the professional education opportunities of the two groups. The AICPA has managed to do something that you simply don't find elsewhere in the planning profession: create conferences that incorporate very deep, very high-level sessions on estate, tax and retirement planning strategies. I remember one meeting where the first session I attended was Bob Keebler's explanation of the implications of the Bush-era tax cuts and when it would make sense to recharacterize Roth IRAs, followed by Barry Picker answering technical questions from the audience on IRA and retirement plan distributions and the taxation thereof. By the end of the third session, which featured two insurance specialists at a

Big Four accounting firm talking about how they structure various estate planning strategies, I had slammed into the wall. For the rest of the day, I was taking notes in a trancelike state.

This year, the AICPA PFP division is doing it again--with a twist. For the first time since I've been attending their meetings, the conference is now cherrypicking some of the most knowledgeable speakers from the parallel universe: Michael Kitces on tactical asset allocation and reviewing life insurance policies; Tim Kochis on options and deferred compensation issues for senior corporate executives; Jon Guyton on safe withdrawal rate calculations; Deborah Fox of Fox College Funding and the Fox Planning Network on how to incorporate financial planning processes into your practice; Bill Winterberg on using the iPad in financial services; Roger Gibson on post-2008 asset allocations.

The conference, at the Aria Resort & Casino in Las Vegas, January 16-18 (www.cpa2biz.com/pfp), basically offers something which, for whatever reason, the other conferences in the financial planning space have deemphasized:

the technical aspects of planning, the procedural recommendations to clients. But as a variety of tax cuts and estate planning techniques are set to expire or be reevaluated by Congress, at a time when there is more uncertainty about the tax regime and future investment returns than at any time most of us can remember, the unusually technical conference suddenly seems timely. It helps that the AICPA can draw on Keebler, of Keebler & Associates in Green Bay, WI, and Picker, of Picker & Auerbach CPAs in Brooklyn, NY--the leading-edge thinkers in the CPA world on retirement, distribution and estate planning issues, particularly the various tax implications and advanced strategies. Picker is also speaking with Larry McKoy of the Dixon Hughes Goodman accounting firm in Glen Allen, VA on income tax planning, and Mitchell Freedman--a household name in the CPA world who seems not to be well-known outside of those circles, will be speaking on how to transition from traditional planning to elder planning as clients get on in years, and also on how to help clients navigate through unexpected events and personal disasters.

Meanwhile, for advisors who want to take a break from the heavy technical lifting, Michelle Golden, of Golden Practices, Inc., has two presentations on marketing and social media. There are several sessions on coaching and client communications, and in addition to Kitces and Gibson, the investment sessions feature Mark Kritzman of Windham Capital Management

Continued on page 12

Beyond Advanced

Continued from page 11

in Boston (and one of the deeper thinkers in the area of evaluating portfolio risk) and Jerry Miccolis, who has presented on post-Modern Portfolio Theory at NAPFA conferences and the Business & Wealth Management Forum.

The 2012 PFP conference also seems to be the first--in my experience, at least--to bring in major keynoters from outside the profession. In the past, the idea of a popular keynote session might have been a dense classroom lecture on how to split the IRA portfolios into component asset classes for Roth Conversion, and how to recharacterize whichever assets didn't appreciate in value--and how to calculate the tax savings, and when it would make sense to reconvert those assets based on a client's tax situation. Now, that session can be found in one or two places among the breakouts. True to form, the AICPA didn't bring in clowns, jugglers or speakers with a purely motivational message; each of the keynoters has a message to deliver that is directly relevant to an advisory practice. Ron Insana of CNBC will look at next year's potential for economic growth, and there will be a presentation on client interaction and positive psychology by Robert Biswas-Diener, who is described as a happiness expert, and has written scholarly papers on the subject based on research in the U.S., Greenland, India and Kenya. Political strategist Greg Valliere will also provide an insider's view of the upcoming election scene and the initiatives that are likely to come out of Congress--something



"Hey, let's look on the bright side."

"We've created some unbelievable tax losses for our shareholders."

of particular interest to those who are trying to do detailed tax planning for their clients.

Aside from the keynote hours, there are four concurrent tracks; the attendees can follow a general agenda covering wealth management issues, practice management, retirement/elder planning or investment management--although you might find two wealth management or two investment management sessions during some of the breakout times. The conference may be the only one that provides CPE, CFP, CIMA and CFA continuing education credits, probably more than you're likely to need for the next couple of years.

The core audience for these meetings are those who hold the CPA-PFS designation, which happens to be quietly celebrating its 25th year in 2012. But this next conference may attract interest both from the CFP community and another natural constituency: CPAs who offer financial planning and

have discovered that the service is becoming an ever-growing part of their practice. Some of those CPAs are now availing themselves of the AICPA's PFP division membership, which is creating and bringing in resources to facilitate profitable planning practices. These emergent advisory practices seem to have been unaware that they have their own conference, with a three-day crash course in best practices and best advice to their clients.

Despite the Las Vegas location, the AICPA's Advanced Personal Financial Planning Conference should not be regarded as a vacation, and the classroom atmosphere can get pretty intense at times. But if you're one of those senior advisors who likes to get a periodic refresher on the technical issues, and see what the upper-end thinkers are recommending to their clients, this could be your best conference opportunity of the year. For the citizens of that PFP parallel universe, the deep educational dive is just routine business as usual. ■

Tablets and the Cloud

Synopsis: *Two advisors talk about how they've incorporated iPads into their advisory practices.*

Takeaways: *To get the most out of the mobile devices, move your e-mail and as many of your software programs as you can to the Cloud. Also: check out Google Apps for Business.*

A lot of advisors are curious about how others are using tablet devices, particularly iPads. That helps explain why a session on "Incorporating Tablets into Your Wealth Management Practice" was packed to the walls at the Business & Wealth Management Forum. Jim Koch, of Koch Capital in Alamo, CA, and David O'Brien of O'Brien Financial Planning in Midlothian, VA started their presentation by addressing the convenience factor. You have a device that's smaller than a pad of paper and probably not as heavy, which is connected to the Cloud (and the Internet) through ubiquitous wireless telephone service.

As Koch put it, you can be vacationing on the beach with a mojito in your hand when your client's mortgage broker sends you a text message. Your client is closing on a mortgage tomorrow, and the broker needs her second quarter statement or they won't be able to close.

"In this particular instance, my client has all her stuff in boxes, she's getting ready to move, she

can't find the paper statement, and she doesn't know how to get her statement from her web site," said Koch. "So I reach down in the bag, pick up my iPad, send her an e-mail to tell her how to get her statement. I call and leave a message, get an e-mail back saying it's all taken care of, and I am back to my mojito in 10 minutes."

All of this could have been handled with a laptop, but the laptop would have had to have a wireless connection to the Internet, and it would have been unlikely that the laptop would have been in that beach bag sitting on the hot sand. "When I'm on the road, the tablet is my little portable office," Koch told the audience. "I can answer a quick client question from anywhere."

You can, that is, if you've also embraced the Cloud. Both Koch and O'Brien talked about how mobile devices are much more effective if your client data and programs are hosted remotely, accessible on the web. O'Brien also uses a web-based calendar, which synchs with the computer at his office, on the iPad and on his

iPhone. He has also synched it with his wife's calendar; just as easily, he could have a connection with a home office staff, so that meetings could be scheduled electronically without a lot of phone calls back and forth.

To keep it simple, O'Brien uses the calendar on Google Apps for Business (cost: \$50 a year), which includes an e-mail system and also a patch of the Cloud to store and synch documents across his various computer devices (Google Docs, in searchable format)--plus expanded access to web-based information. "When I send e-mails to clients," said O'Brien, "I am always embedding graphics, video, links to things I want them to see. Instead of sending them to an entire web site, I can pull bits of that website out and drop it in." Whenever he goes to a meeting outside the office, he can put the PDFs, spreadsheets or documents that he wants to show the client into Google Docs with his office computer, and pull them out as needed onto the iPad during the presentation.

It helps that O'Brien's planning program--MoneyGuidePro--lives on the Cloud. MoneyGuidePro's snapshot of a client's financial situation (and progress toward goals) is designed for the small tablet screen. "The client might ask: suppose I stop paying for my daughter's car and roll that into refinancing my house, would I have to reduce how much I save for my 401(k)?" he said. "I can go

Continued on page 14

Tablets and the Cloud

Continued from page 13

into their plan while we're talking, move over to the resources page, look up the mortgage rate, taxes, the amount still owed--and as I do this, it draws the client into the planning process."

He'll also check his assumptions. The projections show the client is going to save \$61,000 this year for retirement. Are we still on track for that? "If I need to draw basic concepts when I meet with clients, I can go into the note-taking app," said O'Brien. "I can keep a bunch of presentations stored on the iPad, showing things like bull and bear markets over time. It basically saves me having to bring a whole pile of paper," O'Brien concluded.

Even if you aren't using an iPad, Google Docs makes it possible for you to achieve a new level of collaboration among staff members or outside vendors. O'Brien is working on posts to his blog. He has an outside editor who smooths out the prose, and a compliance person who checks over the finished product. They all subscribe to the documents that he puts into Google Docs. When uploads a draft, they receive an automatic notification. They go in and make editing and legal changes, triggering an automatic notification to O'Brien. He can pull the document back out and post it up on the his web site.

O'Brien also uses Google Sites--Google's web-building tool--to create a template web site that he can then replicate to

build individual web sites for his clients. "You can put all the basic documents and spreadsheets in there; it's very easy to upload stuff, plus you can load your own gadgets or widgets or calculators," he told the audience. "Your clients can access it from whatever device they have--their Android, iPhone, iPad, other mobile devices, or their computer."

Beyond that, O'Brien has stopped receiving newspapers in hard copy. "It all comes to my iPad now," he says. "I get a lot of subscriptions: the Economist, the Wall Street Journal, the Associated Press; I find myself reading more and have less paper. iBooks lets me keep my PDFs handy. I take notes at conferences using an app that lets me save everything I've written as a PDF file. And because of iCloud, I have all my other files with me at all times."

There are limitations. You want your e-mail to be hosted on the Cloud; if it is on a server in your office, your access is limited. Similarly, you want to store your documents on the Cloud, rather than on your server--although Koch said that Google is working on a system where if you are running the Chrome browser on any machine, if another machine is also using the Chrome web browser, you will be able to do screen sharing back and forth.

What about security for those client-specific web sites? And how secure are those client documents stored in Google Docs or an alternative like iCloud or DropBox? Anybody who accesses

data has to sign into Google Docs and Google Sites. In addition to site-level security, you can put in additional (and customized) security for any particular client web site.

O'Brien says that his iPad has completely replaced his MacBook Pro computer, which means he has less bulk to carry around, but equal access to his files and e-mails. Basically the iPad has become all of his books, all of his newspapers, his notepad to take notes on, his calendar, and a way to carry all of the documents that he wants to show clients--plus a way to access his e-mails and client data.

And it is also his substitute for paper whenever he makes client presentations--a form of paper that can magically create interactive calculations at the client's request, and access a library of PDFs and virtually unlimited information on the Cloud.

Interestingly, the reader will not find a "killer app" here. Basically what you have is a more portable, convenient way to do most of the things that can be done on a laptop computer. Google Apps for Business and iCloud, meanwhile, seem to be doing much of the actual work.

O'Brien will be presenting again at the T3 conference in Dallas (<http://t32012.eventbrite.com/>) February 16-18, where he plans to ask members of the audience what Apps they're using to enhance their lives and practices. I'll be there taking notes, still looking for the definitive killer App for my own iPad. ■

Further Thoughts

Synopsis: *What does Morningstar's Don Phillips think about gold as an investment, dividends vs. bond yields, and how mutual funds are named?*

Takeaways: *Look for Morningstar's new Global Fund Reports, 7-page qualitative due diligence reports on individual mutual funds.*

By now, you've probably read the Don Phillips presentation at the Business & Wealth Management Forum, but you haven't yet seen his question-and-answer session at the end of it. Phillips gave audience members a chance to ask the kind of questions that their clients are asking THEM, and provided some answers that you might be able to take back to your own clients.

Such as? One advisor asked about gold as an investment. Phillips started generally, by saying that proponents of passive management have been arguing that their investment approach is superior, in terms of discipline and the intellectual underpinnings, to active management. Yet when you look at passively-managed ETFs, by far the one with the most assets is invested in gold. "So how do you tell me that the passive management people are not trend-chasers?" Phillips asked.

Then he said: "The last time gold funds were this big was back in the early 80s, when the biggest Fidelity Select Fund was their gold

portfolio. For the next 20 years, that was also Fidelity's worst-performing select fund," Phillips added. "I think this is the kind of thing that will look pretty ugly in a few years."

Is investing in dividend-oriented funds another fad? Phillips doesn't think so. "To me, investing has become way too much of a game," he told the audience, "with the sort of CNBC mentality where if you get a bigger pile of cash than your neighbor, you're the winner. The reality is that investing is a means to an end, and I'm delighted to see people getting back to the idea that what they need out of their investments is a stream of income. Do you want to be in highly-taxed Treasuries, getting a 2% yield, or do you want to be in a fund whose blue chip stocks are getting a 4% yield with much better appreciation potential and much better taxation?"

Is there a better way to structure mutual funds? "One of the best lessons I've come up with over the last 25 years came from T. Rowe Price when they created their

Spectrum Income Fund," Phillips told the audience. "It was started by their high-yield bond manager who had a conversation with T. Rowe Price's management team in the early 1990s, right after the high-yield bond market had collapsed. He said, 'Now would be a great time to buy my fund. I've never seen better buying opportunities than I see right now. The problem is that I'm in net redemptions.'

"We've all heard this from managers," Phillips continued. "When there's nothing I want to buy, I've got money coming in the door that I have to put to work. When I want to buy everything, I have to meet redemptions." T. Rowe Price's solution, he said, was to break up the whole idea of capturing income into a variety of types of risk and constantly rebalance, rather than focus on one type of risk. "If you look at the spectrum income fund, not only does it have wonderful total returns, but it's had great investor returns, because it doesn't run as hot or as cold as a pure international bond fund or a pure high-yield fund," Phillips told the audience. "What they did, very effectively, was diversify those risks so that people don't get scared out of the fund or get too greedy. Those human emotions are so very powerful that we need every tool at our disposal to rein them in."

Phillips also talked about how mutual funds tend to be named by the marketing departments rather than portfolio managers. "The fund industry tends to highlight the most

Continued on page 16

Further Thoughts*Continued from page 15*

comforting feature of a fund, rather than the most salient feature," he told the audience. "Has anyone ever bought a 'low-quality bond fund?' Of course not! They're all high-yield bond funds. There are funds out there that are called 'investment-grade bond funds,' but if you had truth-in-labeling laws, they would be called 'insanely long duration funds.'"

What's next at Morningstar? Phillips talked about the upcoming launch of Global Fund Reports--7-page due diligence analyses of fund performance, corporate culture, a deeper look at the portfolio, details about the management team, what is the process and how detailed or sophisticated is it. "It's really looking at the fund in a more holistic way," Phillips told the group; "making it easier for you to do due diligence on the funds you're looking at recommending to clients."

In addition to the purely quantitative star rating, the Global Fund Reports will give each fund a qualitative rating: gold, silver, bronze, neutral or negative. It will be interesting to see which funds earn a gold rating and one or two stars, or five stars and a negative rating--in other words, whether the qualitative and quantitative evaluations match up with any degree of accuracy.

Remember you read the announcement here first. Meanwhile, the comments on investing, gold, human emotions and dividends seem to me to be excellent fodder for your client communications. ■

Parting Thoughts**Let's Take Off The Gloves**

When I read that U.S. District Judge Jed S. Rakoff challenged the SEC's boilerplate language in its settlement of fraud charges against Citigroup, I wanted to stand up and cheer. In case you missed it, the SEC charged that Citigroup had sold tranches of mortgage-based debt--the infamous CDOs from the 2008 Wall Street scandal--without disclosing that it was betting against \$500 million of the deal in what internal e-mails were describing as "The best short ever!!"

This once-in-a-lifetime short bet, combined with selling the dog investments the company was shorting, resulted in \$160 million in fees and trading profits to Citigroup's bottom line.

The SEC's proposed fine: \$95 million.

In addition, the SEC settlement required that Citigroup neither confirm nor deny the charges in agreeing to the fine. The judge asked why the fine was so low and (this is the part that had me cheering) wondered whether there isn't "an overriding public interest in determining whether the SEC's charges are true."

Like every other financial journalist on the planet, I've been following the derivatives and sleazy mortgage securities scandal for years, and I find myself wondering if there is any other part of the global economy where companies can act in their self-interest, behave illegally, get caught, pay back only a portion of their ill-gotten profits, and never have to admit guilt. Would a bank robber get the same deal? If I went out and stole a neighbor's big flat-screen TV set, would I be required to pay back a portion of the cost of it, never have to admit guilt, and promise to watch myself more carefully in the future?

This very careful, very gentle enforcement of Wall Street's nastiest crimes has become such a routine part of our landscape that we sometimes forget how outrageous it is. If a fee-only RIA were to exhibit any of this behavior, he or she would be fined far more than the ill-gotten gains, banished from the securities business for life and probably sent to jail as an example to every other offender who doesn't work for a major Wall Street firm. There are scores of examples of small broker-dealers experiencing the hammer of SEC and FINRA enforcement for behavior far less egregious than much of what you see routinely in the predatory Wall Street culture.

Selective enforcement is always a problem because it sends a message that the rules are different for different members of the community. The fact that the regulators so clearly favor larger firms that embrace conflicts of interest over smaller firms that try to sit on the same side of the table as their clients makes this even more troubling from a

social policy standpoint.

But I think the biggest issue here is the one that the judge raised. The large brokerage houses and investment banks have basically lived in a world where, no matter what they do, there is never any real risk to their reputation. The SEC's boilerplate language--that the company neither admits nor denies guilt--means that the public is never told, clearly, that this company stepped over a moral, ethical and legal boundary, and seems to have done so deliberately because there was a big pile of money to be made. If the SEC and

FINRA had required brokerage companies to fess up and admit that, well, yes, they did do those things that they are paying fines for, and yes, those were, indeed, regulatory and legal infractions they committed, and yes, they are a serial committer of crimes, well, I doubt we would have so many problems with their behavior in the future.

We hear over and over again that the most important issue in a relationship between givers of financial advice and their clients/customers is trust. Nothing could be more harmful to a company's (or

individual's) ability to inspire trust than a criminal conviction or two, than a public admission that you committed a crime. This is why convicted felons have so much trouble finding a job. The Wall Street firms have routinely done much worse than the fellow who stole a TV set and went to jail for it. If we can't bring ourselves to send their executives to jail for their conscious decisions to step over the line, at least we could make it harder for them to earn the trust of the investing public, or win the job of taking care of other peoples' money. ■