



Quarter IV 2009 |

IMCA *Research Quarterly* is offered exclusively to IMCA members by Investment Management Consultants Association. This article was created by and published in partnership with Cerulli Associates.

Advisor Teams and Ensemble Practices

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The financial advisory industry has been making the transition from a transaction-oriented, sales-based legacy industry to one that is more consultative and needs-based in nature. Multiple factors have driven the industry to this point, including a commoditization of transactions that has, in turn, led to the popularity of fee-based pricing and advisors offering planning-oriented services. These trends have led to advisors increasingly moving their practices up-market to wealthier clients.

As a result, consumers now have higher expectations for their advisors. In response, advisors have begun forming teams or ensemble practices to divide the work and content responsibility. The advantages of this are two-fold. First, advisors can share responsibilities and focus on the elements of a financial advisory career that they enjoy most. For example, an advisor who is strong at prospecting might team with another who is strong at managing relationships. Second, these advisors improve their own quality of life by working on the career elements each enjoys most.

Advisor teams come in two basic varieties: horizontal or vertical. A horizontal team has multiple senior advisors working as peers who divide their responsibilities for content (e.g., financial planning, investments) and management (e.g., business development, client service). A vertical team has a senior advisor who brings on a junior advisor who likely serves less-wealthy clients so the senior advisor can concentrate on wealthier clients. The junior role also may include investment research, drafting financial plans, or preparing client reports. The largest teams often include a mix of these horizontal and vertical elements. Depending on the size of the team, its end clients, and its service model, the team may include multiple principal advisors, additional senior advisors, junior advisors, and administrative professionals.

Advisor teams that are forming or expanding require open communication between advisors about expectations. Successful advisor teams succeed on more than enjoyment of each other's company. Successful teams match advisors who have complementary skills, so that the whole is greater than the sum of the parts. For example, an advisor who enjoys researching investments and building client portfolios would work well with an advisor who is skilled at financial planning. This allows each to become more expert in areas they enjoy, a bonus for all involved.

Team advisors need to be ready to discuss how responsibilities are divided as well as expectations. For example, a mismatch in work ethic or schedules inevitably will breed resentment within the team. The team also needs to agree on how clients will be dispersed if/when the team dissolves.

Advisor teams likely will play a role in developing the next generation of financial advisors. The number of financial advisors has leveled off over the past four years and the average age of a financial advisor is approaching 50. Even before the bear market, it had become more difficult for financial advisors to start new practices from scratch because of investors' steeper content expectations. As a result, teams that hire junior advisors are likely to play a larger role in developing and training financial advisors. Advisor teams provide the infrastructure necessary to train and coach new financial advisors and ease the challenges typically associated with starting one's own practice. However, this calls on principals to plan to reward junior advisors who prove themselves by giving them larger roles and furthering their career development.



Methodology: In August 2009 IMCA distributed a survey link to more than 7,300 current IMCA members providing access to a proprietary Cerulli Associates online survey instrument. The total respondent base of 219 is a sample of the investment advisor, broker-dealer, and institutional consultant membership of Investment Management Consultants Association.

The full results of the Cerulli Associates-IMCA survey are available to IMCA members as an exclusive member benefit. IMCA members receive four quarterly research reports and six issues of *Investments & Wealth Monitor* each year. For a \$395 annual membership fee, you can continue to receive cutting-edge investment consulting and wealth management content.