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Who's Got Middle America's Back?

Middle-class citizens have usually come second in the financial services world. Is that finally changing?

By David J. Drucker

"Most of us need advice that is objective—from an advisor who receives no sales commission and thus has no incentive to push particular products—and tailored to our individual goals. Retirement plans must include such advice for everyone who signs up."

—Roger W. Ferguson Jr., former vice chairman of the Federal Reserve,
president and CEO of TIAA-CREF and a member of President-elect
Barack Obama's transition economic advisory board.

If a family has a mere $50,000 or $100,000 in the bank, where do they go for financial planning?

In the "old days," you didn't have much of a choice. You went to a broker or insurance agent. In fact, wirehouses once boasted that they were the only ones serving the middle class, since independent financial advisors, by contrast, only wanted to work with high-net-worth clients. Of course, the "service" that middle-income clients received came with high fees and commissions, so it's debatable just how much real help they were getting from a Merrill Lynch, which also wants high-net-worth clients.

In fact, a source at Merrill Lynch who, for obvious reasons, must remain anonymous, confirms that the firm no longer wants this business. Says this insider, "Merrill Lynch has discouraged us from working with middle-income clients by lowering its payouts. On accounts of $100K or more, the payout is about 40%-45%, depending on the broker's overall production level. The payout for accounts of $50K to $100K is 25%-30%. And for an account of $50K or less, nothing."

Ironically, this has all happened because the wirehouses are trying to follow in the footsteps of the independents and duplicate their business model. Brokers are no longer paid on the number of accounts they open, and commissioned mutual funds don't provide the payouts they once did. Instead, the wirehouses are moving toward the fee-based model, says our source, so it makes less business sense for them to take on smaller clients. "A $200K client is almost the same amount of work as a $2 million client, so why would I even want to work with the smaller client?" he asks.

However, a savvy advisor can also see how a 30-year-old client, one who has saved $100K and makes a good income, is still potentially lucrative. "That person will compound, and they'll eventually inherit money, so working with him or her makes good business sense if one is willing to think longer-term," says this Merrill broker. Which is one reason why many brokers are leaving the wirehouses to go independent. "I think we'll see a big defection of wirehouse brokers," he says, "especially from Merrill, where most wealth managers are upset that the company has betrayed their trust by letting Bank of America come in and change the corporate environment that used to favor wealth managers running their businesses as they saw fit. If they stay with Merrill, they may now be forced to sell proprietary bank products."

Amid the shift away from the wirehouses, pockets of independent planners have picked up some of the slack. Financial advisor Sheryl Garrett started the Garrett Planning Network almost a decade ago to show others how to serve middle-income clients. Meanwhile, innovators such as www.MyFinancialAdvice.com want to enlist advisors serving the middle class to its Web-based planning model.

And an even newer group, the next-generation planners, may up the ante further when it comes to grabbing middle-class clients. Michael Kitces, director of financial planning for the Pinnacle Advisory Group in Columbia, Md., and author of The Kitces Report (http://www.kitces.com/what.php), says younger planners are concerned that at larger firms they wouldn't even be able to serve people in their own age and income group. "I'm seeing a strong trend in 'nex-gen' planners serving the middle-income community," he says. "It's not just a function of them wanting to serve the middle class; it's that their friends and others in their networks are the middle class."

Kitces and Pinnacle hope to take advantage of this opportunity. "We've opened a new division within Pinnacle that will target clients in the $300K to $1 million range," he says. (By many people's definitions, this range is the new middle class, even if Merrill Lynch still offers higher payouts for this group.) What Kitces and others are realizing is that this client niche can be served profitably. "Established firms like Pinnacle can be remarkably effective in moving into this space. These firms have lots of infrastructure already, so adding middle-income clients on the margin is easy."

Adds Kitces, "Planners need to remember that most of them started out serving middle-income clients, and they did so profitably. That's how most of us begin and build our practices." The main challenge, he says, is continually bringing in the high volume of clients needed to make this business model work.

That lesson isn't lost on Bob and Kathryn Nusbaum, whose firm Middle America Planning in Pittsburgh serves such clients exclusively. "After working with middle-income clients for almost six years, I've gained a healthy respect for how difficult but rewarding it is," says Bob Nusbaum. "We've constantly revised our model to deliver better service to clients and improve our profitability. The major roadblock, of course, is generating sufficient revenue to sustain a viable practice."

Nusbaum says his favorite clients are young individuals, young couples and families with young children, and part of the attraction is simply the desire to help an underserved segment of the population. "Our educational system has failed miserably in providing them with the tools that they need to deal with their money, and the financial services industry has very little interest in them. Yet they're being ignored at exactly the time when they need help the most. The decisions that they will make in their twenties and thirties will provide the foundation for either a life of financial prosperity or a life of struggle, or even misery."

The big question, from an operational standpoint, says Nusbaum, is, "How can I apply a labor-intensive process to serving this group I love working with—and that needs my help—and still turn a profit?" In true entrepreneurial spirit, a must when serving this niche, Nusbaum says next year the firm will roll out what he calls "Money Boot Camp." "It's simply a way to better leverage my time. Initially, I'll meet with five to ten couples at a time to talk about topics that are common to all of them, like goal-setting, spending and debt, investing, saving for retirement and college, and risk protection. I'll then meet with each couple privately for a morning or afternoon to apply what they've learned in the group to their specific situations. The group setting will keep the cost down while providing sufficient revenue to make [the individual attention] profitable."

As Nusbaum develops his business to serve Middle America, others such as Matt Iverson are developing new platforms to guide willing advisors in this direction. Iverson and his father Jon have created an entity called Boulevard R (www.boulevardr.com) that partners with qualified CFPs to create the "Boulevard R Roadmap," a blueprint for middle-income clients that gives them the benefits of an independent financial plan at a reasonable cost.

The beauty of the road map is its efficient work flow process. Clients provide online inputs and are then partnered with advisors who quickly create a quality plan for them. "We take the fat out of the planning process," says Iverson.

Part of the vision was to take advantage of technology, so everything is done online. The company creates an account for each advisor and feeds them the road maps coming in from the clients.

"The clients take about 45 minutes to an hour to aggregate their information by answering a series of questions designed to pull out of them anything they might otherwise leave out," Iverson says. "The planner then logs on to our Web site, downloads the road map as a PDF, and in ten minutes gets a good idea of who the client is."

In short, says Iverson, Boulevard R wants to help planners understand clients' issues and then streamline the process of interacting with and educating them. Though he's not a planner himself, Iverson has a strong background in consumer rights work, and he wanted to create something that would benefit millions of Americans.

"With the road map, we can show people how to move forward—where to start and what to do next."

Perhaps it's no longer a question of whether financial advisors are going to serve the middle class, but how they're going to serve it. With this country's economic woes brought on by its very financial institutions and their unwillingness to act responsibly, someone's got to show the common man how to make smart financial decisions.

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