

## **Client screening saves time, reduces headaches**

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### **Though few advisory firms even try to identify ill-fitting prospects, those that do say it's worth the effort.**

After recently finding himself in the position of having to drop seven clients in 18 months, Taylor K. Ranker II decided he needed a better system for screening prospects.

So he developed a process by which his firm's financial advisers sit down with potential clients for a two-hour "discovery meeting." During that meeting, one of the advisers asks a series of questions intended to shed light on everything from the prospect's attitudes about money to their values.

"In the past, if you had the assets we'd let you come in," said Mr. Ranker, who is vice president of Ranker-Hanshaw Financial Group, which manages about \$150 million in assets. "For the last year, we've made it clear to all prospective clients that we are interviewing them as well."

Client screening is an important — and often overlooked — tool for building a successful advisory business. By rigorously screening potential clients — and turning away the cheapskates, the complainers and the creeps — advisers can spend more time taking care of existing, profitable clients and prospecting for new ones.

Proper screening also helps advisers spot prospects who are bound to be unhappy with their particular approach to investing.

One of the goals of Mr. Ranker's "discovery meeting," for example, is to identify prospects who expect their portfolios to be adjusted frequently to reflect the ups and downs in the stock market. That expectation, he said, conflicts with his firm's long-term approach to managing money.

"I wouldn't want a market-centric client," Mr. Ranker said. "I don't want someone who wants to day-trade."

Despite the benefits, few advisers screen potential clients. In fact, only about 10% of all advisory firms have a formal screening policy in place, said **Richard Weylman**, president of an eponymous consulting firm for advisers.

"Advisers don't screen, because they're afraid that if they ask the tough questions, people won't move their accounts," he said. "The reality is, they get the account, and in six months, it's a nightmare."

Indeed, many advisers find it difficult to turn away potential clients, even those that come to them with unrealistic expectations. That is especially true now when many

advisers are scrambling to rebuild their practices. Then there are the advisers who are just starting out and are eager for a client — any client — to walk in the door.

“When you start out, if you put a mirror in front of them and it fogs up, you give them a pen to sign up,” concedes Sean F. Monahan, president of Financial Alternatives LLC, which manages about \$50 million in assets.

Still, the pluses outweigh the minuses when it comes to screening, many advisers said.

Advisers who take on anybody with a pulse quickly find themselves battling a lopsided business model, one in which up to 80% of their revenue comes from just 20% of their clients. The problem, of course, is that the demands of the less profitable clients take away from the level of service the adviser is able to provide to the profitable ones.

“That kind of business model is a double-edged sword,” said Dan Maurer, a senior vice president of marketing at Curian Capital LLC, a registered investment advisory firm with \$4 billion in assets.

“It's unsustainable,” he said. “You're not going to be home for dinner every night, and it makes for a really horrible work life.”

The best advisory firms get the bulk of their revenue from 65% to 70% of their client base, Mr. Maurer said.

The most effective way to qualify prospects is to develop a list of questions that will shed light on their expectations for a relationship with an adviser.

The questions should also leave the adviser with a pretty good indication of the prospects' appetite for risk, as well as how they have managed their finances in the past. Many advisers who screen prospective clients also like to get a glimpse into the prospects' personal lives by asking questions about their hobbies or their familial relationships.

Eric Brotman, president of an eponymous firm that manages \$75 million in assets, has a favorite question: “Is there is anyone in your family who is liable to cost you money or leave you money?”

“You can feel the tension in the room change,” Mr. Brotman, whose firm oversees about \$75 million in assets, said of the reaction to the question.

“You learn so much,” he added. “You find out if the generation before them did a poor job with money.”

Mr. Brotman estimates that he turns away about 30% of potential clients.

The secret to asking personal questions, many advisers said, is to figure out a way to ask them tactfully.

For example, rather than asking, “Have you ever sued an adviser?” an adviser might be able to get the information by asking, “What didn't you like about your previous adviser?”

The key is not to make potential clients feel defensive.

“The more relaxed you are with asking the hard questions, the better the answers will be,” said Pat McEvoy, president and chief executive of Woodbury Financial Services, an advisory firm that manages \$21.3 billion in assets. “There's a nice way to handle these tough questions.”

Asking the right questions is just the start of a screening strategy. Advisers that really want to make sure they don't get duped into taking on the wrong clients should do a little sleuthing on their own.

“If you're not researching your prospects before your meeting, you aren't doing your homework,” said George Tamer, director of strategic relationships for TD Ameritrade Inc.

“It's like picking an investment,” he said. “You have to research first.”

Not surprisingly, the Internet is the best place to start. Indeed, a simple search can quickly turn up anything from legal disputes to financial windfalls.

In addition to a browser search, Mr. Tamer encourages advisers go to LinkedIn and Pipl, two sites that are a treasure trove of personal and professional information. Other sites to check out are OpenSecrets.org to learn about a prospect's political contributions and Zillow.com to discover the value of a person's house.

“The more you know about your clients outside of their asset levels and investment profile, the better off you'll be,” Mr. Tamer said.