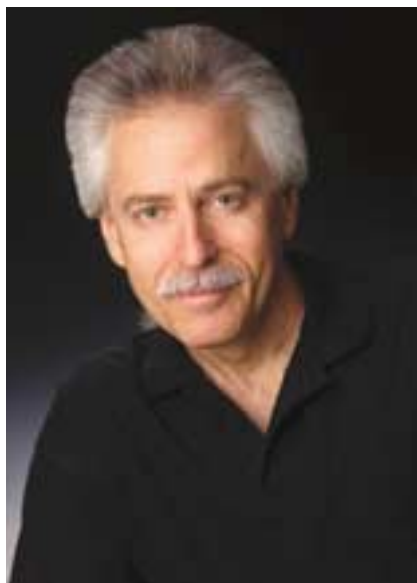


product MANAGEMENT

BY DAVID J. DRUCKER

What is Product Management?

Our new column will get you in touch with new product ideas and how to fit them into your practice.



If the concept of “product management” seems a bit vague, it’s because we made it up. Product management is a mixed metaphor, of sorts — a cross between “practice management” and “product reviews.”

We intend to bring you news you can use about fresh and original, as well as established, products. What we have in mind is a bit like the difference between the unembellished tax code and a good tax service. The IRC is dry enough reading to cause all but the most dedicated tax attorney to lose any trace of creativity. What a good tax service does is give you planning tips

by showing how the tax code can be used to improve a client’s financial circumstances.

Research will employ the same thinking to bring you product information — not sterile, out-of-context product reviews, but glimpses into real advisor practices, why advisors like or dislike certain products, and how they use them to better their clients’ lives. (Yes, the emphasis will be on the client, not on the commission).

Take separate accounts, for example. Sure, they’re essential to a fee-based practice, and your wirehouse or broker-dealer probably approves them for you. But is every manager on the list right for your clients? Jude Barcenas with BFG Financial Benefits in Dallas finds separate account managers through his broker-dealer, Centaurus Financial of Orange, Calif. He says, “I get an approved list. Centaurus does the screening.” But does this constitute a quality guarantee? Not necessarily. Barcenas says Centaurus’ approved list is compiled from its own research, but also from managers brought to its attention by separate account marketers. Additionally, it relies heavily on its own registered reps to bring in managers they’ve discovered on their own which Centaurus may then approve for other reps’ use.

“I still have to interview the managers, and review their products and their performance if I want to know they’re right for my clients,” says Barcenas. “I’ve found you have to work with the manager to know its whole process. It may have great marketing materials, but they may not represent its true performance.”

Or, how about MSAs (Medical Savings Accounts, or Archer MSAs, as they’re now named after Representative Bill Archer). Remember those somewhat esoteric investment/health plan vehicles conceived within the 1996 Tax Act? Lee Pence, owner of Kennesaw, Ga.-based Pence Financial Advisors, operating through IFG Network Securities, remembers them. “In fact,” says Pence, “they’re the only type of health insurance I put in place for my clients.”

Why aren’t planners and related professionals using these more? “It’s a lack of understanding,” he answers. “I even get calls from CPAs asking me to tell them about MSAs. One client’s CPA said the client couldn’t do one when, in fact, he could. Also, many planners don’t focus much on health care,” Pence adds.

And should you be using hedge funds, or are they just newer versions of what have traditionally been known as “alternative investments?” Now that the

marketing folks have spun off a zillion of these things, will hedge fund returns hold up? Or will advisors revert to using alternative investments to diversify client portfolios? You remember them — those deals that come in an investor-unfriendly wrapper requiring serious time and effort to understand with no guarantee of principal return, much less return on investment?

Sometimes the better alternative investment deals are niche investments that wouldn't normally appear on your broker-dealer's radar screen. For example, Bert Hughes of fee-only Bert Hughes & Associates in Danville, Calif., likes mobile-home parks. "My clients and I get a 12 percent to 15 percent cash-on-cash return that is partially tax-sheltered, along with an appreciating asset," says Hughes.

Harry Scheyer of Pinnacle Financial Advisors in Marlton, N.J., another fee-only advisor, wants to begin offering alternative investments to clients, but is rightfully concerned about his E&O coverage. "We are looking into an Alternative Investment Rider. As you know, buying into investments is easy, but doing appropriate due diligence, managing them and getting out of them at the right time, is quite another thing," he says.

Of course, we mustn't forget financial planning software. Does your wirehouse give you what's best for your client, or software that spews out milquetoast recommendations your manager can more easily control (both as to ensuing product recommendations and potential liability)? Says Mark Evans, Ph.D., President, CEO, and founder of Naviplan software used by 40,000+ independent and wirehouse planners, "in a wirehouse, there will be a whole range of end-user capabilities. Management is therefore

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challenged to control how our software's to be used and the advice to be provided to each client. Naviplan has different levels of entitlements so each of several wirehouse user groups can be given a different level of software access. If an employee belongs to one group, a manager must approve his plan before he presents it to a client to assure consistency and compliance across the organization."

Evans adds, "we match Naviplan to the user's abilities and gradually raise their entitlement level as they get better at using the software. By contrast, independents are more self-managed. They want more functionality from Naviplan and they will expand the software's capabilities to match each client's needs." What version of Naviplan or its competitor are *you* using? If your broker-dealer has restricted your software's capability for its own convenience, how can you be sure the planning you're doing is meeting your clients' needs?

And finally, consider Myfinancialadvice.com. No, it's not a product you can use in your practice, but you should still be aware of it. Why? Because, if this start-up succeeds, it's going to be your new competition in the middle market for financial planning advice. Myfinancialadvice.com is

an online system that connects real live consumers with real live planners.

Says Ron Peremel, a former broker and Myfinancialadvice.com's creator, "We are bringing these parties together over the Internet on a pay-for-use basis. Consumers search for and find advisors, read their profiles, and decide who they want to work with." During his initial advisor search on the MyFinancialAdvice site, the consumer states his planning objective so the system can search by advisor expertise vis-à-vis the client's objective, and then by availability and rating. That will give the consumer an array of suitable advisors that he can further sort by price or any other system variable. Then he can drill down into the qualifying advisors' profiles to see which best meet his needs.

MyFinancialAdvice was rolled out on November 3, 2003 with about 70 advisors on board. "Our target is to serve 50,000 to 75,000 customers in our first year, so we're shooting to have 450 advisors by the end of 2004 to meet this load," says Peremel. That's the equivalent of a small- to medium-sized broker-dealer, and growing.

These examples should give you a taste of what this column will offer in future editions of *Research*: real people using real products for real clients. It shouldn't have to be your job to figure out how every new product you hear of might benefit your clients. Let that be *our* job. Look for this column in the next issue of *Research*, when we'll take you further into the world of "product management." **IR**

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