

COURTING THE RICH

ADVISORS HAVE CHANGED THEIR TACTICS FOR ATTRACTING HIGH-NET-WORTH BUSINESS.



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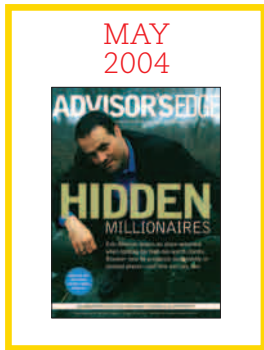
Four years ago, Éric Mercier had uncovered a surprising and lucrative source of high-net-worth investors—the hard-working, well-compensated, hidden millionaires of Québec's then-thriving forestry industry.

But times change. Since Mercier, conseiller principal at Mercier Services

Financiers Inc., and Gaignard Mercier Services Financiers Inc. in Québec City, shared his story in the May 2004 issue of *Advisor's Edge*, the U.S. economy has weakened, the Canadian dollar has soared and new restrictions on harvesting wood have come into effect. Some

forestry firms that produce specialized products or invested heavily in increased efficiency are still thriving, but many others are struggling.

Luckily, Mercier has a diversified client base. A big reason is that he found a new source of high-quality, high-net-worth referrals in mid-2004 when he partnered with a firm of 12 tax specialists. He continues to look after his own clients, but has a second stream of



BRUCE ROBERTS



business flowing in from (and co-owned by) his partners. It's helped him transform his practice from one that served clients in the \$5-million-to-\$10-million range to one that includes many in the \$10-million bracket, as well as a few worth \$20 million to \$50 million. It gives him a significant leg up when it comes to prospecting.

"I don't have to work 10 years to get the client to want to sit down with me," Mercier says. "Most of the time, he's sitting with me and he's opening his books after only five minutes, because I get to take advantage of the relationship he has built over all those years with the tax specialists."

Mercier's approach is just one of the strategies financial advisors are experimenting with during these tougher times to access assets that are concentrated in the hands of the high-net-worth. Keith Sjögren, director of strategy consulting at Investor Economics in Toronto, estimates that the 500,000 Canadian millionaires, who control about two-thirds of the country's total wealth, sit pretty on about \$1.6 trillion.

That half-million figure is almost double what it was a decade ago—so, there's plenty of opportunity—but Sjögren says the growth in the number of high-net-worth individuals has been accompanied by an even more rapid increase in competition for their business. "There's congestion outside the wine cellars of the wealthy," explains Sjögren. "There are so many advisors who are hunting down the high-net-worth that the rate of growth [of that group] is greater than the rate of growth in the high-net-worth clients themselves."

So, how are advisors positioning themselves to capture their piece of the millionaire pie? And how are they adapting their practices to meet the needs of tomorrow's affluent?

Joint Venture

Mercier's referral partnership represented an important turning point for his business. He recalls the day he received the thumbs-up from the tax firm—June 30, 2004. He attributes the success of the four-year-old alliance primarily to his focus on straightforward solutions, which he says are appreciated both by the accountants and his clients. Rather than selling products, he sells and charges for advice. And when he recommends a product, it's generally easy to understand and chosen to protect his clients' wealth rather than to achieve aggressive growth. "There's always going to be a place for advice and good advisors," says Mercier.

"But you've got to be ready to work for the client and not for the commission." He also believes it's important for advisors who want to succeed in the high-net-worth market to position themselves as businesses, not individuals, and that's something his formalized referral partnership helps him do.

Mark Halpern, CFP, founder of illnessPROTECTION.com Inc., and Martin Stern, first vice-president and investment advisor at CIBC Wood Gundy, have also recognized there is strength in numbers when working with wealthy investors. In 2007, the two Toronto-area advisors established an informal alliance, which sees Stern referring complex insurance business Halpern's way, and Halpern returning the favour when his clients require investment expertise.

"I can't be everything to all people," Halpern explains. "That's why I refer my clients to experts who specialize in investments. I work with lawyers. I work with accountants. I work with mortgage financing people. I have to be the quarterback to initiate relationships, and be an integral part of the planning team."

Stern opted to be a guinea pig for Halpern's services before committing to a partnership.

Reassured by the comprehensiveness of his own insurance coverage, he now asks clients if they're protected in all the same areas. Stern emphasizes the impor-

THERE'S CONGESTION OUTSIDE THE WINE CELLARS OF THE WEALTHY.

tance of having a high "emotional quotient" (E.Q.) to complement an "intelligence quotient" (I.Q.) when managing accounts for the wealthy. His background in psychology helps him "become the client" by understanding their issues and listening attentively to what they say.

For his part, Halpern agrees with Mercier and Stern that financial planning for wealthy clients is not about selling products anymore. He calls it "the death of the salesman." Instead, he says, "The future is to engage in a process with somebody to become the trusted advisor by letting people know that you care before you let them know what you know. We are in a misinformation age. People need knowledge and wisdom to make the right financial decisions."

In June 2008, he plans to launch a brand and Web site called WEALTHinsurance.com. It will target the high-net-worth market but avoid specific mention of any products.

The Specialist

Like Halpern, Anthony Windeyer, CFP, focuses on a specialized area of service—in this case, estate planning and high-end insurance planning for business owners. Like Mercier, he enjoys a steady flow of high-

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continued from page 43 net-worth referrals from a larger organization. But for Windeyer, the referrals come in-house, from other specialists at Coast Capital Savings, the Richmond, B.C., credit union where he works.

The cardinal rule for the high-net-worth, he says, is “just don’t lose my money.” He adds the major change he’s seen through the past decade is an emphasis on

working closely with all of a wealthy client’s centres of influence (COIs). He advocates a proactive approach: “Introduce yourself. Sit down and say, ‘What planning have you done with this client so I can get up to speed?’” Assuming the client wants this, Windeyer then keeps his colleagues in the loop to ensure they understand his strategy.

He attributes a proliferation of new all-in-one investment products as an important market development that allows advisors to spend more time meeting with clients, getting to know their COIs and developing comprehensive plans, rather than stock-picking.

“It’s all about being in front of your clients, being responsive to their needs, and making sure that you’re attending to them,” Windeyer says. “What is old is new again. It all comes down to service, especially for someone who is a high-net-worth client.”

The Family Office

Some advisors are building one-stop shops for ultra-high-net-worth clients to enhance the level of service they can of-

fer. Often modelled on the family offices set up last century to manage the financial affairs of extremely wealthy dynas-

ties, the modern version is generally not exclusive—although such operations do still exist. Whether a single or a multi-family office, the aim is to address as many of the client’s needs as possible, under one roof—

and usually at client-investable assets starting in the range of \$10 million.

David Burnie, CFP, principal and resident partner at Ryan Lamontagne, is headed in this direction. Based on the services his clients require, he and his partners have brought on two accountants, a bookkeeper and a lawyer to join the financial planners at this fee-for-service Ottawa-based firm.

“The demand now is you need to be very technically competent with a deep bench, and you need to take a planning approach,” says Burnie, whose firm has also developed a referral arrangement with a private investment counsel to offer lower-cost, tiered investment solutions for clients, and is exploring becoming licensed as a trust company so the team can provide corporate executorships.

“Ninety per cent of what comes through the door here, we can handle in-house. That’s our competitive advantage,” he says. “Our firm is designed for people who are busy. They want a very compatible, competent and reliable service.”

What they don’t want anymore, according to focus groups and customer surveys, is a great deal of wining and dining. Wealthy

clients really have changed, and advisors are saying the old model of schmoozing just isn’t as relevant these days. Or, perhaps it’s just taken advisors a while to learn what really makes their wealthy clients tick. Burnie, for example, has stripped down his offerings. He hosts one appreciation event each year for all clients, and one evening of cocktails and dinner specifically for wealthy clients and the prospects they’re asked to bring along. “When a high-net-worth client referred us to somebody, we used to give them a gift basket,” Burnie adds. “They don’t want that stuff anymore. They want you to call them into the office, close the door and say ‘thank you.’ That’s all they want.”

Laurie Stephenson, CFP, is considering going the family office route as well. Ten years ago, she moved from Toronto to Halifax, where she established Stephenson Daigle Financial with Trevor Daigle, a financial security advisor.

Stephenson has maintained her Toronto client base, visiting about eight times a year. But she spends most of her time on the East Coast where she and her team work out of a downtown, renovated Victorian building.

“At some point, I’d like to have a lawyer and accountant on staff. I think we’re going to need to offer those things if we want to go deeper into the higher-net-worth market,” she says. “I have clients who are worth \$40 million, but I don’t have a lot of clients like that. With the kinds of services they want and expect, it’s difficult for us to do that without pulling in other allied professionals, and then there’s a danger of losing that relationship to someone else.”

For now, Stephenson and Daigle are focused on building deep, friendly relationships with affluent clients and encouraging referrals. continued on page 47



“I Spy a COI,” page 16

WHAT IS OLD IS NEW AGAIN. IT ALL COMES DOWN TO SERVICE.

continued from page 45 “One of the things that we’ve really noticed changing in the last number of years is how we talk with clients,” says Daigle. “The old way of doing business was with lots of numbers, lots of presentations. Now, most of our planning is done on a conceptual basis. Illustrations get shown to accountants, but that presentation is rarely given to the individual.”

“People say there’s no magic in this business,” adds Stephenson, “but if you can take a really complicated thing and make it simple, people love you for it.”

TRUE WEALTH, I THINK, MUST BE DEFINED BY MULTI-GENERATIONAL WEALTH.

Chasing Potential

Of course, the key for advisors who have a long-term vision for their practices is to find today’s wealthy, while not forgetting about tomorrow’s. Sjögren thinks too little time is spent marketing the industry to those who have the potential to become wealthy. “People are under the misguided impression that high-net-worth clients are more profitable than any other type of clients, but in fact the servicing costs are way, way higher too,” he says. “Those with, say, \$400,000 to \$1 million—that’s where a lot of the opportunity is. They’re probably more likely to shift, and they’re younger, so they may be your client for a longer time.”

John De Goey, CFP, branch manager and vice-president at Burgeonvest Securities Ltd. in Toronto, talks about the difference between wealth and affluence. “Wealth is a reservoir,” he explains. “Affluence is a flow. Affluence is an income stream.” Affluent people may have very high incomes, but they haven’t yet accu-

mulated wealth. The challenge, says De Goey, is to find people who can reliably convert their affluence into long-term wealth. “There’s a lot of promise, but not everyone makes good.”

Once you’ve got a high-net-worth client—or one who is on track to get there—it’s important to retain those assets. Beyond providing exceptional service, Sjögren recommends advisors pay attention to their clients’ estate plans and ensure they’re introduced to clients’ beneficiaries so wealth doesn’t walk out the door when it passes to the next generation. “The inheritance factor is going

to be a driver of growth in the millionaire community over the next decade,” he predicts. “There is a lot of money at stake.”

Michael Callahan, an Ottawa-based CFP, is a

big believer in multigenerational planning for high-net-worth clients. “I think one of the biggest shames would be to spend a lifetime accumulating wealth, only to see it vanish again at the end of your lifetime,” he says. “True wealth, I think, must be defined by multigenerational wealth.”

For him, that means taking the initiative and starting estate and business-succession planning discussions with clients. If possible, he involves the children and even the grandchildren of elderly couples. As he sees it, it’s a business preservation strategy. After all, if you’re not having these conversations with clients and their families, someone else certainly will.

If you’re in any doubt about the power of this approach, Callahan recently won over a father-and-son team who own a profitable car dealership, largely because the advisor asked pointed questions about estate and insurance planning. Turns out it was something the clients’

former advisor, an investment specialist, hadn’t addressed.

Shark or Bass?

There’s no question the high-net-worth market can be lucrative for advisors who are equipped to swim in those waters. And there are clearly a range of different strategies they use to attract wealthy clients. But Sjögren offers an analogy advisors can consider as they decide whether they’re ready for the challenge.

“It’s like the people who fish for sharks and the people who fish for bass off the dock,” he says.

“If you like the thrill of the chase and you can afford the time and the fast boat, then go shark fishing.

“But if you’re quite comfortable just fishing off the end of the dock and you’re pretty successful at it, I don’t think enough advisors actually assess the opportunities that are really represented by that group below the high-net-worth—the emerging wealthy.”

So, Sjögren suggests, decide if you’re a shark hunter or a bass hunter, and then gather all the fishing tackle you need to successfully pursue your chosen market.

Whichever you choose, the water’s fine. ^{AE}

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