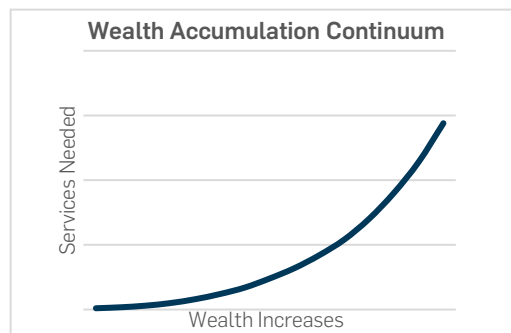


## DO I NEED AN INVESTMENT MANAGER, WEALTH MANAGER OR FAMILY OFFICE?

By Michael Krol, CFP®, CPA, Partner and Head of Wealth Advisory

Confusion created by the financial marketplace over terminology like “wealth management” and “family-office” has created a great challenge for families who seek investment management, wealth management or family office services. It has become increasingly difficult to find the services specifically relevant to an individual’s or family’s needs; this challenge becomes further complicated because those needs can change quite significantly as wealth accumulates. We refer to these phenomena as the Wealth Accumulation Continuum. The key for an individual or family at any stage along the continuum is to recognize their changing needs and to make sure they are asking potential providers the right questions.

**“The key for an individual or family at any stage along the continuum is to recognize their changing needs and to make sure they are asking potential providers the right questions.”**



### Beginning to Accumulate Wealth >> Investment Management

When a family begins accumulating wealth, the first and most basic service they will need is investment management. Early on, it is not unusual for an individual to “self-manage” his or her investments. As the size of the investment accounts grow, however, we recommend asking the following three questions:

1. Do I have time to manage my own investments?
2. Am I good at managing my own investments?
3. Do I enjoy managing my own investments?

If the answer to any of these questions is “no”, an alternative approach is to hire one or more investment managers and allocate funds to each. In hiring investment managers, one should first set the overall strategic investment plan to identify the number and types of investment managers needed. We then recommend matching specific investment account mandates to managers that specialize in those particular areas. In evaluating potential investment managers, one should assess both: 1) qualitative factors, such as philosophy, process and people, and 2) quantitative factors, such as return and risk analytics over various market cycles. It is also important to understand the nature and amount of the fees you will be paying. In many cases, this will be difficult to assess because fees may be charged in the form of commissions, advisory fees and/or underlying product fees. Some of these fees are reported in periodic statements and some are not. This can be one of the most opaque areas of hiring an investment manager, so be sure to request and receive clarity on this topic.

### Accumulating Significant Wealth >> Wealth Manager

As wealth grows, so do the complexities and the need for additional services. At some point, a family often finds themselves with multiple investment managers or a very large sum of money which they are managing on their own. This is when it makes sense to consider a wealth manager to assist with the increased complexities and choices. A wealth manager is multi-faceted and provides services relevant to significant wealth, such as:

1. Developing an overall investment plan which aligns with family goals, required return, risk tolerance and capacity, unique tax situation and various other personal circumstances.
2. Implementing the investment plan by allocating funds amongst various investment managers, while performing ongoing manager due diligence and fund re-allocation.
3. Providing other relevant ongoing services, including cash-flow planning, tax and estate coordination, philanthropic planning, education planning, corporate benefits planning and risk management, among others.

In the absence of a wealth manager, an individual will often

find him or herself in the middle of these various complexities, evaluating investment managers, and trying to make appropriate, "multi-dimensional" decisions that are impacted by cash flow, income tax, investment strategy, risk management and estate planning considerations. This can be a difficult predicament because the expertise required to effectively navigate such decisions is significantly greater than that required to navigate investment decisions alone.

In hiring a wealth manager, we recommend identifying the services beyond investment management that are relevant to your wealth and goals. Then, one should evaluate a potential wealth manager based upon their expertise in providing the services required and the cost of providing these services.

**"In hiring a wealth manager, we recommend identifying the services beyond investment management that are relevant to your wealth and goals."**

A wealth manager's fee may be based upon a % of assets under management, a % of net worth, a flat fee or a combination of the three. Many wealth managers are regulated by the Securities and Exchange Commission as a "fiduciary", and therefore are always required to act in the best interest of their clients. Conversely, other types of financial institutions, including many of those that advertise "wealth management" services, may be subject to a different set of regulations that are more lax in their requirements. In hiring a wealth manager, one should always ask how the advisor is regulated and if the firm is subject to the "fiduciary" standard.

How much wealth is needed for a family office to make sense?

At very significant levels of wealth, an individual may hear that a family office might be the right solution. Family offices exist in as many varieties as the families they represent. A true "family

office" is created when such significant wealth is present, generally over \$300 million, that it is cost effective for families to hire employees who work exclusively for them. However, the reality is that family offices are a blend of services provided by in-house staff with other services outsourced to professional service firms.

We have identified over 100 different services which a wealthy family may require, but even the wealthiest families will not find it cost-effective to hire a full-time staff with the requisite expertise to perform all of these services. For this reason, we recommend performing a full assessment of each of the possible services to determine if:

1. The individual or family has the in-house expertise to provide the service in a cost-effective manner, or
2. The service will be provided by a professional service firm, or
3. The service is not needed at this time, but will be continually evaluated for applicability

An equally important step after assessing each particular service is developing a blueprint to coordinate all of the services needed. Without this strategic blueprint and fully integrated execution, even the best team of internal staff and outside professionals can allow great opportunities to go by the wayside, while permitting significant risks to slip under the radar.

An investment manager, wealth manager or family office may be the right choice for you. The key is to identify the services relevant to your wealth and to make sure that you are asking the right questions of potential providers.



Michael Krol, CFP®, CPA, heads Waldron's Wealth Advisory Team, focusing on the personnel and client offering that has helped Waldron earn national recognition as one of the country's best financial advisors from publications including Forbes, Barron's and The Financial Times. He has been a driving force for the firm's growth while maintaining focus on his goal of 100% client retention. Michael has spoken at wealth management conferences and on university campuses, and is a frequent contributor to national media including The Wall Street Journal, The New York Times, CNBC and The Journal of Financial Planning®. With a background in public accounting, Michael is a licensed Continuing Education Provider for Certified Public Accountants.