

Your Practice

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Lightening Your Load

If you feel trapped beneath the weight of an ever-growing list of administrative duties, you may want to try outsourcing some work
By Ed McCarthy Bloomberg Wealth Manager September 2000

Another hectic day at the office. While driving home, you reflect on the day's accomplishments and assess your productivity: once again, you spent five hours on administrative tasks and only two hours with clients and prospects, supposedly the most important part of your work. You don't have the time or money to hire additional support staff--and, besides, you doubt you could find anyone willing to work part-time, at least not anyone qualified to do the job. So, you wonder, how can you get out from under the burden of key back-office, performance-reporting, and accounting duties and focus your efforts on meeting with clients?

Outsourcing could be the solution. The concept is straightforward: You determine which of the services you provide are essential to your business. Those are the services to which you'll devote internal resources. You then hire independent contractors to perform the noncore functions. Many practices, for example, now depend on third parties to provide investment-portfolio support and write financial plans, and contractors are offering a rapidly expanding range of services.

Outsourcing frees you up to focus on what you do best: build relationships with clients and offer guidance on big-picture issues such as life planning. Do you doubt that your practice can thrive with contractors performing necessary office functions? Then you're probably not familiar with the experience of David Drucker--a frequent contributor to *Wealth Manager*--who in 1998 left a successful financial-advisory business in Maryland to open Sunset Financial Management in Albuquerque, N.M., as a sole practitioner. Drucker continues to work alone, running his business with the help of electronically linked virtual partners/providers. "My business model is that I don't have any employees, and I don't intend to," he says. "I've been able to duplicate everything that employees did for me in my previous firm by working with independent contractors." Without the responsibility of supervising his own crew or wading through a sea of paperwork, Drucker is free to spend his time with clients (and write magazine articles)

In addition to dredging up blocks of free time, outsourcing can boost a practice's bottom line. The vendors you hire--experts in their fields--should provide better service at a lower cost than in-house workers can. Drucker reports that as a sole practitioner he operates at consistently higher profit levels than he did with the larger firm in Maryland. "I'm keeping 60 percent of my gross income; it might be up to 70 percent now," he says. "It was nowhere near that level with the other firm I was running."

A number of other, larger firms have also saved time and money by hiring third parties to serve as custodians for clients' securities, install PC networks, and design and host Websites (see "[What a Tangled Web We Weave](#)," July/August). But the advancement of electronic-communications tools like e-mail and the explosion in business-to-business services offered over the Internet make outsourcing an attractive option for all types of practices, including start-ups and smaller firms. It's now possible to farm out many more support tasks, including portfolio accounting and reporting, financial-planning analysis, and office administration. Dick Wagner, who is in the process of leaving the Denver firm he cofounded to establish a new practice, WorthLiving, also in Denver, reports that the availability of vendors was a factor in his decision to go solo. "I'm trying to outsource the back-office and investment work and probably certain pieces of the planning process," says Wagner. He plans to focus his efforts on assisting clients with quality-of-life issues. "All I'd like to see internally is a system to help me support the planning process."

One task that devours large quantities of time for most advisory firms is investment tracking. And the adviser or staff member who handles this task needs a solid understanding of the appropriate portfolio software. In addition, that person or another staffer must review the accuracy of data downloads from custodians. "If the adviser buys portfolio-management software, either he or a staff member must sit at a desk to operate the program and keep everything up-to-date," says Mike Kelly, president of Asset Management Solutions, a portfolio-administration outsourcing firm in San Diego.

This and other portfolio-administration work is critical to an adviser's operation. But hiring a staff member to fulfill this clerical function can be expensive, says Wagner. It can also be difficult because many firms do not have enough work to justify hiring a full-timer, and experienced part-timers are scarce. This makes the task an ideal one to hand off to a contractor. Besides, "vendors don't get sick and don't need vacations, which is something even

a great assistant needs," notes Wagner.

Advisers who want to farm out portfolio-administration chores can now find a number of firms that provide intermediary services. Asset Management Solutions operates an adviser's portfolio-management software for a monthly fee that ranges from \$3 to \$20 per account. Its services include data download and processing, account reconciliation, nightly updates of the adviser's on-site database, and generation of reports and client bills. Portfolio Solutions in Columbia, Md., updates and reconciles portfolios daily, weekly, or monthly. Paula Dachis, a principal with the firm, estimates that the service typically costs \$500 to \$2,000 per month, depending on the frequency of data updates. "For a small office, this frees up the principal from doing administrative work," Dachis points out. "It also eliminates the need to pay a full-time staff person to do the work. I doubt you could hire a qualified staff person for \$12,000 per year."

Outsourcing portfolio-data management may still require that you buy and maintain your own portfolio-management software. If you prefer to avoid that expense, Techfi in Denver--the developer of the Portfolio 2000 and 2001 software--now offers an alternative on the Web, at AdvisorMart.com. This site, launched in mid-May, is an application service provider (ASP) that combines on-line portfolio-management software with data storage on Techfi's secure servers. Rather than buy software, subscribers pay Techfi an annual fee of \$50 per account to access portfolio reports from any Web-enabled computer. (Eventually their clients will be able to access the reports too.) According to Rob Major, Techfi's chief marketing officer, the site offers business and financial news and more than 28 portfolio-report formats with daily data updates. As an optional service, AdvisorMart.com will generate and print color reports on the adviser's letterhead for clients.

In addition to data management, some consultants are now offering their services in financial analysis and plan writing. Of course, many planners who are comfortable farming out portfolio-administration chores would balk at the suggestion that they use a third party for so-called paraplanning. But experienced advisers and plan writers say that, with the right relationship, such an arrangement can produce satisfactory results (see "[Working With Plan Writers](#)," page 43). While a principal at the Maryland firm, Drucker developed a good working relationship with Steve Thalheimer, a planner who was on staff. Before he left to start Sunset Financial, Drucker and Mary Malgoire, his partner at the Maryland firm, agreed that he would continue to work with

Thalheimer. For the past two years, Thalheimer has spent part of each week as Drucker's remote assistant planner, aiding in analysis and research. "That includes on-line securities research, researching insurance policies, and special projects," Thalheimer says. "I assist him with spreadsheet financial modeling for his clients and help him prepare for annual update meetings."

Given the geographical distance between Drucker and Thalheimer, one might expect communication problems. But Thalheimer reports that it's been a smooth exchange so far. "I was concerned about that problem when we first started off," he says, "but Dave takes very good notes and is extremely organized in terms of documenting the information he needs to follow through on. Sometimes we have to go back and forth with e-mail, and sometimes I just get in touch with the client directly to clarify a point."

Other advisers who've worked as remote assistant planners report mixed results. Sherry Hazan-Cohen, president of Dream Achieve, an advisory and practice-management firm in Plano, Tex., used to generate analyses for other planners. "It's difficult to do more than run the numbers because the plan writer doesn't know the client," Hazan-Cohen says. She says success depends on an adviser's ability to take good notes during client interviews. "I had great success with planners who were thorough," she says. "Some firms, on the other hand, always provided sketchy material with terrible notes. This forced me to go back and forth with them for changes because they had omitted something important from the initial material."

The Comprehensive Group in Parsippany, N.J., also offers paraplanning for investment advisers through its affiliate, Comprehensive Advisor Solutions. In addition, the firm provides a range of other support services, including sales assistance, client billing, portfolio-data downloads, and customer service. Twenty-eight advisers have used Comprehensive Group's services since its founding. Some of these advisers pay a fixed monthly fee, which ranges from \$300 to \$4,000, depending on the amount of assets under management; others pay by basis points.

According to Comprehensive Group president Tim Smith, the company's conception was unplanned. "I was previously with a large firm, and two years after going out on my own I was approached by some former colleagues," Smith says. "They wanted to focus on marketing and working with clients, not running an organization. So I created a platform that would give

them the benefits of running a fee-based asset-management practice without their having to do the paperwork, such as client billing."

Still, finding qualified plan writers is a challenge. Hazan-Cohen occasionally provides analyses for practice-management clients, and Thalheimer, who is starting his own practice, provides the service only for Drucker and Malgoire. If you decide to farm out client analyses and planning, one source to consider is an experienced adviser at an established firm who wants to start his or her own practice. Bulletin boards on Websites for advisers--such as the Financial Planning Association's YourBiz site, at www.fpanet.org--are convenient outlets for posting "virtual planner wanted" messages. You also can try advertising in industry magazines and networking at conferences.

Advisers' outsourcing options aren't limited to portfolio administration and financial analyses. A growing number of virtual assistants offer other administrative as well as secretarial services, typically on a per-project or hourly fee basis. Total Office in Akron, Ohio, keeps an adviser's letterhead, marketing materials, and business cards on file. "When the adviser is ready to send a mailing, he sends me an e-mail and tells me what he wants done," says owner Sherry Huff Carnahan, who performs the service for Drucker and several other advisers. "We also keep copies of their schedules, make appointments, maintain their database, generate referral responses to prospects--anything a secretary would do."

Jim Freeman, owner of Financial Alternatives, an advisory firm in La Jolla, Calif., has been working with a virtual assistant, Pat Gates--also of La Jolla--for eight years. The two both use GoldMine software, which enables them to share calendar and client information via weekly e-mail updates. In addition to setting up Freeman's appointments, Gates also handles such administrative tasks as account transfers, automatic-investment-plan paperwork, and client billing. Freeman is satisfied with the results of the relationship. Although they work from separate locations, "it's as if she's sitting right next to me," he says.

One point worth stressing: outsourcing does not reduce your liability exposure with the client. "Advisers must double-check everything a subcontractor is doing because they're still on the hook to the client, whether the client knows about the subcontractor or not," says Katherine Vessenes, president of Vestment Consulting in Bloomington, Minn. Vessenes counsels

financial advisers and brokerage firms on compliance and liability issues (see "[A Checklist for Limiting Liability](#)," page 40).

And as with any other business venture, you should thoroughly evaluate your new partner before inking a deal. Errors-and-omissions (E&O) insurance should cover your exposure if a contractor makes an error, but prudence is still the best policy. "The registered investment adviser should make sure the third party has insurance," says Bud Bigelow, president of Cambridge Alliance in Burlington, Vt. Bigelow, whose firm provides E&O coverage to planners, also suggests that advisers review credentials and work samples before retaining a third party. "If you work with a paraplanner, that person should be properly licensed if there is a licensing requirement," he says. "Also, his work product should be contractually determined and periodically audited."

How do clients react to outsourcing? Some might be concerned about third parties, whom they don't know, having access to their financial records. To reassure clients, you should interview all third parties before retaining them and ask for a written privacy policy statement. To avoid surprising potential clients who might be unfamiliar with the outsourcing model, Drucker discloses the practice in his Form ADV and on his Website. He's found that clients generally react favorably. "I explain to them that they benefit from reduced overhead," he says. "We hire only the expertise they need, when they need it. They're not paying for the cost of a large full-time staff in my office."

One thing you can certainly promise clients: if you manage to clear all that paperwork off your desk, you'll have much more time to spend with them discussing charitable giving and other quality-of-life issues.

Ed McCarthy writes on finance and technology. He is the author of [The Financial Advisor's Analytical Toolbox: Using Technology to Optimize Client Solutions](#) (McGraw-Hill).