




ANAHEIM  
2009

The Annual Conference of the Financial Planning Community

<b>TRACK:</b>	<b><i>BREAKFAST SESSION</i></b>
<b>SESSION: 979082</b>	<b>COMPLIANCE PROOF YOUR BUSINESS</b>
	MONDAY, OCTOBER 12, 2009
	7:00 AM - 8:00 AM
<b>PRESENTER:</b>	Timothy D. Welsh, CFP®
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Timothy D. Welsh® is President and founder of Nexus Strategy, LLC, a leading marketing consulting firm to the wealth management industry. Nexus Strategy's primary focus is working with independent investment advisors on growth strategies as well as partnering with leading financial services and technology firms to distribute products and services through the independent advisor channel. Prior to founding Nexus Strategy, Tim was Director of Business Consulting Services for Schwab Institutional where he led the development and marketing of practice management resources for independent advisors, including an award-winning suite of business succession, financing and M & A services, along with the industry's leading platform for referral marketing. While at Schwab, Tim also held senior roles in Strategy, Marketing, Advertising, PR and Event content development. Prior to joining Schwab, Tim was vice president at Merrill Lynch where he was responsible for marketing, product development and financial advisor training for the financial planning group. Tim is the author of a number of industry white papers and articles and is a frequent speaker at industry conferences and events. Tim earned a bachelor's degree in Economics from the University of California, Berkeley and an MBA in Finance from the University of Colorado. Tim holds the Certified Financial Planner, CFP® designation and is an active member of the 28,500-member Financial Planning Association (FPA) serving in a leadership role on a number of task forces, committees and most recently as an elected member of the National Board of Directors from 2004-2006.

Increasing Profitability




Power Change

Enable and Compliance Proof Your Practice

Timothy D. Welsh, CFP®  
President, Nexus Strategy LLC

Run Smarter\*



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**Agenda**

- Introduction – industry issues
- Compliance
  - Rules and Requirements
  - Document Management
  - Technology Approach
  - Enable your business
- Industry Study – Compliance Efficiencies
- Demonstration



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**Industry Issues – Growing Profitably**

- Growth
  - Advisory firms predicted to roughly quadruple in size in the next 5 years
  - Baby Boomers cycling towards retirement
  - Oversupply of clients
- Managing Overhead Expenses
  - Client demands increasing
  - Volumes increasing
  - Compliance burdens increasing

**Result: Need to Increase Efficiencies**



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## Compliance 101

- History: Widely Publicized Failures
  - Result: Increased focus on Compliance
  - New Rules will be Created
- SEC / FINRA laws firmly in place
  - Rules are designed to protect Investors
- Compliance is not a product
  - Compliance is an ongoing and evolving process



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## Compliant Record Keeping requirements

- **Fee Only – for RIA's**
  - SEC (federal) or NASAA (state) regulated, based on AUM
  - SEC Investment Advisor Act rule **204-2**
- **Commission Only – for B/D's**
  - FINRA regulated (SRO – self regulating)
  - SEC rule **17a-3, 17a-4**
- **Commission and Fee – for Hybrids**
  - SEC & FINRA Regulated
  - *Must follow BOTH rules 204-2 & 17a-4, "Double the pain"*
  - Must keep Advisory and Brokerage business Separate.



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## SEC IAA 204-2 Technology Requirements

- Advisers are permitted to maintain records electronically if they establish and maintain procedures:
  - To Safeguard the record from loss, alteration, or destruction
  - To limit access to the records to authorized personnel
  - Ensure the electronic copies of non electronic originals are complete, true and legible.



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## Compliance Technology Rules

- Documents accessible, not alterable
- Stored in a non-proprietary file format
- Comprehensive security that controls access and functionality rights
- Written and enforceable retention policies
- Storage of data on indelible, non-rewriteable media
- Searchable index of all stored data
- Readily retrievable and viewable data



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## Simplifying compliance processes

- Enhanced security
- Disaster recovery and business continuity
- Audit trail tracking
- Audit preparation



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## Coming Compliance Tsunami

- Financial Crisis
- Wall Street Meltdown
- Sub-prime/Auction Rate Preferred Securities
- Scandals
  - Mad(e)off
  - Stanford
  - Pang
- Result: Full regulatory reform



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## Regulatory Consolidation

“A new Regulatory regime with FINRA and SEC working together, could entail 10% - 20% more in Compliance costs for RIAs”

– Tower Group

“The new “surprise” audit rules are expected to cost advisors anywhere from \$20,000 (FPA) to \$200,000 (SIFMA)”

– Investment News



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## Automation – The Final Frontier

But what about the paper?

Are you prepared?



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## From a paper world....



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## to digital document management



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## The Solution – Centralized Filing



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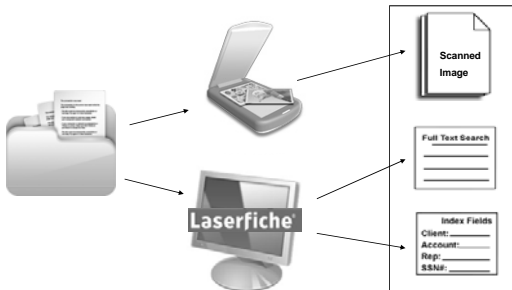
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## What to do with Paper? Start by scanning it.



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## The Cost of Paper

- Lost productivity searching for files
- Labor-intensive archiving
- Physical storage costs
- Impact on overhead costs/service quality
- Document storage and retrieval mandates
- Disaster Recovery



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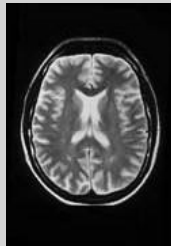
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## Document Management 101

- Manage physical and digital documents in a unified repository
- Scan physical docs, import e-docs
- Automatic indexing via template fields
- Instant, logical search and retrieval



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## Document Management 101

- Integrate with primary business software and import existing files
- Create custom interface for ease-of-use
- Audit trail tracks changes and routing
- Establish rigorous security with user-specific access



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## Technology Approach

- Then, Paper-based systems:
  - Disparate systems
  - Manual workflows
  - Rigid
  - Not responsive to change
- Now, Business Process Management (BPM):
  - Integrated technology approach
  - End to end solutions
  - Flexibility
  - Agility for change



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## Next Generation Technology

- “Paperless” offices no longer enough
- BPM requires document management combined with workflow automation
- Historically BPM technology not affordable for the small and mid-sized Financial Advisory firm



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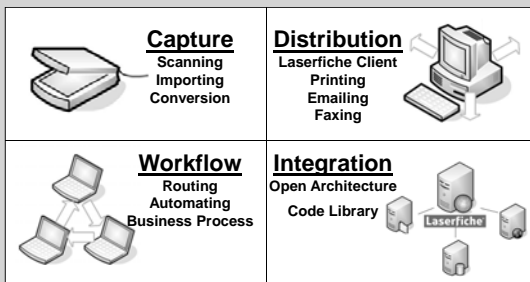
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## From Document Management To Content Management



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## Realized Benefits

- Establish compliance processes, reduce compliance costs
- Recover lost productivity
- Reduce overhead
- Streamline workflow



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## Growing Profitably - Best Practices

- Investing time and energy to develop people
- Investing in building operational systems and infrastructure
- Investing in technology
- Investing in building business value



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## Why this ROI Study?

- New, powerful technology solutions now available to financial advisors
- Strong need to quantify the return on technology investments
- Increased focus on business value and succession planning



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## Methodology

- Financial performance benchmarking studies aggregated (FPA)
- Income statement approach
  - Quantified costs and savings as a percentage of revenues
  - Aggregated analysis to smooth out results for regional differences
- Analysis by revenue size to account for economies of scale, cost structure differences:
  - Emerging (\$500K - \$999K)
  - Established (\$1,000 - \$3,999K)
  - Enterprise (\$4,000 +)



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## Income Statement Approach

Industry Benchmarks	\$500K	\$1,000K	\$4,000K
Revenues	100% (\$500)	100% (\$1,000)	100% (\$4,000)
Direct Expenses	36% (\$180)	36% (\$360)	38% (\$1,520)
Gross Profit	64% (\$320)	64% (\$640)	62% (\$2,480)
Overhead	43% (\$215)	48% (\$480)	41% (\$1,640)
Operating Profit	21% (\$105)	16% (\$160)	21% (\$840)

Direct expenses are defined as total compensation (salaries and bonuses) for professional staff involved in client advice or business development and do not include profit sharing.

Overhead expenses are defined as all other expenses associated with managing and operating the firm, including rent, compliance, admin and operational staff and other expenses.

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## Key Findings

- Three Areas of cost savings:
  - Space efficiencies
  - Back-office efficiencies
  - Compliance efficiencies
- Increase in Business Value:
  - Multiple on cash flow



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## Space Efficiencies

Size of Firm	Emerging	Established	Enterprise
Rent costs as a % of revenue	6% \$30,000	6% \$60,000	5% \$76,000
Annual Efficiency Savings	1.5% \$8,000	1.8% \$18,000	1.0% \$27,000

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## Back Office Efficiencies

Size of Firm	Emerging	Established	Enterprise
Back office staff costs as a % of revenue	24% \$120,000	27% \$270,000	23% \$920,000
Annual Efficiency Savings	4.8% \$24,000	5.4% \$54,000	4.6% \$184,000

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## Compliance Efficiencies

Size of Firm	Emerging	Established	Enterprise
Compliance costs as a % of revenue	6.7% \$34,000	6.7% \$67,000	7.1% \$285,000
Annual Efficiency Savings	3.7% \$19,000	3.7% \$37,000	4.0% \$158,000

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## Business Value

- Succession planning driving issue
- Many ways to value advisory businesses:
  - Revenues
  - Profitability
  - Business model
  - Location, etc.
- Preferred method is multiples on cash flow:
  - Range from 5 to 15



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## Business Value

Size of Firm	Emerging	Established	Enterprise
Multiple on cash flow	5	7	10
Increased net income	\$43,000	\$89,000	\$342,000
Net value increase	\$216,000	\$626,000	\$3,421,000



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## Technology ROI Summary

Firm Size	Emerging	Established	Enterprise
Technology Investment	1.4% (\$7,000)	2% (\$20,000)	1% (\$40,000)
Staff Savings	1000 hours 0.4 of FTE	1500 hours 0.6 of FTE	6000 hours 2.4 FTEs
Overhead Savings	8.6% \$43,000	8.9% \$89,000	8.6% \$342,000
Profit Increase	41.2%	55.9%	40%
Net Value Increase	\$216,000	\$626,000	\$3,421,000



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## Conclusion

- Future is bright!
- Advisory industry on precipice of massive growth
- Existing business infrastructures vulnerable
- Leverage new digital document management technology
- Learn more – Download white paper at [www.laserfiche.com/RIA](http://www.laserfiche.com/RIA)



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## Questions?

Visit [www.laserfiche.com/RIA](http://www.laserfiche.com/RIA) for more information

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## About Laserfiche

Laserfiche creates simple and elegant document management solutions that help organizations run smarter. Since 1987, more than 23,000 organizations – including numerous independent RIA firms, broker-dealers, financial planning firms, banks and credit unions worldwide-have used Laserfiche software to streamline processes for managing documents, records, and workflow. By digitizing paper archives, Laserfiche enables users to instantly pinpoint the information they need, to collaborate more effectively and to complete daily tasks more efficiently. Secure Web access allows organizations to share information with remote offices, business partners and customers, while user- and role-based security options ensure compliance with government- and industry-mandated standards, including the Department of Defense (DoD) standard 5015.2.

[www.laserfiche.com/RIA](http://www.laserfiche.com/RIA)



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