



**CWP**

PRIVATE WEALTH  
MANAGEMENT



## **CONVERTING TO A FEE-BASED PRACTICE: THE KNOW IT ALL GUIDE**

**CREATING A SUSTAINABLE BUSINESS MODEL FOR YOUR FUTURE**

## Have you thought about changing to a fee-based practice?

Through the regulations implemented by the DOL previously and SEC currently, pressure is being put on the advisor to re-analyze their commission-based practice. Maybe you have colleagues who are fee-based, and you've wondered how life would be different with a steady stream of income and more certainty. The good news is, there's never been a better time to make the switch. Investors are more willing to pay for advice now than at any time since the 2008 financial crisis.

It has become increasingly clear that a **fiduciary** approach is suited to today's investment climate. Since the financial crisis, many areas of investing have become increasingly uncertain. Markets that seem stable one week become highly volatile the next, which supports the view that a "new normal" now exists. Heightened sensitivity to economic indicators, as well as, financial headlines can send the markets into a whirlwind or chasing record highs at the blink of an eye.

The new reality is, investors want an advisor that acts in their best interests (**fiduciary**). This is someone who can help them find answers to their investing questions; someone who can help them find security in an increasingly uncertain world; and most importantly, someone who can help them achieve financial independence. It's clear, a commission-based business model does not align or correlate directly with the clients' best interest.

Building a fee-based practice is essential to differentiate yourself from the competition. Investors are reconsidering not only the investment products, but also the advisors who provide those investments. Many are still considering whether their advisors have what it takes to help them maximize their financial potential. The most effective way to win over your clients' trust is by showing that you can be their personal financial advisor.

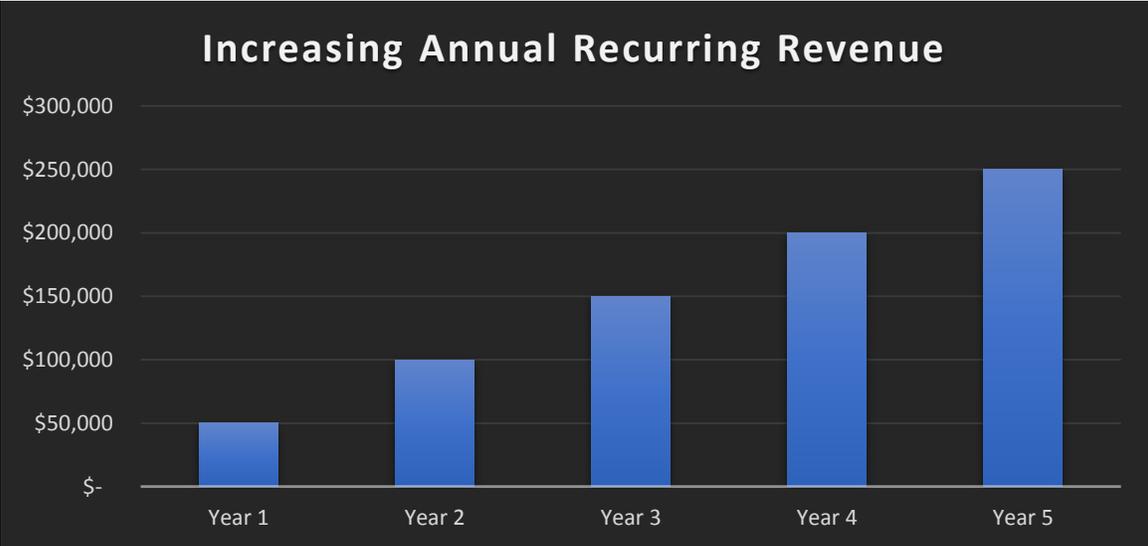
So, what does being a **fiduciary** involve? For starters, placing yourself squarely in the client's shoes. The most important aspect of a fee-based approach is that your success is tied directly to that of your clients. Your willingness to "take a hit" when your clients' asset levels decline, helps firmly establish your credibility and deepen your relationships. David Lake, a Wisconsin-based advisor, switched to a fee-based platform in 2010. When asked why he made the change, David explains:

*"It's a much better fit to have me sitting on the same side of the table as my clients. Now my clients know that if I suggest a change to their portfolio, it's in their best interest. It's an easier conversation to have with prospects, too, that you make more when their balance goes up, and less when it goes down." – David Lake*

Mike Ajango, an advisor based in Green Bay, Wisconsin, has experienced a dramatic increase in assets under management, as well as, a consistent revenue stream since embracing a fee-based structure. Mike explains, “When I sit down with clients to develop a portfolio, I tell them to provide all investment accounts that they have. By combining all accounts into one portfolio, I can create a model that fits not only their long-term goals, but their risk tolerance. Clients really appreciate having all investments under one roof!”

Mike adds, “My clients see me more as a go-to person for everything financial, asking questions like whether they should buy or lease a car, what type of insurance to buy, or how can I save up for college expenses. As these issues come up, they result in more business opportunities and enable me to deepen my relationship with my clients and their other professionals.”

*“Let’s think mathematically for a moment. If I work for one full year in a commission-based setting, I will earn \$50,000, with residual income dropping to a fraction of that in the following years. In a fee-based setting, I will earn the same \$50,000 in the first year but continue to make that amount each year after. As I continued to build my book, this approach has allowed me to compound my annual recurring revenue each year. Without switching to a fee-based model, I would not have been able to create a predictable future for my family.” – Mike Ajango*



# Getting Started

## Step 1 | Evaluate your business

This is the perfect time to ask yourself:

- What types of clients do I most enjoy working with?
- Which aspects of my business do I most enjoy?
- Which do I enjoy least?
- How many clients do I want to serve and how much staff will I need to support them?

Think big about what you want your life and business to look like!

## Step 2 | Determine your value proposition

Next, you will want to think through your value proposition, which answers the question, “Why would someone in my target market choose me over one of my competitors?”

The value proposition identifies a need and provides a promise of what you will do for your clients. Consider:

- Why have your clients hired you?
- How do they perceive you, and how do you want to be perceived?
- If there is a difference between the two, how can you bridge that gap?

## Step 3 | Choose a platform

Take a moment to consider how you like to spend your time. If you enjoy a hands-on approach where you select fund managers, determine asset allocations, rebalance portfolios, handle fee calculations and create statements, you will want to choose a **“do-it-yourself” platform**.

On the other hand, advisors who prefer to focus their efforts on developing new client relationships and strengthening existing ones may choose to partner with a **third-party asset manager (TPAM)**. By outsourcing you can increase consistency, adding to the value of your practice.

# Goal Setting

## Step 4 | Create goals

After you have decided which platform makes the most sense for you, think through the business side of the transition. Begin by considering:

- How long is the transition going to take?
- Which clients are you willing to redirect to another R/A?
- How will the transition affect your short and long-term cash flows?
- What are your assets under management goal?

## Step 5 | Develop a business plan

Once you have a better understanding of where you are currently positioned and where you intend to go, you can start thinking through the details of how you will manage a fee-based business. It's important to be realistic about the number of fee-based clients you can serve. Remember that fee-based is a full-service DIY approach, so ask yourself:

- Will additional staff be needed to serve your clients?
- What software will I need to service my clients?
- What are the costs associated with the additional needs?
- How will I develop and maintain an investment mix for my clients?

*“The reason most people never reach their goals is that they don’t define them, or ever seriously consider them as believable or achievable. Winners can tell you where they are going, what they plan to do along the way, and who will be sharing the adventure with them.” - Denis Waitley*

# Get Things Moving

## Step 6 | Segment your clients

When it's time to start the conversation with clients, begin by putting all your accounts into a spreadsheet. Include the value of each account, whether funds are taxable or nontaxable, and the products in which each client is invested. Create a priority list that you would like to convert to fee-based first, then work to the others on the list.

## Step 7 | Plan your communication

Be prepared to speak confidently about your conviction that switching to a fee-based structure will help you serve your client better. The following are some ways you can frame the change:

- **With a fee-based structure, my success is linked directly to yours.** This dynamic affirms a key aspect of our relationship that has always been in place: I am on your side, and your financial success is my top priority.
- **Today's financial markets are volatile,** calling for greater diligence and oftentimes more frequent changes to portfolio strategy. A fee-based structure gives me the flexibility to respond to critical market changes without added costs to you from trading activity.
- **I'm moving my clients up to a better way of doing things.** A fee-based approach stresses an important goal of ensuring that your whole financial picture is in good shape.
- **I'd like to recommend a new, better way.** Let's say you recommend an Italian restaurant to a client that has great food, good service and terrific ambiance, all at a great price. When that client goes to the restaurant and has a great experience, they'll probably think the world of you since your recommendation turned out so well. Now, when you recommend a new way to manage money, they will likely say "Yes" since they already trust you!
- **I will be your "fiduciary,"** which means your interests always come ahead of mine.

If you haven't spoken to your clients about their financial goals, now would be a good time. Don't make assumptions: Ask the question and then be ready to listen. Assure them that you will be providing:

- A full understanding of their goals for themselves, their families, and their community
- A continuous balancing of their wealth management toward those life goals
- Identification of specific investment objectives and their risk tolerance for each one
- A highly personalized, professional experience

## Step 8 | Execute

Now that you've thought through the details of how you will run your fee-based business, it's time to develop an implementation timeline that will move you from your initial conversations with your clients.

As you prepare to get started, you'll want to create a marketing activity calendar, plan when to hold meetings and events, and when to send letters and make phone calls.

-Now you are ready -

Remember to have all paperwork necessary to complete the transition filled out ahead of time so that it's ready for a signature at the end of your meeting.

Once a client has signed on, you will need to determine how to redeploy their assets into a fee-based platform. The size of their holdings and their risk tolerance will determine their new investment mix.

As you begin speaking with clients, think through where it makes sense to direct your energy and time.



## WE CAN HELP

Throughout this article, we have mentioned the importance of choosing a platform partner who is willing and able to support you through your transition. CWP Private Wealth Management has a proven process in place to help advisors like you transition to a fee-based structure. We think you will find that we stand alone in our dedication and ability to help you achieve your goals.

While transitioning to a fee-based platform is a hurdle that will require added diligence and patience in the short run, it's important to keep your eye on the goal. Remember that a fee-based business will bring you:

- The chance to change from a product salesperson to your clients' financial advisor
- Deeper client relationships that result in the potential for greater wallet share and increased referrals
- Fee income that can help you build a more predictable future for your family
- A fee-based book of business can become a valuable nest egg, making your practice more attractive to prospective buyers when you are ready to retire.
- Create more value within your business by outsourcing labor and compliance.

## TO LEARN MORE

Feel free to contact us at any time, we would be glad to discuss this opportunity with you!

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*Information provided by RIA Services LLC d/b/a CWP Private Wealth Management.*