Being The "Alpha" Advisor for Your Clients—A Brief Roadmap for Getting There and Staying There

An InvestEdge Commentary

Perhaps every investment advisor to high-net-worth clients should strive to be each client's go-to or "alpha" advisor—regardless of how many other advisors, brokers, managers or custodians the client uses.

What do we mean by "alpha" advisor? We're referring to the primary advisor who designs the client's total asset allocation strategy—the woman, man or group whom the client thinks of as his or her main money person, financial sounding board and information keeper and interpreter. There was a time when nearly every high-net-worth investor had one—a single, trusted advisor to oversee and provide a strategy for all the assets. But that role has gotten hard to fill and maintain as investors live longer, need their money to do more things, move into more specialized asset classes and can do more on their own because of online resources.

Serving as alpha advisor remains a worthy goal

Yet reaching alpha status with many of one's clients, and maintaining it with those who already rely on you in that way, is still something to aspire to. Alpha status represents the highest form of value-add, and it leads to extremely strong client relationships that are sustainable and can grow.

Through the lens of the client/investor, the alpha advisor…

- Is objective without being overtly promotional about his or her firm's offerings or any particular investment opportunity.
- Communicates using materials that reflects his or her firm's brand, but gives clients *all* the information they need, even if it originates at other firms and advisors.
- Provides detailed, accurate, on-demand reporting that makes it easy to see results and understand investment strategies and asset allocation recommendations.
- Puts forth an array of investment offerings—including advice and recommendations about those his or her firm doesn't offer.
- Is truly independent—guided by what's best for the client, not by commercial considerations.

It’s a challenge to be the alpha advisor

Being the alpha advisor is difficult. Clients are less reliant on a single firm and increasingly spread assets across multiple accounts at multiple providers. According to a 2011 survey by the Cisco Internet Business Solutions Group, 80 percent of investors with at least $1 million in investible assets keep those assets at more than one firm, with over a quarter spreading their assets across four or more firms. Among wealthy investors with financial advisors, 28 percent have more than one.[1] Online portals make doing this easy. And the portals provide increasingly sophisticated analytic tools. This poses a risk to everyone in the profession. Thanks to fragmented assets and clients who are able to operate in “do it yourself” mode, every advisor faces the risk of becoming commoditized—just one more provider among many, with nothing to distinguish the relationship, make it “special,” or turn it into a growth platform.

How can you fight through the clutter and become the alpha? If you’re already the alpha advisor, the challenge is similar—how do you fight through the clutter and fend off competitors to maintain your status? It’s hard to give the client effective advice if you can only see a portion of the client’s overall holdings. And it’s hard to develop strategies that apply across an increasingly diverse array of investment products.

Client expectations are very challenging. Clients want and demand more of their advisors, especially when it comes to reporting and analysis. They expect to see custom reports, produced in response to particular questions and tailored to their particular needs. But it’s hard to meet the demand. Your firm may not have custom reporting tools, and producing a custom report using off-the-shelf tools, such as Excel and PowerPoint, chews up time.

Spending hours generating custom reports may help a particular client relationship, but it can compromise the advisor’s other relationships and overall productivity; it undermines his or her ability to develop and execute strategies for multiple clients and cultivate new relationships.

Finally, but importantly, there’s the “war chest” issue at the advisor’s firm. Management must grapple with the fact that adding high value requires not just the raw power to aggregate data (including data from accounts at other firms), but also the processing power of both IT systems and live humans to turn that data into advice. The game isn’t just about data aggregation—it’s about what you do with the data.

1 *Winning the Battle for the Wealthy Investor,* Cisco Internet Business Solutions Group, 2011. p. 2 https://www.cisco.com/web/about/ac79/docs/fs/Wealth-Management-Full-Study_Cisco-IBSG.pdf

The first step is to focus on what clients need: The big picture

Given all of the challenges of being an alpha advisor, is it possible to swim above the commodity crowd and become or remain the alpha advisor? Absolutely. The first step is to focus on the big picture. Think about what the clients want—but think also about what they really need.

Clients say they want data, but, most of the time, they really want answers. What will set you apart is not the ability to aggregate large amounts of data, but rather the ability to get at clients' pain points—their fear and confusion—and point them in the right direction.

After the 2008 market crash, clients' faith in the markets was devastated—but their relationships with advisors were relatively unscathed. According to a 2011 Cisco survey, 37 percent of investors said they had lost faith in the fairness of the market and believed the individual investor did not have a fair chance to succeed. But only 15 percent had switched their advisors in the previous two years, and 26 percent said they had more confidence in their advisors than they did before the crisis.[2] Clearly, retention during this period was not based solely on investment performance (which for much of this time was really a damage control operation), but rather the quality of the relationship. How well did the advisors handle their clients? Was the advisor able to chart a path through the chaos and maintain—or enhance—the client's confidence? Those who could were the advisors who won.

So, to truly add value, the first step is to stay focused on the main goal—help your client make better choices. Point to concentration risk in allocations. Point to ways to change the mix to create a tax-optimized portfolio. Most fundamentally, help them understand what questions they should be asking and why.

2 Ibid.

Are you the alpha advisor? Can you become the alpha? These questions may help you determine your alpha status:

Are you able to provide comprehensive information and analysis?

- Do you have access to all client account information?
- Can you use that information to demonstrate your value and that you are vested in the relationship? Are you able to provide:
  - Investment performance comparisons?
  - Total asset allocation?
  - Risk and return analysis?
  - Holistic investment advice?
- Can you easily collect investment goals and risk tolerance information from the client?
- Can you tailor your recommendations to individuals' goals and risk tolerances?
- Can you structure offerings for the needs of different investor segments? Older investors, for example, often prefer simplicity and might therefore be prime candidates for both portfolio simplification and for the ease of access and "one-stop shopping" that a relationship with an alpha advisor provides.

Is your advice far-reaching?

- Are you able to effectively distinguish and explain a client's needs, as opposed to their wants?
- Does your current system make it easy for your clients to make not just better choices but the best choices available? How?
- Are your clients asking the right questions about their accounts? If not, how are you helping them understand what questions they should be asking and why?

Do your clients rely on you for all their investment advice, beyond the assets they keep with you?

- Are they coming to you for advice on assets other than the ones you directly oversee?
  - Do they look to you for second opinions on the advice they're getting from others?
  - Do they seek your insight before making major financial decisions?
- Do your clients refer others to you?

What's the quality of your IT platform and your client portal?

- Does your client portal provide centralized access to all the client's accounts?
- Can you produce reporting for all accounts, including held-away accounts?
- Does your portal extend your brand and reflect your investment and service capabilities?
- Do you support on-demand access to account information and reporting using mobile devices ?
- Can you provide access to non-proprietary products?
- Are you able to turn your client's raw data into value-added advice in a timely and proficient manner, using your current IT systems and advisory expertise?

To become the alpha advisor, you need superior reporting and analytics

Do your answers show that you are—or can become—the alpha advisor? Even the most insightful advisors can't get there alone. They need support—in the form of superior reporting and analytics. To be an alpha advisor, you need the ability to look across the client's entire investment portfolio, no matter where the assets are housed. That's the only way you can give advice about the allocation and management of the total investment package. You also need a tool that will allow you to propose a portfolio construction based on the aggregated account data, and on the investors' individual and lifestage-based needs, goals and risk tolerances—that will enable you to prove to a prospective client that you're qualified to be the alpha advisor, and to play that role once you've won the business.

Finally, you need the ability to produce customized reports quickly and efficiently—reports that incorporate benchmarks and other metrics, and that you can share with the clients easily, for example, through a portal. A call from the client that says, "I'm in town today and I'd like to meet with you," shouldn't be a cause for panic, or for hours of labor that leave other clients hanging. A call should be an opportunity to respond quickly, with an easily accessible, tailored solution—the kind that helps cement relationships. A portal-based reporting solution will increase the likelihood that you can extend those relationships to the next generation—as wealth passes from parent to always-connected, tech-savvy child, the ability to provide access and insight via web or tablet will help you build loyalty.

And to produce that quality of reporting quickly and efficiently, you need the IT that makes it possible. The technology exists, but the firm must commit to it. Client service and reporting solutions are built most effectively when the client service establishment and the IT establishment are on the same page.

Becoming an alpha advisor will make your firm more competitive

So, it follows that the onus is on advisors and their client-facing colleagues to impart to management and the IT department the benefits of transforming the offering—and the fact that such a transformation is possible.

This conversation can be effective for a simple reason—the solutions that make you, the advisor, more competitive make your firm more competitive as well. The deployment of leading-edge reporting and analytic tools leads naturally to the creation of branded portals—which help the firm extend its brand. If your firm's portal is the one clients rely on to get their investment overview, that's a win for the firm. If the advisor and his or her colleagues are able to produce high value-add reports in a fraction of the time, that means they can spend more time on client service—which means greater productivity and profitability for the firm. From a management perspective, freeing advisors from the mechanical burden of reporting (for example, cutting and pasting Excel and PowerPoint pages under deadline pressure) allows them to spend more time doing what they do best. There are other benefits: access to readily available, highly standardized analytics enables the firm to standardize quality across multiple providers and offices, and to train the next generation of advisors.

A few questions can help initiate an internal dialogue about how to turn a firm's advisors into alphas

To help the conversation along, begin to consider these questions—and inspire management to ask and answer them as well:

- What more can we do to address our clients' needs?
- What is it currently costing us to provide service to each client? If it takes four hours to produce a custom report, what is the cost to us?
- Are we spending enough time with our most valuable clients?
- When we retain clients, why do we succeed? When we fail to retain a client, why did they leave?
- When do we find out we're losing a client—is it usually in time to do something about it, or when it's too late?
- Are we getting enough of each client's business? If we're not the alpha advisor, who is? What are they doing that we're not?
- Are our solutions and client interface elegant—easy to use and pleasant to work with?
- Are we scaled to take maximum advantage of our IT platform? Are we large enough to support a sophisticated IT solution? Are we so large that we are struggling with multiple platforms and need to think about how to integrate them for maximum efficiency?

Those questions, asked and answered, are likely to get your firm moving in the right direction. To become (or remain) an alpha advisor, you need to take the first step—which means helping your firm take the first step as well.

Familiarize yourself with the analytic and reporting platforms that are currently available. Then show them to management and make the case that it's possible to provide the kind of high value-add product that clients expect and demand. At the same time, show IT how easy it is to use third-party software to create such a solution. Finally, demonstrate to clients the insight and advice you are now able to provide – and claim your status as an alpha, the advisor your clients trust and rely on the most.