

# SENIOR CONSULTANT

The Voice of the Investment Management Consultant



## How To Achieve Better Results With Less Effort (aka, How NOT to Become A "Sumo Advisor")

Stephen A. Saenz, President, Paragon Resources, Inc.

As a coach/consultant who has worked closely with investment advisors since 1984, I have come to a sobering conclusion: Most advisors are working much harder than necessary to achieve their results. If you apply the concepts described below, you will be able to work less and achieve the same results, OR you can keep working as hard as you are and achieve better results.

If this sounds familiar, it's because you apply this same concept every day in your business. It's called "optimization." You help investors optimize their portfolios. I help investment advisors optimize their businesses. As a Business Optimization Coach, my job is to help you move your business up and to the left. The purpose of this paper is to share some strategies that will help you do just that.

### Modern Business Theory (MBT)

You should already know that the basic inputs (assumptions) for each asset class used in most portfolio optimization programs are:

- Expected return
- Expected risk (standard deviation)
- Expected correlation with other asset classes

With all due respect to Dr. Markowitz, I hereby submit the basic inputs we use to help investment advisors optimize their businesses:

- Desired results
- Effort required (to achieve those results)
- Profitability

Business Optimization	
Great Results	 <p>Where would your business plot on this scattergram?</p>
Good Results	
Less Effort	More Effort

### Risk = Effort Required

**"He who aims at nothing will surely hit it!"**

In the past, I have used this quote to illustrate the importance of goal setting when talking to clients and prospects. I now question its accuracy because I have personally met and worked with thousands of advisors who have achieved incredible results without having clearly defined goals. Let me restate that. Most of them had a clear goal in mind but it wasn't well defined. I call it the "I just want to make as much money as I can" goal. This is a first cousin to the "I just want the highest returns possible" goal that many investors have today. I can probably guess how you would respond to an investor who came to you with that goal, but let's leave that one alone for the time being. I have since modified the quote above to read:

**"He who aims at nothing will never know when he hits it!"**

### Begin with the End in Mind

This is a very useful concept popularized by Stephen Covey (*7 Habits of Highly Effective People*) back in the early-90s. When you begin with the end in mind, you have a much greater chance of achieving the desired results without working harder than necessary.

It's kind of like building a house. If you know what the house is going to look like before you start building, you have a much better chance of getting the house you want. Imagine what it would look like if you tried to build it without a set of plans.

### Size is NOT everything!

It is NOT enough to simply say "I want to be a million-dollar producer" OR "I want to have a billion dollars in fee-based assets." That's like saying I want a house that has 5,000 square feet of living space. If you take that approach, you could end up with a big house that has no interior walls and/or windows.

When you set out to define (or redefine) your business goals, you should address more than just assets or production. Here are some questions that will help you define specific and measurable goals – goals that will enable you to build an efficient business:

- How much do you need and want to make?



- How profitable do you want to be?
- How many clients do you need?
- What will you do for those clients?
- Which business model will enable this?
- What is your minimum revenue per client?
- How many team members will you need?
- What will each of them be doing?
- How will they get paid?
- What will your physical space look like?

**WHY Are You Working So Hard?**

Once you have defined WHAT you want to achieve, you should spend some time coming to terms with WHY you are working so hard to achieve these goals. What is your “raison d’être”?

This is a subtle but important point when it comes to defining your desired results. I have met many advisors who have already achieved “financial independence,” yet they’re still grinding it out every month. If you’re in this situation, or even if you just think you’re working too hard, ask yourself these questions:

- Why are you working so hard? Make sure you come to terms with the real reason. Hint: There’s more to it than “I love what I do.”
- Are you sure there’s nothing you’d rather be doing? Sins of omission are the worst kind!
- Are you satisfied with the legacy you will be leaving behind? Family, professional, social?
- What is your exit strategy?

Frank Sinatra often said, “You only live once, but if you live like I do, once is enough.” If you can’t say that today, you may want to change your MO. Even if you come back in another life, you might not be as fortunate next time around. So make sure you enjoy the ride this time around!

**Risk = Effort Required**

**“For every action, there is an equal and opposite reaction.” - Newton’s Third Law of Motion**

You probably thought (hoped) you would never see Newton’s Third Law written again, much less quoted in a white paper on practice management. If you think about it though, this basic law of physics is alive and well in your business each and every day.

Specifically, every decision you make and every action you take generates additional work for you and your team. This includes opening new accounts and bringing on new clients. The cumulative effect of these decisions and actions over time will have a profound (good or bad) effect on your business.

**Optimization: Just What the Doctor Ordered!**

One of the best things to come from the intense interest in Modern Portfolio Theory in recent years is a greater appreciation for the relationship between risk and return. As mentioned above, I can probably guess how you would respond to the investor who comes to you with the “I just want the highest returns possible” goal.

I hope you would point out that in order to achieve extraordinary returns, investors must take on extraordinary levels of risk. Even then, they are not guaranteed. You would also try to educate the investor about the history of the capital markets in an effort to establish reasonable expectations. You would also take the time to explain how a diversified (optimized) portfolio can actually increase expected return while decreasing expected portfolio risk.

It is not my job, as a business coach, to manage your expectations (desired results), but it is my job to help you manage the risk you are taking to achieve those results. Risk, in the case of your business, is the effort you have to expend to achieve those results. It is also the opportunity cost (unrealized potential) of operating an efficient business.

**Two Ways To Conquer the Mountain!**

“Conquering the mountain” is a metaphor commonly used for achieving success in business and in life. The way I look at it, you have two choices – you can do it the easy way, or you can do it the hard way. Consider the *Tale of Two Advisors* shown in Figure 2.

The “skier” (a woman) has built an incredibly efficient business. The “climber” has built an incredibly inefficient business. He is taking much more risk (effort) than necessary to achieve his results.

If you will pardon my unconventional wisdom, I would like to offer you an easier way to conquer the mountain. Rather than trying to

climb the mountain, make it your goal to get down the mountain like the world-class skier who makes those black diamond runs seem effortless.

Your sense of accomplishment will feel just as great, and you won’t have to work as hard! As you build your business, try to let the natural forces of nature work for you instead of against you. Remember, Newton’s Third Law will always be with you!

**Bend Over and Say “Ah Ha”**

If it weren’t for one particular part of the check-up, most of us men wouldn’t mind going in for our physical examinations. In spite of this indescribably unpleasant experience, we keep our annual appointments with our favorite docs. Why? Because undetected bad news about our personal health is much worse than the 30 seconds of humiliation we go through each year.

**Figure 2.**

<b>Advisor A - The Mountain Climber</b>	
Total revenues	\$2 million
Fee-based revenues	\$1 million
Commission revenues	\$1 million
Number of clients	2000
Size of team	6
Number of principals	3
<b>Advisor B - The Downhill Skier</b>	
Total revenues	\$2 million
Fee-based revenues	\$2 million
Commission revenues	-
Number of clients	100
Size of team	3
Number of principals	1

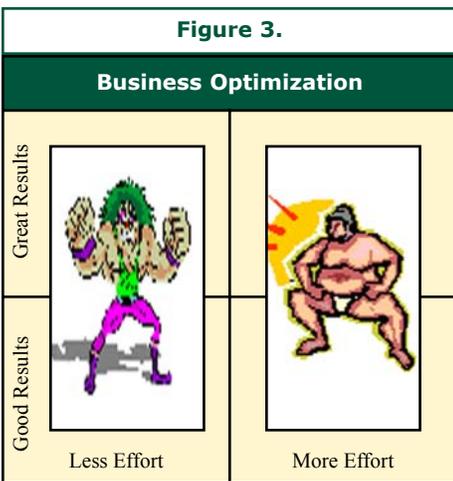
**Business Optimization**





As a coach, I only wish that investment advisors would respect the health of their businesses as much as they respect the health of their bodies. Every day, I talk to successful financial advisors whose businesses are seriously out of shape.

These advisors remind me of the famous Sumo wrestlers, whom we greatly admire and respect. We all know they're big and powerful, but we don't want to look like them right?



If these “Sumo Advisors” were required to take their businesses in for an annual physical, they might take better care of them! From this day on, please try to become (and remain) a lean mean fighting machine instead of a “Sumo Advisor.”

**Correlation = Profitability**

“Production” is a term we hear almost every day in the financial services industry. You might even say that our industry is obsessed (for good reason) with it. If you will pardon my unconventional wisdom once again, you will have a much greater chance of optimizing your business if you focus on profitability, rather than productivity.

By “profitability,” I mean the profitability of your client relationships. In pure economic terms, profitability is the amount of revenue generated by the client versus the amount of time and energy it takes to manage the client relationship. In a broader sense, you could also consider the additional revenues generated through referrals and certain “intangibles” you get from the relationship.

In a fee-based practice, profitability is highly correlated with the size (assets) of the client. That’s because the amount of time and energy required to manage a large relationship is not significantly more than that required for a small one. Consider the *Tale of Two Clients* as shown in Figure 4.

**Revenue Per Client (RPC)**

Even with the conservative time estimates used, you can see that the relationship with Ms. Owner is much more profitable than the one with Mr. Employee. This is an excellent way to optimize your business because you are achieving better returns (results) without significantly increasing the risk (effort) in your business. This is like adding international stocks to the mix, and watching the efficient frontier jump up and to the left in your portfolio optimizer.

Larger but fewer clients is the best and easiest way to gain real leverage in your business! Instead of thinking in terms of an account minimum, you should have a minimum RPC. Start by figuring out how much you need (want) to make an hour and how long it takes you to service your relationships. Then back into what your minimum RPC should be.

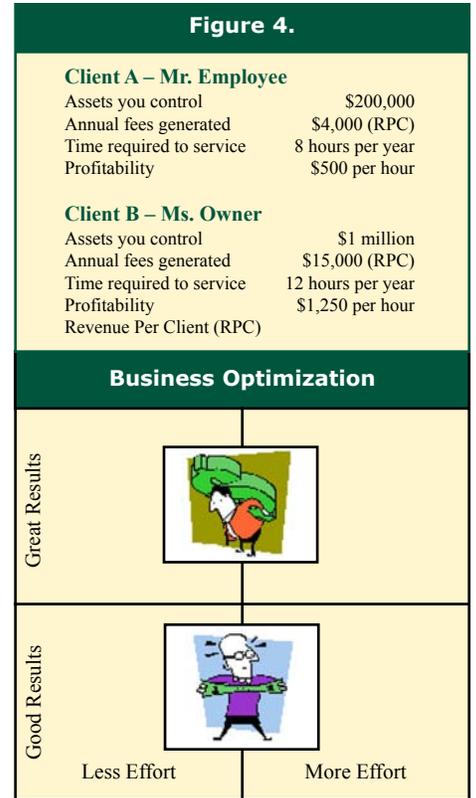
**Business Optimization**

Where would you plot your business if you were to gauge it by its results? Would you be achieving results with little effort or good results with a Hurclean effort? We all would like to optimize our business to get the maximum result for the effort expended. The Business Optimization Checklist shown in Figure 5 will put you on the right track to achieve the most out of the effort you wish to expend. Whether you want to advise more assets or work less, you will find that business optimization is worth the effort. ■

**About the Author**

Steve Saenz is the Founder and President of [Paragon Resources, Inc.](http://www.SrConsultant.com), a coaching and consulting firm based in Atlanta, GA. Paragon specializes in helping investment professionals OPTIMIZE their businesses – achieving better results with less effort.

Steve began his investment career in 1984, as a financial consultant with Merrill Lynch. He was instrumental in developing the financial planning tools the firm uses today. In 1989,



Steve joined Merrill Lynch Business Financial Services as a regional manager. In that position, he trained and provided marketing support to financial consultants in the areas of fee-based consulting and qualified retirement plans.

In 1991, Steve joined the investment management firm of Harris Bretall Sullivan & Smith as a managing director. In that position, he established himself as one of the leading marketers of fee-based managed accounts, raising over \$300 million in less than two years. In 1994, Steve started Paragon. Since that time Steve has used his extensive knowledge and experience to help thousands of investment professional raise billions of dollars in fee-based assets and build better, more profitable businesses.

Steve is a popular speaker at business conferences throughout the United States and Canada. For availability and booking information, please call Krista Sheets at 404-873-0099. You can also get more information by visiting Paragon Resources’ web site, [www.ParagonResources.com](http://www.ParagonResources.com).

**Figure 5.  
Business Optimization Checklist**

**Optimization Principles**

- Define your desired results - WHAT
- Define meaningful results - WHY
- Minimize risk (effort) in your business
- Focus on profitability rather than productivity
- Keep your business in shape - no "Sumo Advisor"

**Business Management**

- Avoid partnerships if at all possible
- Build your practice around one business model
- Invest in your business (calculate the ROI)
- Leverage technology by keeping hardware & software up to date and training all personnel
- Work on your business 2 to 4 hours per week

**Client Management**

- Focus on 2 or 3 types of clients (at most)
- Establish a minimum revenue per client (RPC)
- Reassign small clients (under \$5,000 RPC)
- Replicate your top 25 - 50 clients
- Hold 3 - 4 client appreciation events per year

**Investment/Wealth Management**

- Define and document your process (train team)
- Delegate this function of your business
- Utilize fee-based, managed money approach
- Limit the number of funds and managers used
- Get advanced training in wealth management

**Self-Management**

- Time block to increase your effectiveness
- Say "no" to everyone and everything that does not fit into or support your vision
- Work from home or other non-office location if possible to minimize interruptions
- Put yourself through a leadership assessment
- Hire a coach to help you stay focused on your strengths and compensate for your weaknesses

**Team Management**

- Streamline first, before adding people
- Develop an organizational chart
- Make sure you have the right people in the right jobs
- Clarify roles and responsibilities
- Establish expectations and accountabilities

**Notes**

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