

Nurturing Growth

How CEG Worldwide helped wealth management evolve from buzzword to industry discipline.

> By Mark Fadiman

When John Bowen conceived of CEG Worldwide in 2000, he envisioned a consulting company whose primary clients were large investment companies and brokerages and whose secondary clients were the advisors themselves.

When Joe Kennedy moved to New York in the early 1920s, he observed that if you want to make money, go where the money is. So it was that Bowen looked to the deep-pocketed financial services giants because that's where the money was. But a funny thing happened on the road to building a viable enterprise.

There was a huge shift in the balance of power in the financial services business, and many independent financial advisors thrived during the 2000-2002 bear market, while the majority of so-called big boys floundered. So by 2004, CEG had established itself as a major consulting business, but the folks who Bowen thought would be his secondary clients had become his primary clients. CEG suddenly had dozens of successful advisor clients who paid annual fees of just under \$20,000 a year for four quarterly group meetings.

In fact, the research, analysis and advisory coaching firm founded by financial entrepreneur Bowen is increasingly successful at providing financial advisors with services that they did not know existed, in order to help them radically reshape their businesses with a focus on the cutting edge of financial "best practices," now increasingly known as "wealth management." The nascent movement is reshaping the financial industry as profoundly as financial planning did in the 1970s and 1980s.

CEG and its founder are already well known to financial planning insiders—though not, perhaps, to the larger industry pool of several hundred thousand brokers. Chances are, over the next few years many of these folks will come to know about firms like CEG as technology increasingly helps asset gathering evolve from art to science.

CEG's story is important, because the firm has been retained to build out coaching programs for potentially thousands of brokers among some of Wall Street's largest firms.

Independent advisors who have worked with CEG testify to the power of its programs. "Two important pioneers in the financial industry in the early 21st century are John Bowen and Russ Prince," says Montana-based registered investment advisor Mark Thomas, a CEG client. "I get a kick out of all the mainstream press covering the so-called biggest firms and industry leaders when these two, who happen to be the people scientifically building the next generation of the investment business, are rarely mentioned."

Says another CEG client, Florida-based H. Gordon Owens Jr., "CEG demands that you focus intensively on the business you want to build, not the business you have. And unlike other consultancies, they back up their perspectives with original research. To my knowledge, until CEG, no one was ever committed to doing large-scale empirical surveys among financial advisors and then disseminating the research in simple white papers that you could understand and apply."

Both Owens and Thomas say that their businesses have become far more focused on particular and profitable niches under CEG's tutelage. They say that they are far more disciplined in how they generate referrals and add clients to their rosters. They also say that their assets have nearly doubled in just a few years' time—even though, to begin with, they radically pared their client bases. The result: a business profile that resembles what CEG and its clients increasingly refer to as wealth management.

It's something that Bowen may be reconfiguring in a new way, at least for the broader marketplace downstream. Thomas and Owens say they want to be the first point of contact for any financially oriented decisions their clients make, up to and including second homes, car purchases, etc. The result is an intimate bond between their businesses and a small pool of wealthy, or very wealthy, families, the goals of which they help shape, the fulfillment of which they facilitate and help direct.

A decade ago the idea of advisors paying a consultant \$20,000 per year for coaching would have seemed preposterous. Very few advisors earned enough money. That has changed dramatically. The average annual net income of

current CEG participants is \$600,000, with the incomes of some advisors ranging to well over \$1 million, according to internal CEG statistics.

Today, many top wealth managers are making in excess of \$900,000 a year and some are willing to re-examine their business by breaking out wealth management implementation into three basic units: investment consulting, advanced planning and relationship management. Sound simple? CEG surveys show that while up to 75% or more of financial advisors claim they are involved in some sort of wealth management, only about 6% are actually implementing the strategies and tactics necessary to build that sort of practice.

Explains Bowen: “Our research indicates that the affluent are concerned about preserving wealth, enhancing wealth—tax planning, really—wealth transfer, wealth protection and

The reasons for growth in advisor-managed and other trusts is multi-faceted.

charitable giving. In order to provide these services, the financial advisor needs to become not the quarterback but the general manager of a team of experts.”

Exclusive, But Worthwhile

There are plenty of arguments about wealth management—from what it actually is to who can participate. But CEG is obviously finding a niche in attempting to broaden and deepen the concept. Company execs enthusiastically preach that while advisors can perform the investment function for the client, other services must be inevitably parceled out to relevant professionals—that’s where the managerial function takes place.

“There are ways to build a simple, elegant wealth management business,” Bowen says. “We understand them, though we also understand that not everyone is cut out for it, or has the wherewithal. It takes commitment, time and resources. We won’t work with everyone, and neither will the financial advisor with a true commitment to wealth management. There’s a courtship phase in both instances, and for the truly committed financial advisor, there may be at least a little bit of pain as well.”

For advisors working with CEG, the rewards apparently are worth it. By generating advisor-specific research to determine wealth management best practices—what brings revenue through the door and helps ensure client retention—CEG aids in the expansion and support of businesses such as those of Thomas and Owens.

“In the 1990s, Russ Prince [formerly CEG’s top research consultant] was a pioneer in the area of applying empirical research to the insurance community,” Thomas points out. “But John Bowen perceived an opportunity in the financial

advisory field. Early in the 2000s, he partnered with Prince and applied Russ’s methodology to the financial advisory world. He started providing advisors with these large-scale best practice surveys that showed you in detail how to move from a transactional or even financial planning business into full-scale wealth management.”

To be sure, plenty of other groups commission investment research, resell it or customize it for clients. And Prince continues to expand his services, providing empirical research to numerous groups, including private financial advisory entities, Wall Street shops, mutual fund companies and the “superwealthy” with hundreds of millions, or even billions.

But Bowen and those advisors who use his programs believe he is pioneering the use of such research and analysis by offering it to the financial advisory community as part of a coaching process. Although Prince is now focusing on other interests, his influence at CEG remains. “Russ is a superb researcher,” Bowen says. “However, the foundation that Russ provided to us, and the discipline of his shop, have been extremely valuable and have helped us build a corporate culture that involves the most rigorous frame of reference for data generation, research and analysis.”

CEG’s businesses have, in fact, expanded into three separate areas, all based around wealth management and its application—research, training and consulting. There are also avenues or channels for distribution of CEG research. The first is the so-called independent channel, the second is the Wall Street channel and the third channel would be constructed of the myriad independent small shops that could



benefit from CEG services but are fairly disparate and thus harder to reach.

CEG has successfully penetrated the independent channel and is in the process of expanding its services to both independent shops (RIAs) and Wall Street firms.

Entrepreneurial Fluke?

Circa 2003, CEG was positioned as something of a transaction-oriented business, in which financial advisors were to be charged a certain amount for research generated at least three times a year. It wasn't realizing its potential. "We were providing research by contacting advisors in the investment community, and we were generating valuable research," Bowen recalls. "But we came to see we could do much more. We were barely scratching the sur-

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face of what we could do for the advisor to help him or her achieve success."

According to Bowen, what CEG began to offer finally, and offers now, is a soup-to-nuts package that focuses on every area of the advisor's business and tracks, in detail, how a practice can become bigger and better—often by initially becoming smaller and more focused.

Each part of this process is backed by research that CEG has conducted with hundreds of top financial advisors, whose best practices are refined and synthesized into substantive white papers. The firm assigns consultants for the processes involved and includes monthly conference calls between the advisor and a designated consultant-trainer. Coaching material is currently in excess of 1,000 pages, between the tabbed notebooks that coaching clients receive and the course material prepared for presenters.

The reports are focused directly on financial advisors. Information is received directly from the advisors via questionnaires and phone calls. The reports also serve double duty in that they provide direct evidence of what the firms themselves need to do to improve productivity and retention.

Influential Study

A 2005 study, *Winning the Allegiance of Top Financial Advisors*, has been especially influential in this regard, Bowen explains. While research illustrated that advisors had little

trouble identifying high-quality products and services, the real challenge they faced and were concerned about mastering was becoming more successful. CEG found that this latter concern could be broken down into the following points:

- Finding wealthy clients. About 85% of advisors, especially independent advisors, were unsure how to move forward in attracting wealth clients.

- Generating significant asset growth. While this is a concern for all advisors, brokers and registered investment advisors were more concerned than independent broker-dealer reps. Over 90% of brokers and RIAs identified gathering significant assets as a major concern.

- The market going down or sideways. Almost 80% of all advisors and nearly 90% of brokers identified this as a concern. The reason for the latter's deep concern, as CEG's research shows, is that "advisors who are predominately transactional saw their incomes decrease by 51.8% during [a] 12-month study while those who use a wealth management [asset allocation] model enjoyed a gain of 9.3%."

The 2005 study also showed the top three kinds of support that advisors were soliciting from their institutional partners:

- Marketing and sales support
- Practice management support
- Technical support

The rest of the report focused on various "value-added marketing (VAM)" programs that institutions could put in place for their advisors to respond to their concerns. Also, "how institutions can determine which method is best for them."

The survey noted that "given the enormous investment most financial institutions make in VAM programs, it is very disappointing to learn that so few programs are actually found to be worthwhile to advisors." The report noted that only 2.1% of lower-income advisors found VAM programs extremely or very worthwhile, while only 0.6% of higher-income advisors found the same.

CEG has attempted to fulfill these needs by delivering its programs and original research in numerous formats including educational presentations, workshops and comprehensive coaching programs.

With advisors citing strong growth in their businesses as they implement the CEG methodology, the word has spread. According to Bowen, CEG is in the process of expanding to serve top-echelon reps of some of the premier names in the financial service industry. These may include two of Wall Street's "big five," though Bowen is coy about who exactly is involved.

"We've got pilot programs in place with several big names you'd recognize," he says. "They heard about our model and how well advisors were doing with it, and they started calling, which we took as a great compliment. It leads me to believe we're generally in the right place at the right time."

Wall Street Dilemma

Being in the right place at the right time may have to do

not only with Bowen's apparent perspicacity but also with Wall Street's outlook. The Street has not been able to halt a 20-year slide in which it continues to lose market share to independent firms and RIAs. Also, while the attrition rate among the big firms is not perhaps as high as it once was, the rate of "shake out" remains a problem; only one of seven financial advisors lasts longer than five years, and only one in four of those who do last make a real success of the business. That works out to a success rate of less than 10%—in a service business that should average closer to 20%.

"Wall Street needs to address what these numbers indicate," Bowen explains, "and I strongly believe they're dedicated to doing so. The days when even the largest firms could simply write off the costs of training and lack of retention are probably past."

"They believe we may be able to address certain difficulties that haven't yet been resolved," Bowen adds. "We believe we can help by providing services in an area that we were surprised as anyone else to find unfilled—the business of providing basic research about wealth-management best practices."

Servicing the wealthy used to be a little-commented-on market segment. Now magazines are being founded that take aim at the subject, including the recent debut of *Financial Advisor's* own *Private Wealth* magazine, where

Prince serves as editor. Wall Street's methodologies, Bowen believes, will evolve with the times, and thus he anticipates a good deal of growth via the Street. With pressures from both independents and direct marketers, Wall Street is being squeezed in two directions.

Change, however, is always difficult. It is more so when companies are as massive and powerful as are Wall Street brokers. The institutional inertia is considerable, and Wall Street's services have always revolved around product. Even research at how to give service to clients better—from the rep's point of view—has included proposals from product-wholesaling (third-party) staff, not from research generated by independent entities that have gone directly to the rep.

"It's just not how Wall Street operated," Bowen explains. "And that's why they are open to our services and want to listen to us. If we become a change agent, it is not because we have a new theory or better formula, but because we have gone to financial advisors and asked in a rational way how they created their success—then synthesized that information into a program that anyone can understand, and that certain successful advisors can implement and benefit from." ©

Mark Fadiman is the founding former editor of On Wall Street magazine and the founder of Palisade Business Press.

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