

Wealth management is a buzzword in the financial advisory industry, and according to one study there's a good reason for it: wealth managers have better business practices than investment generalists.

The report, "Best Practices of Elite Advisors: The Wealth Management Edge," surveyed nearly 3,000 financial advisors across the spectrum of RIAs, independent broker-dealer reps and wirehouse brokers. Conducted by the financial consulting firm CEG Worldwide and sponsored by Dow Jones & Co., the report defined wealth management as a consultative process that engenders close client relationships and provides customized solutions tailored to individual client needs. Based on the report's criteria, only 6.6% of surveyed advisors' business models fit into the wealth management mold; the rest are investment generalists. In addition, advisors who want to transition to a wealth management model are struggling to determine how to get there and who to tap into for guidance.

Of course, wealth managers are typically thought of as those with high-net-worth clients, and the surveyed advisors classified as wealth managers in this report had average assets under management of \$645.2 million compared with \$307.8 million for generalists. And they did so with fewer clients—an average of 101 for the wealth managers versus 269 for the generalists.

"When you have 300 clients your day is very reactive to client needs," says Peter Kurey, executive director of strategy and market intelligence at Dow Jones Media Enterprise Group. "You don't have time for more proactive stuff" that generate more income, assets and growth by targeting the right clients.

Among the proactive traits of successful wealth managers is the ability to generate greater numbers of client referrals through more personal contact with top clients, as well as by cultivating client referrals from other professionals, whether through networking or from joint ventures or other strategic relationships. And these prospective clients are often the type with potential to become top clients themselves, not unprofitable laggards who gum up the works.

Kurey says research has found that one of the hardest things for many advisory firms to do is to trim their book of business by discarding unprofitable clients.

According to the report, other key wealth management practices include specializing in a particular type of client, requiring a minimum asset size for new clients, and charging a minimum fee. Additional practices of wealth managers include implementing a formal interview process with prospective clients, providing formal business plans, and providing clients with write-ups evaluating their situations. Wealth managers also outsource a much larger percentage of their money management business.

In short, the report found that wealth managers run tighter, more focused ships that employ practices enabling them to appeal to affluent clients, earn higher profits and manage their practices in systematic and formalized ways. Generalists, on the other hand, appear to be less sure of how to lay the foundations for success and more apt to try various approaches.

The bottom line—at least from a pay perspective—is that the surveyed wealth managers reported an average annual salary of \$881,000 versus \$279,000 for generalists.

Kurey acknowledges that advisors making \$279,000 are doing very well and that many in that pay range are satisfied with the size and scope of their business. But he says the lessons gleaned from the practices of wealth managers can apply across the board. "Middle-market firms can take things from the top market and apply them to their practice," he says.
