2016

The year ahead - what will you make of it?

validpath

Introduction

Dear Colleague.

These last twelve months have been, in many ways, hard work, but overall a positive experience:

- Across the ValidPath Network, Member Firms' turnover has been consistently rising, and we have seen a slight increase in Membership.
- We have not experienced any significant upsurge in complaints, and the majority of those in process were so clearly vexatious, that resulting claims have been minimised.
- Due largely to our reserves policy, we have managed to deal with the hike in FCA fees in 2015, without passing the discomfort onto our Members.
- Minor tweaks at a micro-level with the eleven risk-graded models hosted by Parmenion have led to improved value for clients on this Platform.
- We have fought two extended battles with the FCA on behalf of two advisers that two Member Firms wished to recruit, and after around a year of effort have finally won through.
- We have been steadily working on areas of perceived weakness, in order to strengthen ValidPath's proposition for the benefit of *all* Members.
- We have introduced the *free* CashCalc facility for all Member Firms, to allow those that are not already committed to Voyant, to be able to offer robust Lifetime Cashflow Modeling to their clients, easily, simply and at no additional cost.
- We are currently working on a variety of projects aimed at generally improving Clarity's functionality for regulatory reporting and supervision.

And now there's a new year to consider. It will have all of its own challenges and opportunities, and we want ValidPath Members to be in the best possible position to flourish in a marketplace which is characterised by one main feature: continual change.

Happy New Year!

Kevin Moss, Director

Cultural negativity

We have written about this issue, in one of our final blogposts in 2015 ('Onwards & Upwards').

Our concern in this respect is that, whilst we may be constitutionally positive and constructive individuals (glass half full), we live out our lives within a culture where, currently, so many of the messages are predominantly negative.

Think about it. Take the Syrian Refugee Crisis as an example. Opinions range widely on the matter, as you will have picked up in the media. Perhaps we're apprehensive about migration trends, and the implications for our economy or culture. That's a negative perspective. Perhaps we are entirely positive about how Europe or the UK might respond, in which case we may feel deeply disappointed by the response of the UK Government. That has negative connotations too: we end up feeling badly about our Government, our nation, and (by remorseless logic) ourselves.

You can take almost any current issue and unravel it in this kind of negative way, and judging by the behaviours of media pundits, this focus tends to dominate.

In my Blogpost, I highlighted the practical impact of this way of thinking, assuming that we unconsciously adopt it for ourselves: it predisposes us towards apathy, or inaction. Worse than that, when the BBC and other politically-correct pundits insist on presenting *any* issue as if it is only about opinions, then the inevitable conclusion is that no opinion is any more right, or valid, than any other opinion. This approach subverts initiative, and disembowels any kind of proactivity which you might otherwise build into your business proposition.

Now, I may not be describing *you*. Within the ValidPath Network, there are a number of individuals who are relentlessly positive, who have a very clear picture of who and what they are, and this works its way out almost forensically in terms of their advisory proposition, their activity, and how they charge for it.

But I'm willing to bet that this may describe many of your clients. They are rendered financially ineffective by uncertainty. The benefits of planning are denied them by apathy and a kind of cultural powerlessness. They look for antidotes to cynicism, but the usual suspects fail to come up with the goods.

Which is all suggestive of the real value that you can contribute, in terms of a consistent, well-articulated, counter-cultural message. If you have not yet done so, why not make a special effort in 2016 to present your unique insight and proposition to those needy clients who will really benefit from it?

(This is about communication: when did you last look at the ValidPath Marketing Cookbook?)

Sustainability

At the risk of trying your patience, I wanted to return to a theme which we have dwelt on, at length, in the past.

Much of what we see going on within the UK's economy, and within our own marketplace, is clearly unsustainable in the long term. Governments make budgetary decisions in the present which effectively gamble upon *future* revenue streams over which they have precisely zero control. Chancellors of the Exchequer (naming no names) over-use the word 'prudent', but this is no magic word to transform the house of cards that forms the underlying reality. Perhaps we wish George Osborne success in seeking to balance the nation's books, but all of us know that a change of Government is a mere five years down the road: Anything Can Happen - and probably will.

Our own industry is no exception to this bad habit, unfortunately - although it really should know better by now. It comes to something when actually the biggest source of risk and expense is now the Regulator which governs our lives down to the minutiae.

Perhaps *un*sustainability is a kind of strange cosmic law of the universe, and we just have to play the game the best we can. However, I suspect that this is not the case. If 'sustainability' is such a big deal when it comes to energy-generation, and recycling, then I suspect it is just as important when it comes to our financial lives. If that is the case, then a healthy and responsible emphasis in this area will wish to develop the following themes:

- planning for the best outcomes, but anticipating worst-case scenarios;
- correcting imbalances between spending and saving;
- learning better financial disciplines or behaviours;
- seeking to understand and control risk in whatever context it may pose a threat to financial viability;
- finding ways to reduce the external burdens pressing upon wealth;
- offsetting the corrosive impact of debt.

As you will have swiftly concluded from this list, there are points that have applications both for your clients (and the approach you adopt when advising) and for yourself, in terms of framing and implementing your own business strategies. In respect of the latter, you might, for instance, take a view on the dangers associated with indemnified commissions (non-investment protection), or the balance between (say) fund-based renewals and annual fees levied upon clients. You might also wish to consider the kinds of financial behaviours inherent in young people, compared with those who are retired.

Competitiveness

How competitive are you? Indeed, how would you even go about benchmarking such a thing?

Traditionally, IFAs have tended to emphasise factors such as results (by which, generally speaking, they mean investment returns) or costs (scale of fees or commissions). These emphases are not without their problems - a focus on results (returns) can very possibly make your competitiveness dependent upon a range of factors which are entirely outside of your control. It may commit you to business strategies which unnecessarily elevate your business risk. A focus on costs may result in a steady decline in financial viability over time, or an unfair business model where the less discriminating clients are effectively subsidising those whose negotiating style is tougher.

It seems that, if our intention is to be competitive, then the basis upon which we establish that quality needs careful thought. This is especially the case when we encounter new competitors on our own turf - for instance, new arrivals which start a kind of price war. The one thing you must fight is a temptation to commoditise your own service: responding to competition by lowering your prices, suggests to clients that you have been overcharging in the past, and then (double whammy) gives legitimacy to your competitor's offerings.

Of course, the majority of your competitors are actually quite mediocre. Benchmarking yourself against such firms simply reinforces a kind of encultured mediocrity across the board - so if you're going to play that game, its best to select the better-quality players for comparison.

If you are considering reducing your charges, only do so in cases where the size/ volume of the transaction may merit it - otherwise, it is generally better to maintain your chargeout levels, and simply offer added value to the client instead.

So, wherein does your competitiveness lie? If *performance* is a dangerous emphasis, and if *cost* represents a downward spiral into oblivion, how do you demonstrate it? We suggest the following:

- By delivering excellent service - the kind of service that customers simply don't get anywhere else, and which they will praise to their friends and business contacts;
- By caring for your clients, and showing that in the way you relate to them;
- By delivering extra value at your chosen price point - if you are not a Voyantist, and you are not already using CashCalc, then you are missing a Big Trick!
- By being consistently, unashamedly, gloriously **independent** in all your advice.

Maintaining a proper sense of self-worth

The people you fill your life up with are those who have the greatest impact upon how you view yourself, and this especially applies to clients.

Take a moment to think about those customers who complain most about your fees. They take longer than anyone else to settle their bill, and they make you work for it, spinning the whole process out into a purgatory which saps the life out of you. They never say thank you. Their communications to you are full of needless, carping comments, and they treat your staff with casual disdain, or worse. They are not a pleasure to deal with, and they distract you from other clients, the ones who pay on time, and who seem to care as much about you, as you do about them.

You don't want these clients. You really don't. They may not, in the end, be economically viable, but more than that - they mess with your mind.

But getting rid of them may be an idea which you recoil from. You consider the financial consequences. They may have been referred to you by a professional colleague, and you don't want to upset the relationship. How do you handle this? Here are a few thoughts:

- Here is one disqualifier for such clients: if they have been rude or said hurtful things to your staff, get rid of them immediately. No ifs, no buts. Your staff are vastly more important to you than such clients;
- Rank your clients according to Pareto Analysis (highest to lowest revenue). Without fail, you'll find that around 20% of your clients generate 67-85% of your revenues. This gives you confidence to fire clients located in the other 80%;
- When looking at fee-paying clients, rate them by debtor days - clearly, those fees which take longer, and require more effort to collect, relate to those clients that are less attractive to retain;
- Report back, objectively and regularly, to your professional introducers so that they are aware of quality and profitability issues - the decision to sack a client can then more easily be a joint decision;
- There are *ways* of firing such clients. There's no need to be nasty, indeed the solution is to be relentlessly courteous at all times. You may wish to substantially increase your fees for such clients, and then let them disqualify themselves (but prepare for surprises!). If they are abusive to your staff, matters are more straightforward. You may suggest that they would be better off going to a local competitor of yours.

Charging what you're worth

ValidPath have written a separate book on the subject of **fee-based advice**, and it is not our intention to repeat all of that content here. You'll find a lot of guidance and ideas on setting fees, and increasing your fees - so, please, read the book.

It is, however, worthwhile to think a little about the types of charges you might possibly wish to make for your service. Broadly speaking, they fall into the following categories:

- The **hourly rate** - perhaps with differential terms for different kinds of service. The danger with this approach is the "how long is a piece of string" answer when the client attempts to pin down your costs. It is worth considering the implications!
- The **fixed fee** - where you identify a particular price for a given kind of service. This does not mean you charge the same thing for everything - you would give careful thought to the range of your services, the likely time it would take to deliver them (this is where hourly rates come in useful), and the kind of risks associated with them.
- The **contingency fee** - relatively uncommon, but payable if you achieve a certain kind of result for the client. This may have the effect of ratcheting up risks.
- The **retainer** - usually some kind of ongoing fee for any ongoing service you might provide. Where this is *facilitated* out of a product, it used to be known as 'renewal commissions' and is now known as an 'ongoing adviser charge'.

The good news is that your administrative systems on Clarity can cater for all the main options, allowing you to configure a full range of fee-types, relating to all personnel who carry out the work, and use the system. Even if you don't actually bill clients direct, this is a brilliant solution to managing each client account, and determining if you are profitable in what you do.

Remember that specialist services may carry higher risks, but these also put you in a better place to charge out your time at a higher rate. You will need to factor in a 'risk premium' for certain kinds of transactions: pension transfers; EIS, VCT and BPR; equity-release etc.

RPI inflation in 2015 was +0.7% in the twelve months to October, but it is worth remembering that the *average* rate since 1989 is +2.66%pa. If you have not increased your fees in recent years, it may be time to do so, as the last few years of minor increases will make any such uplift seem very modest. The longer you leave it, the harder it becomes to increase fees - and the FCA does not suffer from such a disinclination!

2016 - It's your life

As you head into the new year, it's worth developing an effective Business Plan for the next twelve months. Such plans often tend to be about the **figures**, or, to be more exact, they're about the **money**. Of course, they'll always be partly about this, but they're about much more than just that.

Business plans are also about…

Risk

- the risk of failure - are your expectations unrealistic? Is there too much hanging on this for the whole enterprise to bear?
- risks from competition or regulation?
- the risks associated with the delivery of advice (especially in areas of some complexity)

Sleeping at night

- putting yourself in a position of some discomfort, perhaps operating well outside of your comfort zone?
- a lack of ethical clarity leaving you in grey areas where self-doubt might proliferate

Having enough time

- time with your family
- time for your other interests
- putting yourself under the cosh of the hourly rate, so that you may *never* attain your financial goals
- your exit strategy and the dream of retirement

Your own financial position

- are you practicing what you preach when it comes to financial-planning?
- what are your own personal financial goals, and how well are you along the way to achieving them?
- do you adhere to a 'pay yourself first' financial discipline?

Make sure that you factor in these kinds of personal, or lifestyle, aspirations. Avoid becoming a drone!

Negative drags on revenues

As you map out your business plan, it is really important to consider those factors which may sabotage all your best-laid plans. Here's our shortlist of some of the main risks that you should be aware of:

1. In 2016, traditional **renewal commissions** on investment products will cease to exist. This should not effect recurring revenues facilitated on Wraps, but might otherwise be a cause for concern.
2. Intermediaries which become heavily dependent upon **indemnified commissions** (protection business only) are at considerable risk from clawbacks when the economy is in turmoil. If you want a 'recession-proof' business, do not build a business on the back of such revenues - and think about the possibility of a recession and its potential impact upon your business model.
3. In recent years, many advisory firms have laboured to build 'assets under management' (AUM), from which they take an annual recurring fee (usually 0.5% to 1.0%). When investment markets bomb, that annual fee follows suit.
4. Who you choose to associate with matters very much, especially if they receive an introducer fee in relation to introduced business, or if they are self-employed advisers working under your umbrella. Be choosy. Look for quality and integrity in such relationships.
5. Clients themselves are much more discriminating these days. If they do not feel they are getting a *good* service, they will vote with their feet. Being 'OK' is no longer enough.
6. Undercharging clients is a bad habit to get into. You educate them into the wrong expectations, and make it less easy to charge a realistic rate in the future.
7. If you ignore your ongoing marketing whilst things are going reasonably well, you'll discover that you've lost the habit of talking to your clients, and very likely missed out on a whole pile of business in the meantime. Nothing is better for your business than an ongoing process of communication to existing and potential clients: it reduces risks of dissatisfaction and allows you to capture opportunities that might otherwise go elsewhere.
8. Forgetting *where it is* that you earn money. It's not in the office. It's not behind a computer monitor. It's not buried in journals and technical manuals. It's in front of the client.

Travel with us in 2016

ValidPath may be a 'small' Network, but we comprise around 47 CF30 advisers, operating out of 36 geographically-diverse Member Firms which deliver a range of services in terms of their advisory propositions. In the financial year ending 31/03/2016, we're on target to turn over a little above £5m.

Across the Network, we have seen the following clear trends developing, which are hugely encouraging:

- an emphasis on gaining, and leveraging, chartered status
- the adoption of excellent financial-planning systems, such as CashCalc or Voyant
- a comfort and ease in delivering a fee-based advisory model
- a consistent and disciplined emphasis upon genuinely independent advice
- the use of well-researched and documented investment advice solutions, with robust due-diligence underpinning everything
- a focus on ongoing service and reviews
- a willing, collaborative approach towards areas of specialised advice

We don't take any of these things for granted. Admittedly, we actively encourage all of the above, but we have sought to retain a kind of 'broad-church' emphasis which, hopefully, means that individual Member Firms do not end up somehow feeling excluded. There is room for variety, provided that all of us share similar compliance and best practice standards, as implemented on Clarity.

As we move into 2016, we are seeking to build on this. As we seek to establish mutually-agreed common standards in areas of specialist advice (starting with pension transfer work), our aim is to develop a genuine, shared 'marketplace' where Member Firms can swap or outsource services, without any concern about outcomes for their clients.

We believe that this is the beginning of some exciting developments. Having spent these last twelve months on consolidating systems and standards, our focus in 2016 will be on delivering additional value to Members and Partners.

More resources

We have written this little booklet to provide you with some useful themes and ideas to dwell on over the Christmas break, in order to prepare for the New Year.

You may have had a rewarding and productive 2015, but on January 1st, you'll start of with a new blank diary, and a need for organised, profitable activity.

We have tried to include **sufficient information** to support your planning, but realistically there is much, much more guidance already available to you in various forms and locations:

- The **Marketing Cookbook** contains everything you need to build an effective ongoing marketing plan to support your business development
- The definitive **Guide to Fee-Based Advice**. We've looked carefully at a range of independent publications, and written our own alternative which reflects on the complexities of the intermediary marketplace, following RDR.
- ValidPath's online **Business Development Library**.
- Optional **business consultancy** - it is important to us that our Members become successful.

With best wishes for Christmas and the New Year from all at ValidPath

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