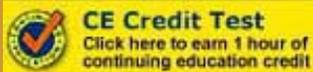


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Taking Off

Since he started outsourcing last year, Steve Wightman has cut costs dramatically. Should you follow his lead?

By Melanie Waddell

The market meltdown combined with the events of September 11 took a toll on Steve Wightman's planning business last year. Spooked by the shaky market performance, or just plain spooked, prospective clients that were about to come aboard shied away, causing Wightman's workload to drop.

But by reducing his employee overhead through an outsourcing plan that he'd implemented earlier that year, Wightman's practice was able to weather a dry spell in new client fees while maintaining a healthy revenue stream. "With outsourcing, you're not paying a staff every week, so it becomes more flexible and profitable, especially for a small practitioner like myself," says Wightman, a sole practitioner with Lexington Financial Management, a fee-only planning firm in Lexington, Massachusetts. "When the market drops out for us as far as new clients, or just the inverse of that, if we get really busy, outsourcing helps even more. We're only paying for the actual use of the services, unlike a practice that is always paying the same amount [to employees] regardless of how busy or efficient they are."

Since delegating back-office and administrative support, technology, and marketing services to other professional firms, Wightman has not only increased the quality time that he devotes to clients, he's also opened up more time to pursue his passion of building and flying his own airplanes. Now he's watching both his business and personal lives soar to new heights. Thanks to outsourcing, his year-end 2001 operating margins of 28% are projected to skyrocket to a whopping 94% by the end of this year. "I've seen my net profit more than double since I started outsourcing," he says. And in his spare time, he's constructing the world's fastest flying single engine amphibious aircraft, the Seawind.

Like other small planning firms—and even larger ones—Wightman has found that he can run a more efficient—and lucrative—practice by getting rid of "unnecessary drag," those mundane, time-consuming, and expensive chores that bog down even the most proficient advisors, and keep them from growing their businesses and servicing clients.

By letting go of a "do-it-myself" attitude—not always an easy feat for most advisors—Wightman has also freed himself from becoming a jack-of-all-trades, a predicament many advisors find themselves in when their business snowballs. "I found myself becoming a human resources manager instead of a financial advisor," he says. Rather than wasting time, money, and energy on training an employee who could up and quit at any time, Wightman decided to turn over low- or no-profit tasks to those persons or firms with the needed expertise. "[Outsourcing firms] want referrals so they maintain excellence. Their reputation is on the line and they know it."

Surely balancing a successful personal and work life is within every advisor's reach. New technology innovations as well as the Internet have without question broadened the array of outsourcing options available. And outsourcing is becoming an accepted business model

among a variety of businesses. According to Dun & Bradstreet's 2000 Barometer of Global Outsourcing, outsourcing in the United States was projected to grow from a \$295 billion business in 2000 to a more- than-\$340 billion business in 2001.

Asset Management, Trusts, and More

An informal Investment Advisor poll of advisors who are outsourcing services found that many are using the tried-and-true turnkey asset management programs offered by SEI Investments, Brinker Capital, Lockwood, and Frank Russell; these firms are now outsourcing separate accounts. Among the most popular services being outsourced are database management and back-office support, accounting, recordkeeping, reporting, technology, marketing services, Web sites, and portfolio management via Centerpiece and TechFi's product, Portfolio 2001. Advisors are also outsourcing their internal administration, payroll, and tax preparation.

Outsourcing is also creating opportunities for advisors to add services that they weren't using before, like trust services, philanthropy, account aggregation, and the administration of 401(k)s.

Popular names being bandied about in trust services are Capital Trust Company of Delaware, Wilmington, Delaware, (www.ctcdelaware.com) and Santa Fe Trust Company in Santa Fe, New Mexico. And new on the philanthropic services block is Foundation Source of Norwalk, Connecticut (www.foundationsource.com).

Mark Tibergien, director of Business Succession Services at Moss Adams, counsels advisors to use this rule when contemplating which services to outsource: "If you can't translate the service into either one that clients would value and use consistently, or one that is going to cost you great sums of money to have as a permanent offering without a commensurate return, you might consider outsourcing. It's kind of like the decision about whether to lease or buy. Buy it if it's going to produce returns and you can leverage off of it."

To be sure, most advisors are accustomed to redefining themselves as their business evolves and as clients pressure them with ever-increasing demands. But Mark Hurley, CEO of Undiscovered Managers in Dallas, says the current market environment is forcing advisors to run a more efficient business. "For the first time, advisors don't have a hidden subsidy in their revenue," he says. "Through the 1990s you had 18% annual returns in the equity markets, and even if you deduct for fees and assume that advisors have some part of their clients' portfolios in bonds, you're still talking about returns of 14% to 15% a year. So an advisor's costs could go up 10% a year, and they would still see margin expansion if they weren't adding clients. Well, guess what happened? Right now the market is negative; let's assume we give 5%, 6%, 7% a year returns. Net of fees with a balanced portfolio of any kind, you're going to be generating returns in the 3% to 4% range, which means margins are going to come down by 7% a year, and remember that's gross margins. So let's say I'm a typical advisory firm and I have a 30% operating margin before I pay the owners any compensation. If I am going down by 7% a year, that means the owners' compensation is being cut by 25% a year."

Before the market crumble in 2001, Hurley says, advisors could shake off worries about operating efficiencies or cost accounting because the market's growth rate masked any potential cost inefficiencies. "Even if you think the market is going to go up, which I do, it's not going to go up that much."

The Virtual Office Solution

David Drucker, principal with Sunset Financial Management Inc., in Albuquerque, New

Mexico—who's co-authoring a book with fellow NAPFA member Joel Bruckenstein on virtual office tools—says that by investing in technology, advisors can move beyond the dire predictions that say they must either establish a niche or grow their firms to survive. “A lot of these [advisory] firms are chugging along at 50% overhead rates and have become resigned to the fact that that's the best they can do,” he says. “I think people don't realize that it takes a major paradigm shift in their thinking to change those numbers dramatically, but it can be done.”

Drucker shifted his business model by splitting from his former financial planning business and creating a one-person C corporation. “I looked around to see if it was possible to outsource every staff function I'd had in the past to either a separate business or independent contractor, and eventually was successful in doing that,” he says.

“My concept of a virtual office is really putting together the labor side with the technology side, and outsourcing is half of the puzzle,” Drucker says. “The other half is all the different technologies you can use to replace human functions, or just to save tremendous amounts of time and space that had been very inefficient to your practice.”

Drucker now runs a virtual office, using a CFP who performs planning functions for clients via the Web. He also uses a virtual account administrator to perform tasks like number crunching, setting up Schwab accounts, handling the money, setting up automatic withdrawals from the account, and IRA distributions. The core communication process, Drucker says, is via e-mail and Intranets. For administration, he uses Sherry Carnahan, who runs a virtual secretarial business called Total Office, Inc., based in Akron, Ohio. “Of all the people, she's very critical,” Drucker says; “she's the person I'm in touch with the most.” And then there's the virtual trader. “I actually have an independent broker who does about 95% of the investment work for my clients: making sure their asset allocation is on target, their liquidity needs are being met, all those things.” He also uses Centerpiece reporting for an asset management solution provided by Asset Management Solutions in Vista, California. The company was recently renamed Back Office Support Service.

Since moving to a virtual office structure, Drucker's profit margins have ballooned. “It's unbelievable! My profit margins are in the 75% to 80% range consistently. And a lot of that [growth] is because of outsourcing.”

Drucker says that, as a whole, advisors aren't embracing outsourcing. “We are right on the leading edge [of outsourcing]. Opportunities are growing pretty rapidly, but acceptance isn't,” he says. “Everybody has heard of outsourcing or examples of it, and there are peers who may be doing it, but very few [advisors] have adopted it in the wholesale manner.”

What keeps some advisors from outsourcing, Drucker says, is a false assumption that different due diligence steps are required when retaining an outsourcing firm. “When I speak about this topic at conferences, people say to me: ‘Don't you have to have confidentiality agreements with these people because you don't have any control over them?’ What I tell them is that you've got the same situation as someone who's present in the office with you from day to day; there's no difference. You need the same safeguards, the same confidentiality agreements, understanding and hiring process, and the same reference checking process.”

Getting Support, Electronically

Back Office Support Service, which still uses the Web address www.assetsolutions.com, is a company that popped up quite a few times during reporting for this story. The company is run by president and CEO Mike Kelly and basically provides database management. “We take the [advisor's] download from whatever custodian they've got—Schwab, Waterhouse,

Pershing, Vanguard—and we will download those physically onto our site, process the data, clean it up, get rid of the duplicate transactions, obtain missing information like cost basis on receipts of securities,” Kelly says. “We then transmit that data electronically from our office to the advisor’s office, so unlike a service bureau, the data physically sits at the advisor’s office by the time we are finished with the process.”

Back Office Support Service currently works with advisors who are licensed users of Centerpiece and TechFi’s Portfolio 2001.

By using the company’s database service, Kelly says advisors eliminate the hassle of training inexperienced employees. “And what happens when the employee quits? Is hired away? Gets sick? Goes on vacation?” Kelly says. “We provide continuity because we’ve got people assigned full time, including backups.”

Advisors can also realize cost benefits. Back Office Support Service supports 45 companies—CPAs, advisors, and broker/dealers—with practices ranging in size from \$5 million to \$1 billion in assets. On the low end, Kelly says, an advisor would pay about \$400 a month, depending on the service level required. “So it definitely can make sense for the small advisor to use us as opposed to hiring a staff.”

Tom Gryzmala, a planner with Alexandria Financial Associates in Alexandria, Virginia, has been using Back Office Support Service for two years now, and couldn’t be happier with the service. “They provide superior service,” he says. “It’s the beauty of the Internet that makes outsourcing doable.” Before turning its database over to Back Office Support, Gryzmala says his firm was shelling out \$26,000 to \$28,000 on an employee salary. “You spend the first few months teaching them and coming in on weekends to fix all their mistakes; then people would get bored and be out of here in three months,” he says. “It’s the smartest thing I’ve done.”

Gryzmala also has outsourcing relationships with local estate attorneys and insurance agents, and outsources the administration of his client’s 401(k) plans to Springfield, Virginia-based Automated Retirement Plans, operated by Toni Kelly. “That’s something advisors should be looking at—to outsource the administration of the 401(k) plan—because it’s labor-intensive.” Kelly, he says, “is one of the smartest women on pension plans.”

The Tech Solution

By developing a virtual network through an outsourcing relationship with a commercial Web service called GoToMyPC.com (www.gotomypc.com), Wightman figures he’s saved \$55,000 in technology costs. The virtual network, which has helped him create a paperless office, contains all of his practice’s files and documents, including securities filings. The service provides his two main outsourcing buddies, Christine Barnes of In-A-Pinch and Norman Brucks with Coyote Technologies, Inc., with 24/7 access to Wightman’s practice. In-A-Pinch (www.in-a-pinch.com) in Waltham, Massachusetts, provides back-office services, while Coyote, based in Cambridge, Massachusetts, tends to all Wightman’s Web site and computer concerns.

“I can designate Web files that they can access [on my server],” Wightman says, “so instead of us sending files back and forth, they can just go to the files and pull them up, and then store them back on the network as if they were here in the office.”

Wightman also uses AdvisorIntelligence’s research on mutual funds, stocks and bonds. Advisorintelligence (www.advisorintelligence.com), owned by the highly regarded Orinda, California fund manager Litman-Gregory, provides advisors with a turnkey money management solution.

Stephen Savage, managing director of AdvisorIntelligence, says advisors can hire Litman-Gregory as their CIO and use its model portfolios of no-load funds on a private-label basis, custody their assets, and access customizable PowerPoint presentations; all these services translate into a complete outsourcing solution for an advisor's investing strategy. A good number of advisors are also using AdvisorIntelligence to outsource their research department, he says. "Advisors might not view Litman-Gregory as an entire investment strategy solution; they might have their own overlay or derive from what we are doing, or use it as validation or cross-check," Savage says. "But we have a very extensive level of research that we do on the underlying mutual funds and on the asset classes, which is part of tactical asset allocation approach."

But there are some downsides to outsourcing, Wightman says. "You don't have control, so you have to go on the [outsourcing firm's] schedule." For example, Barnes of In-A-Pinch also does bookkeeping and tax work, "so she's taking on a whole lot of tax work and she's not going to be very available." That's why Wightman has decided to hire another administrative person to fill in the gaps.

Help for the Hands

Sherry Hazen-Cohen, a planner with Dream Achieve Planning Network in Plano, Texas, outsources the labor-intensive inputting of information into her Quicken program to Sherry Fabricant at Financial Outsource Solutions (outsourcepro@ev1.net). Hazen-Cohen takes six months' worth of clients' expenses and inputs the data into Quicken for analysis and planning. "After she inputs all the information, I'll put a budget in there for a client, put assets in, amortize their mortgage, and burn them a CD."

Steve Gorman, a sole practitioner with Gorman Financial Management in Hingham, Massachusetts, and Al Coles, a planner with Financial Design Associates in Stinson Beach, California, are two fans of Krisan's Back Office, in Charlottesville, Virginia.

"For me, the back office outsourcing is the only way I could be a sole practitioner," Gorman says. "Having someone do that task was essential to growing my practice and really staying in business."

Coles outsources his portfolio accounting to Krisan's. "For a very low cost I can get the work done with Krisan," he says.

Lou Stanasolovich, a planner with Legend Financial Advisors in Pittsburgh, outsources nearly everything, including the planning firm's payroll, its compliance, its back office, and its Web site. And the planning firm is contemplating outsourcing trust services and account aggregation as well.

Legend Financial has a very sophisticated Web site, Stanasolovich says, thanks to AdvisorSites (www.advisorproducts.com), which is owned and operated by IA Editor At Large Andy Gluck. "We actually picked up a client the other day because he [liked] the detailed information on our Web site."

Account aggregation services offered through Total Personal Services in Long Island, New York, could be the next outsourcing service Legend adds, Stana-solovich says. The firm is "an administrative family office that pays your bills, reconciles your checking account, lets you know what bills need to be paid, asks you to respond to invitations, and tells you when your car needs to be inspected. It's a great service."

Advisors "will get used to the [outsourcing] concept slowly but surely," Stanasolovich says,

and he believes it's okay to tread lightly at first because "it takes a while to find somebody you're comfortable with." But advisors "are going to have to get used to it if they are going to be competitive, especially with the more sophisticated firms out there."

There is certainly an abundance of outsourcing options for advisors today. If you've spread yourself too thin to create momentum in your business, or you've let your workload diminish the quality of your personal life, maybe now's the right time to let someone else help you carry the load.

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