Satisfying Your Self-Made Clients

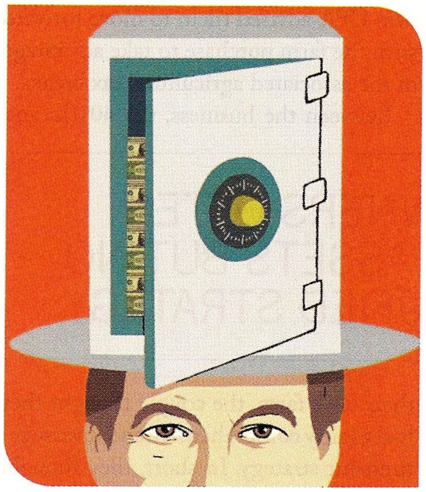
You must bring sophisticated solutions specific to their situation to the table, giving them a reason to listen to you.

By Mike Sheets

SOME OF THE MOST CHALLENGING clients to help transition into retirement are business owners or career professionals who have had some success managing their own money during their working years. Typically smart, independent and well read, they can be their own worst enemies when it comes to investing. Many view investing for retirement as merely a continuation of what they have been doing. They fail to recognize the need for their assets to generate a predictable income stream for an extended period, a time when replicating lost principal is no longer possible.

These are higWy independent people who often feel their professional success translates into financial acumen. Since they were smart enough to earn it, they should be capable of managing it through retirement, or so they believe. Their greatest vulnerability in retirement is often the same trait that helped make them so successful in business: their ability to solve problems. They see themselves as able to deal with any contingency because they have been doing so throughout their working years. In my experience, many who believe they are sailing into a financially secure retirement are unaware they may have holes in their keel.

The business usually comes first for these people. The business takes precedence over everything else, and typically long hours make it difficult for them to find time for what appear to be less-pressing matters, including investment management. Their enterprise may generate so much income that investing for retirement becomes an afterthought. It's not that they regard it as unimportant, but they assume they have plenty of as-



sets to take care of the future, and meanwhile they have a business to run.

It takes patience and diplomacy to convince these people to take a hard look at their future.

Besides the difficulty of giving you their time and attention, it may also be tough for them to cede control of their asset management, even to an advisor with credentials and experience. They must be convinced that investing for retirement is a different ball game, with little margin for error. The psychological adjustment they need to make to give up some control in exchange for professional guidance and a seasoned investment perspective can be a big hurdle for advisors to overcome.

Value Is Critical

In working with business owners and entrepreneurs, I've learned you can't gain their confidence with generic solutions or investment platitudes. Street smart, they've heard all the conventional pitches for managing their money: "Mr. Business Owner, I'll

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bring you all these great investment ideas, handle your asset allocation, give you great diversification and manage your money so you can relax, tend to your business and look forward to a comfortable retirement." Or, "Mr. Business Owner, you're handling your investments all wrong and you're paying too many fees inside your 401(k) and brokerage accounts."

Everybody is chasing these people to manage their money. They can see right through hackneyed proposals and won't pay an advisory fee because they don't see real value. They can manage their own money online, get the same results and pocket the advisory fees. At least, they think they can, and as long as they believe it, they're not going to pay an advisor.

BUSY BUSINESS OWNERS OFTEN HAVE AN ARRAY OF ASSETS BUT NO CLEAR PLAN OR UNIFIED STRATEGY.

You have to "shower them with value" by offering solutions that are specific to their situation and you have to offer that value on multiple levels. You have to bring something of greater substance and sophistication to the table, something that gives them a reason to listen to you. What they will listen to-and ultimately pay for-is a retirement strategy that adds so much value they will ultimately relinquish control because they see you providing insight they can't. A trust relationship is established because you have given them value, not bromides.

Lack Of Cohesion

Consider a married couple that we worked with. Before our relationship started, the couple owned a small but profitable manufacturing business and had planned to retire in a few years. They had accumulated a substantial nest egg and a variety of advisors as well: a broker, a business advisor and two CPAs, one who handled their personal affairs, the other who advised them on more complicated business issues. Despite the cadre of advisors, the couple took pride in making their own investment decisions, although the busy enterprise left them little time for thorough investment research. As a result, they had no cohesive strategy for acquiring assets to provide retirement income. Instead, the couple chose investments based on instinct, that is to say, haphazardly.

Aside from the value of their business, their principal assets targeted for retirement were in a 401(k) plan that their broker helped set up and manage, plus an olive farm in a neighboring county that they had purchased as a "fun" retirement business. It's the same thinking that causes people to buy wineries or country inns as a retirement investment. The business CPA advised them to move forward with the farm purchase to take advantage of the associated agricultural tax breaks.

Between the business, the 401(k) and their olive farm, the couple thought they had a fairly comprehensive and diverse retirement strategy. In short, they thought they were in good shape.

Our involvement with the couple came about when· they asked us to evaluate whether they were paying too much for the administration of their 401(k). The investments inside the 401(k) were not doing real well and the couple didn't have a high regard for it as a tax and retirement planning vehicle. In looking past the cost factor, we discovered the plan severely limited the amount the couple could contribute. Even worse and unbeknownst to the couple, the plan exposed them to significant liability as a result of the 2006 Pension Protection Act. The plan lacked a qualified deferred investment alternative and had no asset allocation or lifestyle funds, and the funds it did contain were not doing well, exposing the couple to the risk of an enrolled employee lawsuit.

We proposed changing the plan design from the standard safe harbor to a "new comparability/ safe harbor" combination. This greatly enhanced the couple's tax savings and allowed them to put an additional $55,000 into their 401(k). We proposed keeping their current provider, switching third-party administrators, adding a Roth(k) and expanding the lineup of investment alternatives to help alleviate the potential for lawsuit. In the process, their administrative costs fell rougWy $12,000 a year.

Finally, we eased any concerns the couple might have had by sharing our proposal with both their CPAs. This is an important advantage of bringing added value. Before opening my own practice, I was an advisor coach for a large brokerage firm and those advisors cringed when I suggested including a client's CPA in the decision-making. They were trying to keep the CPA out of the process because they knew that what they were proposing wasn't unique or adding any value. These advisors would offer a strategy to manage the client's 401(k), likely without making any meaningful changes. They would also help with the investments and perhaps sell the client an insurance policy or annuity. But they had no clue how to really add value. If you can do it, you're likely to garner all of a client's business, and they will appreciate your willingness to include their other advisors.

Our proposal for the married couple was approved and implemented. The CPAs were not only satisfied, they shared the names of several other clients they thought we could help.

Later, we discovered a potentially disastrous liability issue related to the couple's olive farm, which employed some 30 seasonal workers. If a worker were injured, the couple could be held liable. Insurance helped indemnifY the couple, but why should they risk retirement security when alternatives are available that offer lifestyle options without the attendant risk? The couple eventually sold the farm, olive trees and all, to a retired professional atWete.

Miscalculation

Another man we worked with, a physician, sold his practice and retired so he and his wife could do the one thing they loved most: travel. Soon after his retirement, however, they discovered that the income thrown off by their retirement assets was insufficient for them to travel in the manner they preferred. In addition to the doc-

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tor's s~lf-managed securities portfolio, the couple owned a residential investment property that was worth $700,000 but was generating only $2,200 in monthly rental income. After calculating taxes and home owners association and maintenance expenses, the property's net income was only about $800 a month, or 1.4% annually.

We suggested they sell the house and purchase a commercial property. It was a tough decision because the doctor viewed selling the property as an admission he might have made a mistake. Tact and perseverance eventually won the day (not to mention the couple's desire to cruise first class) and so the doctor agreed to the transaction. Doing so increased their portfolio income, gave them the opportUnity to travel as they chose and eliminated the hassles associated with their former rental property.

In Conclusion

Busy business owners and entrepreneurs often pay lip service to their retirement plans. They often have an array of assets but no clear plan or unified strategy to generate a consistent income stream after retirement. They may also inadvertently have duplicate services or wasted resources that erode their tax and retirement planning efforts.

Advisors who want to help successful businesspeople enhance their retirement strategy should know how to bring meaningful value to the table (on more than one level) if they expect to secure this business. Knowing where to look for sources of tax savings and added income are the key to gaining the confidence of successful people who have been inundated with conventional investment platitudes. Having enough confidence in your own solutions that you can include the client's other advisors will only add to your chances for success. [;r!I

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