LEADING SPONSOR

MLC

A National Company

SUPPORTING SPONSORS

BT Funds Management

CREDIT SUISSE | ASSET MANAGEMENT

The Road Ahead: The Future of the Advisory Business

BY JIM STACKPOOL, JOHN J. BOWEN, JR. AND RUSS ALAN PRINCE

An Industry Intelligence Report from

STRATEGIC CONSULTING & TRAINING

ceg worldwide LLC

Institutional Strength Intelligence

Table of Contents

The Road Ahead: The Future of the Advisory Business

by Jim Stackpool, John J. Bowen, Jr. and Russ Alan Prince

Additional copies of this publication may be obtained by visiting www.scat.com.au.

CEG Worldwide, LLC • 2565 Broadway, Suite 434 • New York, NY 10025
(888) 551-3824 • www.cegworldwide.com • info@cegworldwide.com

Strategic Consulting & Training Pty Limited • Level 10, 201 Miller Street, North Sydney NSW 2060
(02) 9955 6222 • www.scat.com.au • scat@scat.com.au • ABN 59 066 428 573

Executive Summary

FINANCIAL SERVICES IS TRULY ONE OF THE MOST DYNAMIC BUSINESSES in the world. Advisers are constantly faced with new opportunities and challenges that are reshaping the way they conduct business and the clients they serve. ¶ Market volatility, increased competition, new types of partnerships and emerging business models are just some of the factors that have affected advisers' practices in recent years. What's more, these and other factors will continue to significantly impact their success in the decades to come.

Advisers who wish to fully exploit the many opportunities and avoid the pitfalls that accompany rapid change must develop a clear vision of the future and plan accordingly. The best advisers achieve this goal by carefully examining their own internal practices and methods, and seeking ideas and advice from their industry peers. *The Road Ahead: The Future of the Advisory Business* provides advisers with insight about the road ahead and offers action steps advisers can take to ensure that road is as smooth as possible.

Strategic Consulting & Training Pty Limited (SCAT) and CEG Worldwide, LLC surveyed 630 Australian financial advisers by telephone about their most significant concerns and their outlook for the industry's future. The survey's major findings include the following:

- **Competition will increase.** Advisers are concerned about generating significant asset growth in a more competitive environment.
- **Holistic wealth management** is expected to become the dominant business model, as advisers increasingly court affluent investors.
- **Partnerships with other financial services firms** will become increasingly important, but advisers will choose to work only with those firms that deliver superior value-added offerings.
- **Australia's most profitable advisers** believe that there will be fewer advisers practising in the future, but those that remain will be more successful than they are today.

To help advisers formulate an effective response to the industry's changes and challenges, SCAT and CEG Worldwide offer five comprehensive strategies used by elite advisers around the world:

1. **Focus on affluent private clients.**
2. **Use the wealth management consulting process.**
3. **Manage your practice as a business.**
4. **Partner effectively with institutions.**
5. **Commit to ongoing learning.**

These five strategies will enable financial advisers to deliver world-class service to clients, generate more high-quality referrals and enhance their profitability. In short, advisers who adopt these strategies will enjoy superior levels of success and satisfaction.

Introduction

THE PAST DECADE HAS BEEN A GREAT TIME TO BE A FINANCIAL ADVISER. The number of opportunities available to advisers due to new products, services and markets has been truly monumental. However, financial advisers currently face one of the most challenging environments of their careers. Market volatility, intense competition, greater demands from clients and other pressures have created conditions in which advisers must work harder—and smarter—than ever to maintain and build upon their success. What's more, the global economy means that these conditions exist throughout the world: No adviser is immune to the forces that are reshaping the global financial services industry.

Advisers must understand these forces and how they will affect their practices in the years ahead. They also must study how their peers are anticipating and responding to these challenges in order to adopt the optimal strategies that will ensure success in the future.

Examining internal business practices is clearly an important step to take when assessing issues such as asset growth, profitability and client service. However, advisers also must look beyond their own walls and focus on the best practices of their industry peers. Financial advisers have much to learn from each other, and those who take the time to incorporate the leading-edge insights, opinions and most effective processes of their contemporaries will develop significant competitive advantages over those advisers who incorrectly assume that their way of doing business is the best or only way.

This study's goal, therefore, is to provide a compelling and insightful view of the future of the financial advisory business as conceptualised by the financial adviser community as a whole. As part of this process, SCAT and CEG Worldwide sought to identify the major concerns and obstacles that advisers face. This study also offers essential strategies that will help financial advisers overcome their most pressing challenges and take advantage of the burgeoning opportunities in the financial services industry. By adopting these strategies, advisers will greatly increase their chances for success going forward.

In order to meet the study's objectives, SCAT and CEG Worldwide surveyed 630 randomly selected financial advisers throughout Australia during August 2002. Respondents either own or co-own a financial planning business or an accounting firm that derives more than 50.0 percent of its revenues from financial planning. This is the first time a survey of this magnitude has been conducted in the Australian market, and is the most comprehensive study of its kind.

In the interest of providing insight from the worldwide adviser community, the study also incorporates select data from a similar survey taken of U.S. financial advisers during the last quarter of 2001 and the second quarter of 2002. The U.S. study surveyed 1,117 randomly selected financial advisers from across all three major distribution channels: independent broker-dealer representatives, registered investment advisers and stockbrokers. Advisers should note the similarities and differences between their own outlook and those of their Australian peers and American counterparts.

The Road Ahead

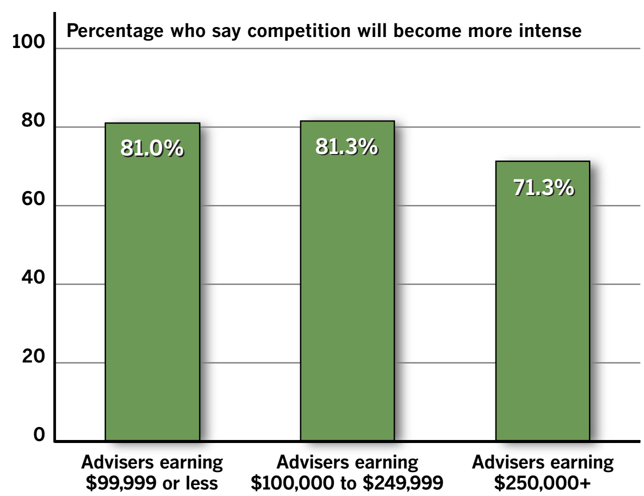
The road that many Australian financial advisers currently travel upon is a difficult one. Consider that 89.2 percent of advisers surveyed report being not very satisfied or extremely dissatisfied with the level of success they have achieved to date. This widespread dissatisfaction in part reflects the challenges that today's advisers face—such as shifting business models, a poor investment environment and perhaps an overall feeling among advisers that they may not possess the capabilities that will help them compete. The many regulatory changes within Australia have added additional pressures.

The evidence suggests that advisers going forward will need to take a better road to achieve success. But what will that road look like? In seeking predictions about the future, SCAT/CEG Worldwide surveyed financial advisers about issues such as business models, competition and working with financial institutions. The results reveal that Australian advisers share many common beliefs about the future direction of the industry and what it will take to become successful, satisfied advisers.

The Future of Competition

THE VAST MAJORITY OF AUSTRALIAN FINANCIAL ADVISERS (75.1 PERCENT) say that competitive pressures are increasing, due to factors such as the rising number of new entrants to the financial advice market as well as fee pressures from clients and product and service providers. ¶ This opinion is especially strong among advisers earning net incomes[1] of less than $250,000. For example, 81.0 percent of advisers earning less than $100,000 feel competition will intensify, and essentially the same percentage of advisers earning between $100,000 and $250,000 agree (81.3 percent—see Exhibit 1).

EXHIBIT 1
THE FUTURE OF COMPETITION



SOURCE: SCAT/CEG WORLDWIDE, LLC

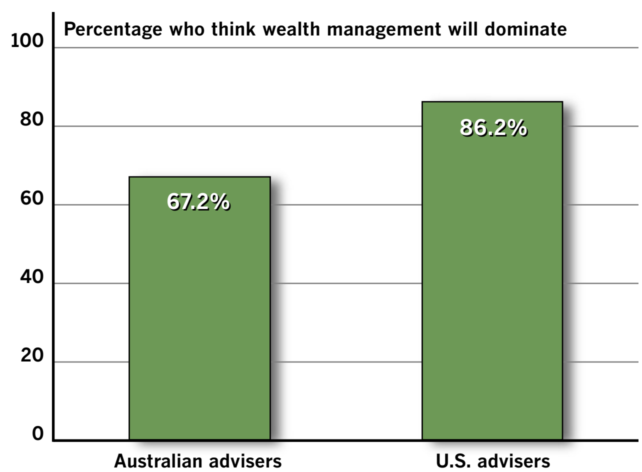
Interestingly, however, higher-income advisers may believe that they have positioned themselves in ways that will insulate them somewhat from competitive pressures. Just 71.3 percent of advisers with the highest net incomes predict heightened competition.

The Future of the Business Model

Rising competition will encourage financial advisers to adopt business models that do more to attract and retain clients, and create strong barriers to entry. Holistic wealth management—an integrated process for helping clients manage their total wealth on a consultative basis—is recognised as becoming the dominant business model, according to the majority (67.2 percent) of Australian advisers surveyed. An even greater percentage of U.S. advisers (86.2 percent) believe holistic wealth management will emerge as the winning model (see Exhibit 2).

Wealth management, broadly speaking, is the synthesis of a range of financial services required by affluent investors and their families throughout their lifetimes. Wealth management offerings typically include investment management, retirement and estate planning, salary packaging, debt planning, and lifestyle and cash flow management.

EXHIBIT 2
THE FUTURE OF THE BUSINESS MODEL



SOURCE: SCAT/CEG WORLDWIDE, LLC

Investors worldwide are responding to the wealth management model. Consequently, most financial advisers are recognising the need to deliver a comprehensive set of services such as those mentioned above. That said, nearly one-third of Australian advisers (32.8 percent) do not see wealth management as becoming dominant.

The Future of Adviser Loyalty

As many financial advisers continue to shift their business models to wealth management, they will look to fund managers, for instance, to provide assistance. Few advisers can provide all elements of a holistic wealth management offering themselves. That's why partnerships will be essential to advisers' success in the coming years. ¶ However, SCAT/CEG Worldwide's research finds that such partnerships will not be entered into lightly. Australian financial advisers intend to work closely only with those fund managers capable of delivering superior support and, very importantly, value-added services.

Fund managers will need to do more than ever before to build and maintain a loyal base of advisers going forward, according to 74.4 percent of Australian advisers. High-income advisers are especially likely to agree with this perspective (94.7 percent). One possible reason: These top-earning advisers may feel they are in a position of strength, and can therefore demand a high level of service from their professional partners. A large percentage of U.S. advisers (82.2 percent) also agree (see Exhibit 3).

EXHIBIT 3
THE FUTURE OF ADVISER LOYALTY

SOURCE: SCAT/CEG WORLDWIDE, LLC

The Future of Specialisation

The vast majority of financial advisers believe that general practitioners will prove to be a superior business model for the Australian marketplace. A mere 8.4 percent of advisers overall think that specialists will be the most successful type of financial adviser going forward. Advisers with higher incomes are more likely to see specialisation as a key to success, but the percentage is still quite small (see Exhibit 4). These findings reveal that most advisers recognise the importance of providing a full suite of product and service offerings that can meet clients' broad, often complex range of needs.

EXHIBIT 4
THE FUTURE OF SPECIALISATION

SOURCE: SCAT/CEG WORLDWIDE, LLC

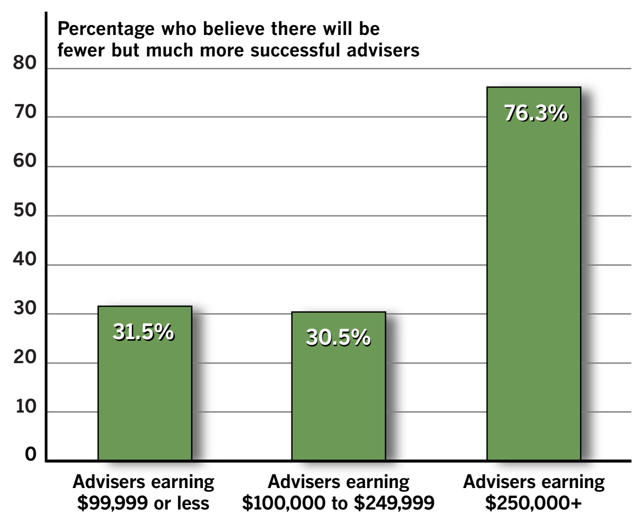
One caveat: Being a generalist makes sense only in terms of the amount and types of products and services offered to clients. It does not apply to how advisers market their practices. As noted later in this paper, advisers who specialise in a narrow target market with attractive growth potential—and provide a diverse menu of products and services needed by that market—can regularly generate greater value for themselves and their practices.

The Future Rationalisation

Overall, advisers do not see a thinning of the herd on the horizon. Only 37.3 percent of those surveyed believe that there will be fewer, but much more successful, advisers in the future. An even smaller percentage of advisers earning less than $250,000 believe this to be the case (see Exhibit 5). ¶ However, the most profitable advisers earning $250,000 or more have a differing point of view. A full 76.3 percent of this group think that fewer advisers will exist in the future, but that those who are still in business will be more successful. These top advisers clearly see a future that their less successful peers do not.

It may be that high-income firms are already experiencing the kind of rationalisation that increasingly may occur going forward. Conversely, smaller, less profitable practices may be too overwhelmed running their day-to-day operations to recognise a general economic fact: Inefficient operators typically fall victim to the largest, most efficient firms.

EXHIBIT 5
THE FUTURE RATIONALISATION

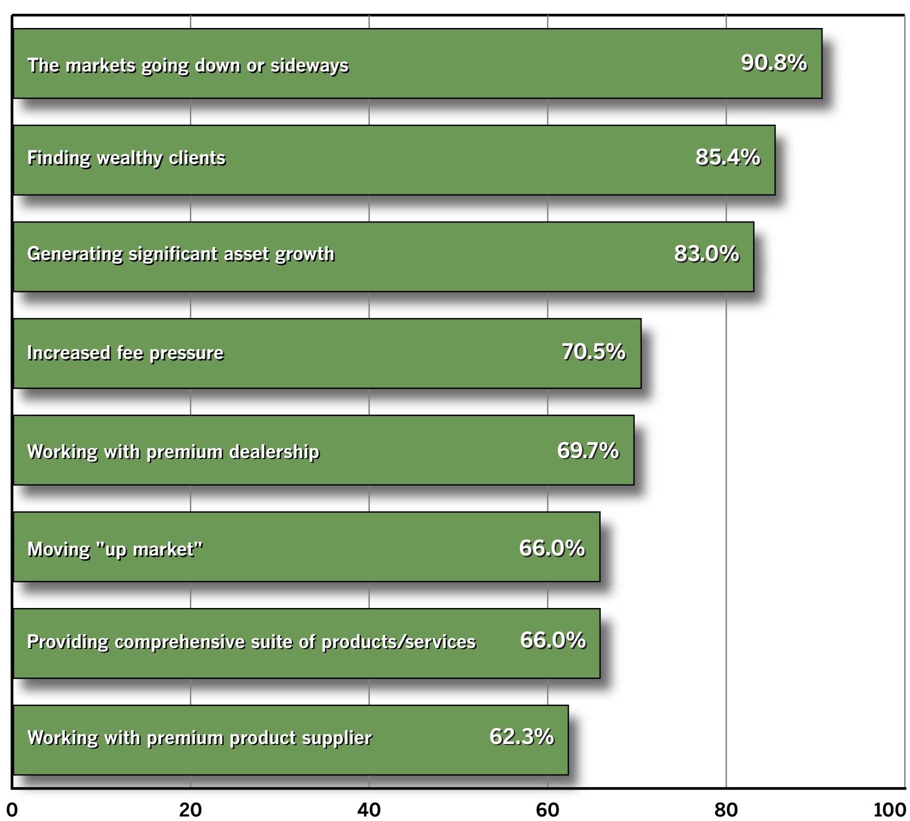


SOURCE: SCAT/CEG WORLDWIDE, LLC

The Top Concerns About the Future

Clearly, Australian financial advisers have strong opinions about the direction of the advisory business. SCAT/CEG Worldwide's research shows they also share a number of concerns about the future and what the overall environment will mean in terms of the clients they target, the firms they work with and the profitability they enjoy. Many of these advisers' most pressing concerns also are shared by advisers in the U.S. ¶ By examining the common concerns profiled below (see Exhibit 6), advisers can begin formulating and adopting essential strategies that will generate greater satisfaction.

EXHIBIT 6
AUSTRALIAN ADVISERS' TOP CONCERNS



SOURCE: SCAT/CEG WORLDWIDE, LLC

The market going down or sideways. Given the financial markets' dismal returns during recent years, it's not surprising that future performance is the most commonly cited concern among Australian advisers (90.8 percent). While this is a serious issue for nearly all financial advisers worldwide, it is one over which they lack any control. In contrast, the other concerns can best be mitigated by actions which are under the adviser's control.

Finding wealthy clients. Building an affluent client base is a concern of the vast majority of Australian advisers (85.4 percent). Essentially the same percentage of U.S.-based advisers—85.6 percent—also are concerned about this issue. In order to generate strong returns on their practices, affluent clients represent the best target market—and financial advisers readily accept this.

Generating significant asset growth. Advisers looking to expand, but worried about a heightened level of competition, naturally wonder how they'll capture more assets from existing clients, as well as attract new investors. Consider that 83.0 percent of Australian advisers—and 81.1 percent of American advisers—express concern about their firms' asset growth.

Increased pressure on fees. The likelihood that clients will demand more service for less money and therefore put pressure on fees is a source of concern for 70.5 percent of Australian advisers.

Working with a premium dealership and product supplier. Of the Australian advisers who are not dealers, 69.7 percent cite "working with a premium dealer" as a top concern. Among the entire Australian adviser community, 62.3 percent are concerned about working with a premium product supplier.

Pressure to move "up market". As advisers consider ways to generate more business from high-net-worth investors, a large percentage (66.0 percent) also become anxious about dropping their smaller clients and focusing on investors with more assets.

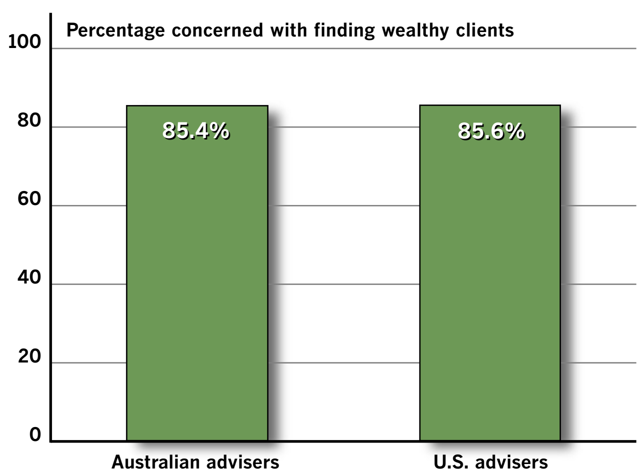
Providing a comprehensive suite of products and services. Due largely to the belief that wealth management will become the preferred business model, 66.0 percent of Australian advisers have become concerned about offering a full menu of products and services that will enable them to provide comprehensive, consultative financial planning to their clients.

The Five Strategies of Elite Financial Advisers

THE MOST SIGNIFICANT CONCERNS THAT FINANCIAL ADVISERS FACE—such as addressing difficult markets, attracting affluent investors, growing assets, maintaining healthy fees and working with top-tier providers—are hardly minor. These issues affect every major component of an adviser's business—including client base, size, partnerships with outside firms and, most importantly, profitability. Unfortunately, as noted, no one can control the financial markets' direction. But advisers can take steps to respond to every other concern in ways that ensure their practices' overwhelming success.

In an effort to provide comprehensive solutions to advisers, SCAT/CEG Worldwide has developed five strategies aimed at enhancing financial advisers' overall level of success. Each strategy has been identified through the firms' global best practices research and shown to work time and time again through practical, real-world application.

EXHIBIT 7
ATTRACTING THE AFFLUENT

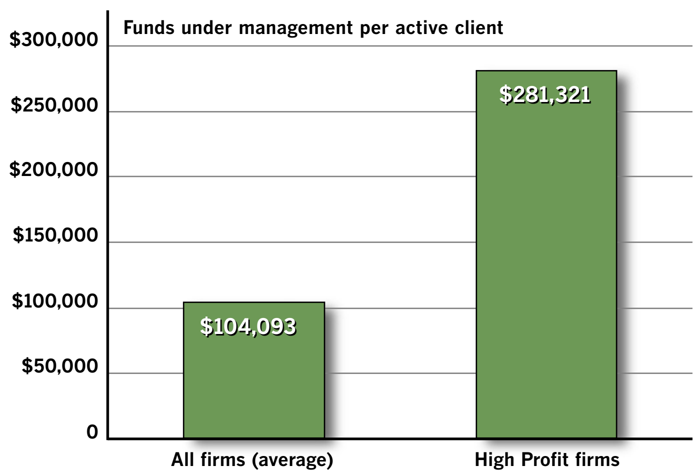


SOURCE: SCAT/CEG WORLDWIDE, LLC

Strategy #1: Focus on Affluent Private Clients

Financial advisers stand to benefit greatly from the affluent opportunity. More than 90.0 percent of high-net-worth investors report a desire to work with an adviser, according to an *Institutional Investor News*/Prince & Associates (U.S.) study that surveyed 391 affluent U.S. investors during the first quarter of 2002. Advisers around the world clearly recognise this trend; essentially the same percentage of Australian and U.S. advisers are concerned about attracting wealthy clients (see Exhibit 7). What's more, Australian advisers at all income levels are focusing on the affluent. A full 72.0 percent of advisers earning less than $100,000 are concerned with finding wealthy clients—and that percentage jumps significantly for advisers earning between $100,000 and $250,000 (90.2 percent) and those earning $250,000 or more (90.4 percent).

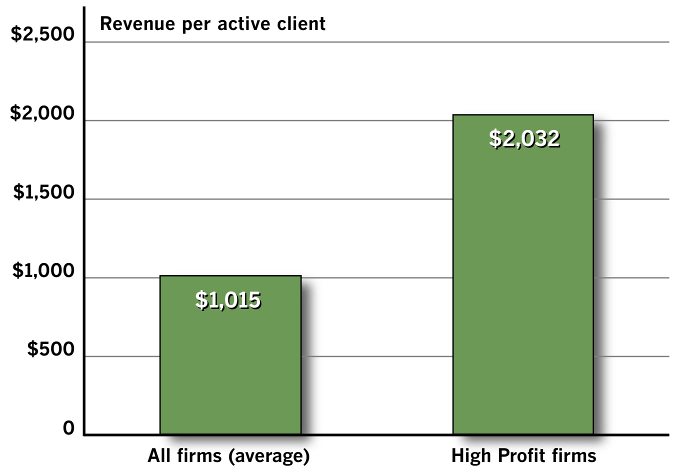
EXHIBIT 8
AFFLUENT CLIENTS MEAN MORE FUNDS UNDER MANAGEMENT



SOURCE: THE DASHBOARD™ COMPANY

Advisers are targeting high-net-worth investors for good reason. The Dashboard™ Reports[2] reveal that affluent clients generate higher levels of success for advisers, based on several measurements. For example, High Profit advisory firms (the top 25.0 percent in terms of profitability of the Dashboard™ database) are targeting wealthy investors with funds under management per active client at a level that is 2.7 times higher than the Dashboard™ Average—the average of all firms that participate in the Dashboard™ Reports (see Exhibit 8).

EXHIBIT 9
AFFLUENT CLIENTS MEAN MORE REVENUE



SOURCE: THE DASHBOARD™ COMPANY

Another characteristic of an affluent client base is the level of revenue generated per client: Affluent clients produce higher revenues for their advisers, as evidenced by the fact that Dashboard™ High Profit firms have revenue per active client twice that of the Dashboard™ Average (see Exhibit 9).

Taking full advantage of the opportunity represented by the affluent investor will not be easy. Advisers' acute awareness of the opportunity suggests that competition for wealthy investors' assets will become increasingly fierce. The most successful advisers will be those who employ an effective marketing strategy for attracting the affluent. The following four steps are the keys to building a strategy that will provide advisers with an endless stream of pre-qualified, pre-endorsed wealthy prospects.

Step #1: Create a compelling vision of success

Advisers must begin by painting a mental picture of where they want their businesses and lives to be in five years. This vision should be based on the core strategy of targeting affluent clients and providing the products and advanced level of service that they demand.

Step #2: Develop a target market

Many of the most successful financial advisers specialise in one or two high-end target markets—for example, affluent markets with money in transition (retirement plan rollovers, divorces, inheritances, settlements and corporate executives with large option packages). These advisers come to be seen by the members of the niche as the experts in their fields, and generate more referrals.

Step #3: Position yourself as an expert

Advisers who become true experts in their niches and present their firms as premier specialists—for example, by writing articles for local or national trade publications in the targeted market—will see strong demand from affluent investors looking for a skilled adviser they can trust.

Step #4: Communicate benefits cost-effectively

Personal, one-on-one interactions, with prospects that advisers generate through referrals or strategic alliances with other professionals and organisations, are most effective—while mass marketing techniques such as cold calling, advertising and mass mailings simply do not work very well.

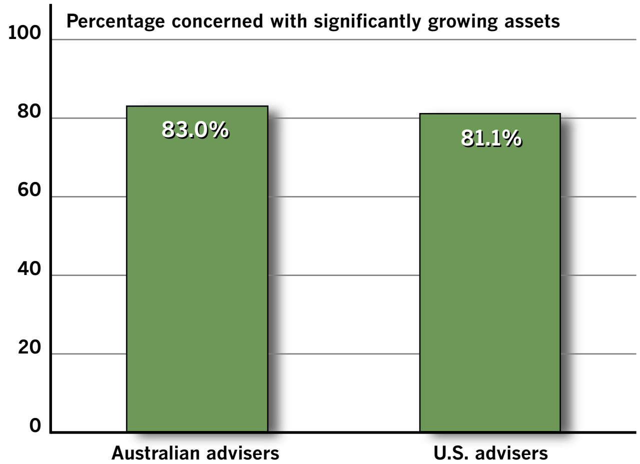
Strategy #2: Use the Wealth Management Consulting Process

The key to building a hugely successful financial advisory business is to develop great relationships with clients. Advisers who do this enjoy a considerable competitive advantage and maximise their creation of equity.

In every segment of the marketplace, advisers who employ a consultative approach generate substantially higher long-term profitability than those whose focus is geared to simply selling products. That's because those focusing on selling products have short-term relationships with clients—they generally close a sale and move on.

By contrast, consultative financial advisers are apt to develop long-term relationships with highly profitable clients. That difference can add up to thousands of additional dollars per client. A consultative strategy therefore can help advisers address one of their biggest concerns: growing their firms' assets under management (see Exhibit 10).

EXHIBIT 10
THE IMPORTANCE OF GENERATING GROWTH



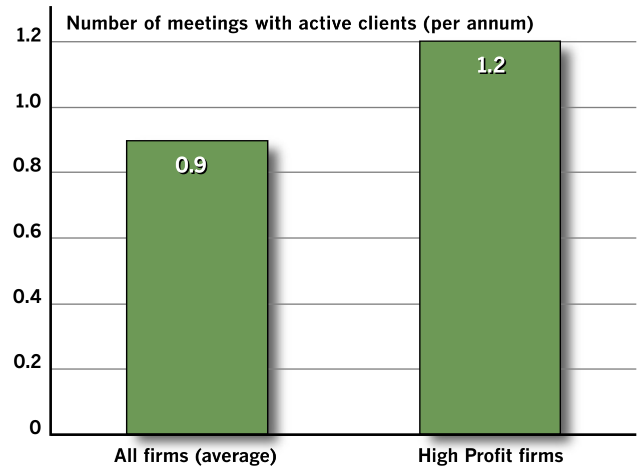
SOURCE: SCAT/CEG WORLDWIDE, LLC

One way to become a consultative financial adviser is to employ the wealth management consulting process. This process is based on a series of scheduled meetings designed to build trust and deliver value to clients from the very first meeting. It is a systematic approach that can differentiate a firm from the competition and leaves nothing to chance when it comes to building a superior practice. The wealth management consulting process can include the following meetings:

1. **The Presentation**
2. **The Discovery Meeting**
3. **The Plan Presentation Meeting**
4. **The "If Appropriate Meeting"**
5. **The 45-Day Meeting**
6. **Quarterly or as Appropriate Meetings**

This process takes time, and requires advisers to commit to a series of meetings—several of which do not immediately produce any revenue. However, research shows that advisers who take this approach enjoy higher levels of trust from their clients than advisers who focus on making the short-term sale. A 2001 study of 1,419 independent U.S. advisers (*Marketing Mutual Funds Through Independent Advisors*, by Russ Alan Prince and Darlene DeReamer) reveals that the best advisers who use the wealth management consulting process build a loyal client base, attract more assets from each client and generate more high-quality referrals. The end result: significantly higher profits for consultative advisers.

EXHIBIT 11
CONSULTATIVE ADVISERS ARE HIGH PROFIT ADVISERS



SOURCE: THE DASHBOARD™ COMPANY

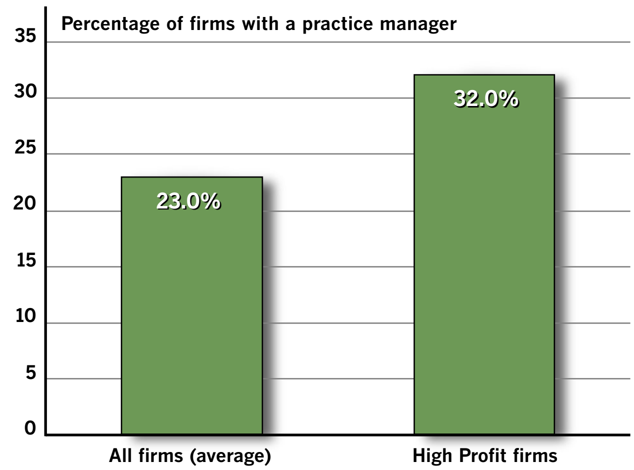
Dashboard's™ research reinforces this conclusion and highlights the effect that frequent meetings with clients have on profits. Dashboard's™ High Profit firms meet with active clients on average every 10 months, versus around 15 months for the typical firm. Clearly, the most successful advisers recognise the importance of building consultative relationships with clients through personalised, face-to-face interactions (see Exhibit 11).

Strategy #3: Manage Your Practice as a Business

Financial advisory firms, like all businesses, greatly benefit from superior management techniques and systemised, defined processes. Approximately one-third (32.0 percent) of Dashboard™ High Profit firms use a practice manager to address their business operations. By contrast, just 23.0 percent of Dashboard™ Average firms take this approach (see Exhibit 12).

Not surprisingly, High Profit advisers also are more likely to incorporate defined business processes into their practices (see Exhibit 13). These processes ensure consistency and accuracy in terms of conducting regular client reviews, instituting a clearly defined client segmentation process, setting up systems and standard templates for client portfolios and prospecting for new business on a planned basis.

EXHIBIT 12
PROFESSIONAL MANAGEMENT GENERATES MORE PROFITS



SOURCE: THE DASHBOARD™ COMPANY

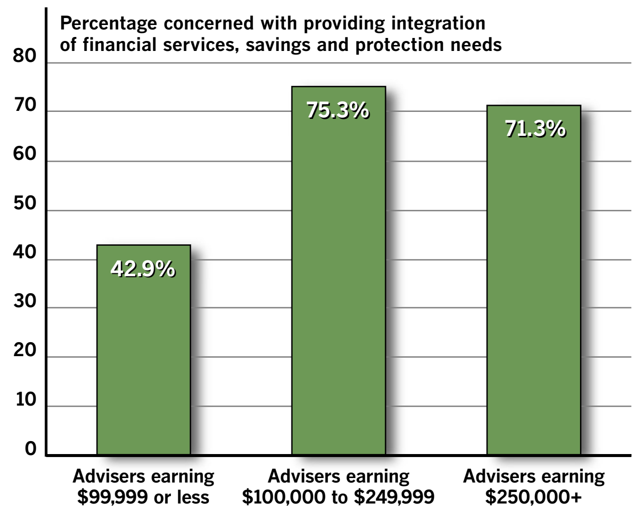
The best advisers also incorporate business models and processes that keep them focused on providing the full range of products and services that affluent clients demand. These processes enable advisers to continually increase their average revenue per client, assets under management and profitability.

EXHIBIT 13
KEY BUSINESS PROCESSES IN PLACE

SOURCE: THE DASHBOARD™ COMPANY

As noted above, Australian financial advisers generally agree that the dominant business model going forward will be wealth management (67.2 percent). As a result, many are seeking to broaden their product and services offerings as well as combine those offerings to provide an all-encompassing, holistic approach to financial planning. Consider that 66.0 percent of Australian advisers overall are concerned about integrating financial services, savings and protection needs for their clients. An even greater percentage of advisers in the two highest-income categories recognise the importance of taking an integrated approach to planning (see Exhibit 14).

EXHIBIT 14
THE IMPORTANCE OF INTEGRATED PLANNING



SOURCE: SCAT/CEG WORLDWIDE, LLC

Financial advisers seeking to offer products and services to the affluent must decide how to incorporate a wealth management model. There are four primary methods that advisers can use:

Build. The advisory firm gains its expertise in wealth management and develops its offerings entirely in-house. This approach gives advisers the maximum amount of control over the entire process as well as control over their client relationships. An entirely internal strategy carries risks, however. Financial advisers will need to commit a substantial amount of cash to expand their infrastructure, hire new employees, train existing employees and purchase technology. What's more, building a wealth management practice from scratch can be a lengthy process.

Buy. The advisory firm purchases an existing wealth management firm. In this case, the firm immediately acquires proven talent and achieves scale more quickly. The financial adviser also retains control over the existing client base of both organisations. Of course, the amount of capital needed to buy a competitor makes this option most suitable for larger firms. In addition, acquisitions can involve sizable risks associated with integration and new services.

Joint Venture. The financial adviser creates a formal equity- or revenue-sharing alliance with another financial professional, such as a CPA or lawyer. This approach requires a smaller commitment of resources than the previous options, and the risks associated with the venture are shared with the strategic partner. Furthermore, the adviser can set up the joint venture in a way that allows him or her to retain control over the client relationship. One negative aspect: Joint ventures can take time. For example, advisers must often develop extensive processes to ensure that nothing falls between the cracks as clients meet with more than one professional.

Referrals. The financial adviser, on a case-by-case basis, refers clients to an outside adviser for predetermined compensation. This method is easier to employ than the other options. However, it also requires the financial adviser to sacrifice control over the client relationship and the quality of client service, and therefore increases the risk of client defection to another firm.

The model that financial advisers select will depend on their long-term goals, client base and other factors. That said, SCAT/CEG Worldwide's extensive experience working with advisers reveals that joint ventures are often quite successful. Financial advisers exploring this method must pay close attention to these criteria:

- *The corporate culture of the potential partner must match that of the financial adviser.* In other words, there must be common ground in terms of the two firms' basic business approach.
- *The potential partner must possess skills, knowledge and resources that the adviser does not.* That way, the partnership will enhance the advisory practice's product and services offerings.
- *The two firms must share a high level of commitment to client service, integrity and professionalism.*

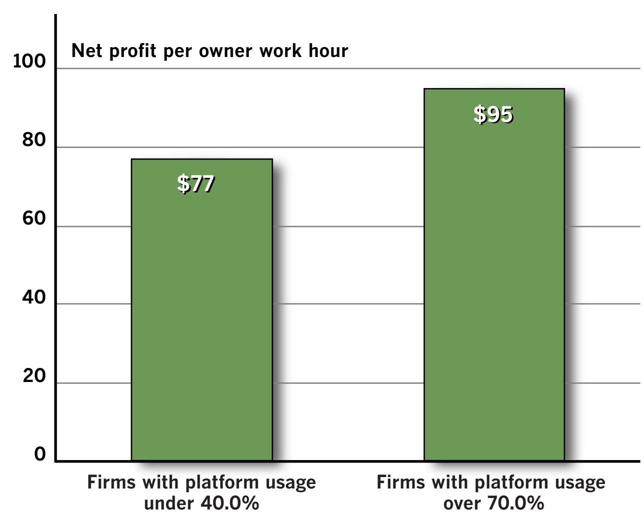
As the next section explains in detail, Australian advisers are quite interested in alliances with partners. SCAT/CEG Worldwide strongly encourage advisers to consider the value that a well-chosen partner can add to their clients and practices.

Strategy #4: Partner Effectively with Institutions

The top financial advisers maintain a competitive edge by providing superior client relationship management. They are able to do this by outsourcing areas outside of their core competency. Working with financial institutions allows them to do this cost-effectively. That's why the financial institution partners that advisers select may be the single most important factor in their success.

Advisers clearly recognise the importance of effective partnering. As noted, the majority of Australian advisers are concerned about working with premium dealerships and product suppliers (69.7 percent and 62.3 percent, respectively). Such concerns are shared the world over, with 53.2 percent of U.S. financial advisers concerned about working with top-flight wholesalers.

EXHIBIT 15
PLATFORM PARTNERSHIPS BOOST THE BOTTOM LINE



SOURCE: THE DASHBOARD™ COMPANY

One important area where partnerships can make a difference on advisers' bottom line is the client portfolio administration platform, such as a WRAP account or Master Trust. Dashboard™ research has discovered that advisers who use these platforms extensively enjoy greater profitability than other advisers: Firms using platforms for 70.0 percent or more of their up-front and ongoing business generate approximately 23.0 percent higher profits than advisers with much lower usage rates (see Exhibit 15).

Given the intense competition anticipated during the coming years, however, advisers must carefully examine their financial relationships to ensure that they provide the optimum chance for success. As financial products and services become increasingly commoditised, financial institutions must deliver value beyond their core products to gain advisers' business. Remember that 74.4 percent of Australian advisers—and 82.2 percent of U.S. advisers—believe that fund managers in the future will have to do more to win adviser loyalty.

Advisers therefore must select financial partners that offer superior levels of support in three key areas: marketing, technical and practice management.

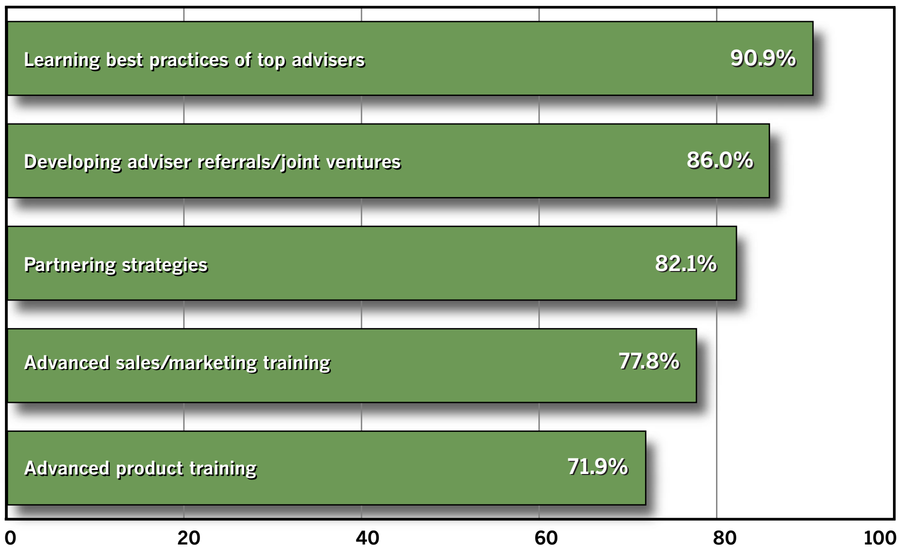
Marketing support is built around training and processes that help attract high-net-worth clients. Two specific areas where Australian financial advisers seek such support from institutions are in developing adviser referrals and joint venture programs (86.0 percent of advisers desire this form of marketing support) and advanced sales and marketing training (77.8 percent).

Technical support is focused on a provider's products and the issues that financial advisers face in delivering products and services to clients. In this category, Australian advisers are most interested (71.9 percent) in receiving training on advanced products, such as hedge funds, that affluent investors will expect their advisers to offer.

Practice management support provides financial advisers with the ideas and best practices of other financial advisers, enabling them to learn and adopt the habits of their most successful peers. Consider that 90.9 percent of Australian advisers desire support in identifying the best practices of leading financial planners. The vast majority (82.1 percent) also want financial institutions to assist them with partnering strategies aimed at building relationships with outside professionals.

These results are compiled in Exhibit 16 below:

EXHIBIT 16
TOP AREAS WHERE ADVISERS NEED SUPPORT FROM FINANCIAL INSTITUTIONS



SOURCE: SCAT/CEG WORLDWIDE, LLC

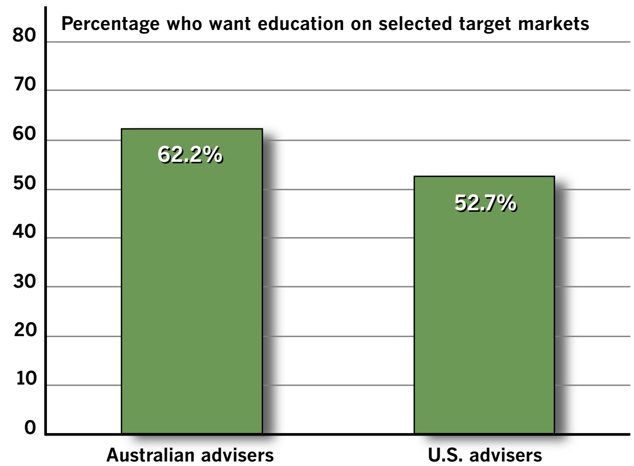
Strategy #5: Commit to Ongoing Learning

Successful financial advisers recognise the importance of education, particularly about their clients and target markets. SCAT/CEG Worldwide's research consistently shows that the best advisers focus more on understanding their clients and how to serve them better, and less on making a sale. The advisers who concern themselves with education are more likely to earn more money than those who make income the primary issue.

It's not easy to stay educated about constantly changing laws and regulations, technologies, and investment products and strategies. Ongoing learning requires time and energy. However, in order to deliver the level of service that affluent investors demand, financial advisers must make education a priority.

SCAT/CEG Worldwide's research reveals that 62.2 percent of Australian advisers would like to receive education on select target markets from financial institutions (see Exhibit 17). Although that percentage is meaningful—and higher than in the U.S., where 52.7 percent of advisers would like to receive such education, according to CEG Worldwide's study of 1,117 advisers—it suggests that advisers need to increase their commitment to continuing education in order to generate greater success.

EXHIBIT 17
THE NEED FOR EDUCATION



SOURCE: SCAT/CEG WORLDWIDE, LLC

There are three steps to a lifelong learning program that can help financial advisers achieve elite adviser status. These three components were first studied in a Prudential (U.S.) research report, *Strategies for Success*, authored by CEG Worldwide Research Director Russ Alan Prince, and Hannah Shaw Grove.

1. Learn from your peers.

Almost all financial advisers agree that it is important to have an educational support network of peers. The Prince-Grove study shows that the most effective study groups are quite structured with clear agendas, make use of interactive training methodologies that provide for a high degree of organised participation, and make extensive use of outside presenters to assist members in increasing their productivity.

2. Use mentors, coaches and consultants.

The Prince-Grove study shows that many U.S. advisers find it difficult to get assistance in building a great financial advisory business, with 82.6 percent acknowledging that it is particularly difficult to find people with a proven track record to help them. The best financial advisers are aware of the need to identify a mentor, coach or consultant to help them achieve all they are capable of achieving, much as an elite athlete has a coach to assist in accomplishing new goals.

3. Invest in training.

The Prince-Grove study shows that most independent U.S. financial advisers (79.8 percent) believe it is a challenge to afford high-quality education. Unfortunately, some of their best competition does not feel this same constraint because their companies generally pay for training. Less than a quarter of U.S. stockbrokers surveyed (24.2 percent) and almost none of the U.S. bank representatives surveyed (5.9 percent) feel it is a challenge to afford education.

As the Australian and Prince-Grove research indicates, the great majority of all advisers recognise that they face substantial obstacles in obtaining the education they need to grow their businesses. However, the most successful advisers develop a strategy for overcoming those obstacles. A key element of their strategy is accessing educational support that keeps them abreast of changes in the industry and keeps them at the cutting edge. They take an active role in continuing their education, not a hit-or-miss passive approach.

Notes

1 For the purpose of this survey, net incomes and adviser earnings refer to salary packages, bonuses and dividends paid to the adviser.

2 The Dashboard™ Reports are produced by Strategic Consulting & Training Pty Limited's sister research company, The Dashboard™ Company. Since 1998, The Dashboard™ Reports have been focused on the growing financial services industry and provide Australia's largest productivity, profitability and performance benchmark. The service currently has more than 800 separate Australian financial advisory firms contributing to it and continues to grow as a key gauge of business performance for all in the maturing financial services profession.

Conclusion

THE FINANCIAL SERVICES INDUSTRY WILL UNDERGO RAPID AND fundamental changes in the years ahead. The road that Australian advisers take going forward will almost certainly look different than the one they have travelled upon thus far. The good news is that the road ahead offers ample opportunities for advisers to strengthen their practices and increase their overall level of career satisfaction. ¶ The future outlook for competition, business models, adviser loyalty, specialisation and rationalisation all spell opportunities for those advisers willing to devote themselves to providing world-class service to their best clients.

However, taking full advantage of these opportunities will require advisers to rethink many of their existing methods of doing business. Financial advisers also must overcome numerous challenges that the future will bring in order to effectively compete and enhance their success. The road to continued success involves adopting the five key strategies of elite financial advisers and making them the foundation of a business strategy.

1. **Focus on affluent private clients.**
2. **Use the wealth management consulting process.**
3. **Manage your practice as a business.**
4. **Partner effectively with institutions.**
5. **Commit to ongoing learning.**

By incorporating these best practices, financial advisers will ensure success not only for their firms but also for their loyal clients who have placed their trust in them and count on their guidance. Don't let them down. We wish financial advisers, their partners and their employees the best of success in the coming years.

About the Companies

Strategic Consulting & Training Pty Limited (SCAT)

Since its founding in 1992, SCAT's reputation has grown throughout the Australasian financial services marketplace. The firm specialises in the evolving financial services profession and has a number of expert consultants, has developed proven business development models and counts some of Australasia's best financial services firms as clients. In 1999, SCAT established a sister research company, The Dashboard™ Company, which has quickly become the most subscribed business profitability research house for the financial services profession, with over 800 IFA firms currently using its services.

CEG Worldwide

CEG Worldwide's founder, John J. Bowen, Jr., first identified the key factors that contribute to a financial adviser's success while working with elite advisers. Recognising that this knowledge would have substantial impact on advisers, their clients and the industry itself—not only from a financial perspective, but also in improving the quality of life for advisers—Bowen and his partners launched CEG Worldwide. The firm's mission is to provide financial advisers with insights, strategies and tools to significantly grow their businesses and better serve their clients. CEG Worldwide is uniquely positioned to combine leading empirical research expertise with pragmatic, proven business experience. The company is able to offer elite financial advisers, as well as those financial advisers aspiring to elite status, with practical guidance that works. CEG Worldwide calls it Institutional Strength Intelligence.

About the Authors

Jim Stackpool

Managing director of Strategic Consulting and Training Pty Limited (SCAT), Jim Stackpool formed SCAT in 1992 to pursue his consulting specialties in the financial services profession. His 12 years of experience as a management consultant to the financial services profession includes three years with the Financial Management Research Centre at the University of New England in Armidale NSW as a management consultant and trainer. Prior to that, he spent the preceding ten years using his original training as a computer programmer to build a computer services firm that was sold to a national company in the late 1980s.

John J. Bowen, Jr.

CEG Worldwide's founder and president, John Bowen has long been known as a leader in the area of adding value to financial services firms. Bowen started his career as an independent broker-dealer representative and then became a fee-based financial adviser. Ultimately, he was named the CEO of Reinhardt Werba Bowen, a money management firm that helped other financial advisers raise billions of dollars in assets. In 1998, Bowen became CEO of Assante Capital Management upon the acquisition of RWB by Assante. He writes a highly acclaimed monthly column on building great financial advisory firms for *Financial Planning*. His first industry book, *Creating Equity: How to Build a Hugely Successful Asset Management Business*, was published in 1997. His second industry book, *Maximize the Bottom Line*, will be published in the spring of 2003.

Russ Alan Prince

Internationally recognised as one of the foremost experts on the high-net-worth investor, Prince works with both financial institutions and elite financial advisers focused on the affluent market. In addition to his position as director of research for CEG Worldwide, he is president of the market research and consulting firm, Prince & Associates, LLC. Prince is a columnist with *Financial Advisor*, *National Underwriter* and *Probe,* and is the author of many books focused on the high-net-worth market and adviser-based distribution, including *eWealth*, *High-Net-Worth Psychology*, *Marketing to the Affluent* and *Cultivating the Affluent*.

Strategic Consulting & Training Pty Limited
Level 10, 201 Miller Street
North Sydney NSW 2060
(02) 9955 6222
scat@scat.com.au
For additional copies of this report, go to www.scat.com.au