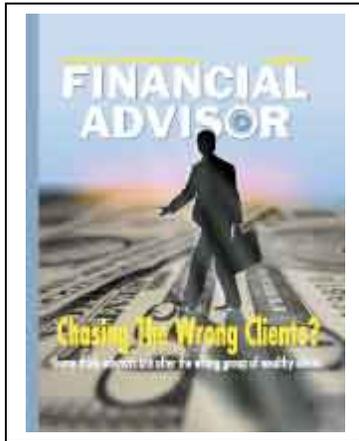


# FINANCIAL ADVISOR

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## Thinking In 3-D

By Monroe M.

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**3 Dimensional Wealth™ Planning may help the industry meet challenges.**

*"The best way to predict the future is to create it."*

— Peter F. Drucker

We are at a "critical epoch" in the evolution of the financial planning industry. In fact, right before our eyes, a new industry is being created, one that will stand on the shoulders of those who have come before in financial planning. This new profession will address the needs of one's "total wealth," which includes one's personal, financial and social wealth.

New standards and guidelines, along with curriculum and professional designations, will be created to address the needs of our 21st century clients.

### **In The Beginning ...**

In the early stages of insurance and investments, one could categorize the activities as "financial sales." We were transaction-oriented, and the emphasis was on selling a product. That was until about 1975. It was at that time a shift began from "financial sales" to "financial consulting." While the results may have been similar (i.e. sales were made), the methodology for arriving at the sales was based upon a process.

## **Process Over Product**

And so, the financial planning industry was conceived. Many pioneering practitioners began their journey, with little help from those who had come before them. It was a time of exploration, a time of creation, a time of celebration. For the first time, a practitioner was free to advise "with a purpose." And the results were amazing. Sales results rose as the planning process was followed. But much was left to be discovered. While the gestation period from conception to birth was relatively quick, it required the foresight of many individuals to create the profession we see today.

In those early years, one could hardly call financial planning a profession. It was lacking standards and guidelines. It was lacking professionalism and professional designations. Moreover, public acceptance was absent. The institutionalization of the profession was yet to be born.

From 1975 to 2005, in just 30 years, our profession has come to be respected among the top professions in the country. In fact, last year it ranked as the second most desirable profession for those entering the job market. And why is that? Why is it that in just 25 years, this profession has blossomed into a desirable, sought-after career?

The reason, I believe, is that in Stage II of our evolution, we found a new and fresh way to solve people's problems. And isn't this the goal of business? Is the goal of business simply to make a profit? I believe that the financial planning industry found a creative way to solve people's problems, and in doing so allowed our industry to become profitable and desirable.

I've been proud to be part of the individuals and organizations that have laid the foundation for others to follow. The creation of standards for our planning process was critical for advisers to provide meaningful and comprehensive plans that would be accepted by the public. Without these guidelines, our fledgling industry would have been like a ship without a rudder. Without the educational institutions to provide us with methods and tools to become masters of our profession, our status in the community would have been modest at best. Our newly created professional designations gave us the expertise necessary to excel and a tangible way to display our excellence.

## **Is That All There Is?**

But after 30 years, "Is that all there is?" Is it possible that professionals were meant to advise clients, in new dimensions? I believe the answer is "yes." And I do believe that "the best way to predict the future is to create it."

Rick Sidorowicz,<sup>1</sup> in his article "Life Beyond the Sigmoid Curve,"

discusses what we see in Exhibit 1. "The sigmoid curve is the S-shaped curve that has intrigued people throughout history. The curve sums up the story and time line of life itself; we start slowly, we experiment and falter, we then grow rapidly, then wax and wane. It is the product life cycle; it is the biological life cycle. It describes the rise and fall of empires, dynasties, companies and individuals. It also describes the course of love and relationships."

As we ride the life cycle wave of our industry or own practice, we find three stages: birth, innovation and commoditization. Each stage creates its own opportunities and challenges. There are, however, two very important points on the curve—"A" (just prior to the plateau) and "B" (just after the plateau)—where change or action is crucial.



### The Paradox Of Change

Sidorowicz puts it this way: "The obvious desired point at which to start a new cycle is before the plateau (point A), where you have the time, energy and resources to get the new launch through the early stages of exploration and adjustment before the first curve dips downwards. Obvious, yes, but not easy. That is precisely the point that all indicators are pointing to continued growth and success. Everything is fine—the formula works—it would be crazy to tamper with proven success." So why, in an industry like ours, where we are number two in desirable professions, would one dare think about a new profession?

### **The Survey Says...**

In a recent FPA survey,<sup>2</sup> various segments (solo practitioners and ensemble practices) of the marketplace were analyzed.

I have summarized the findings in Exhibit 2, which lead me to believe that as we enter the "next wave" that "Elite Ensembles" and "Virtuoso Solo" practices will dominate the landscape due to their profitability for the principals and marketability as an exit strategy for their owners. While a relatively small number of firms will be the "dominant competitors" and others will simply remain small, the vast majority will and must become "niche competitors."

The question that needs to be asked and answered is, "what niche is going to make me a formidable competitor in the future?" But before answering that question, let's find out what our clients are asking for and what they would like us to look like. US Trust Company completed a survey<sup>4</sup> in 2004 on high-net-worth investors that perhaps will begin to shape the outcome to our "niche" competitor question. The question US Trust posed was, "What are the most important attributes when choosing a financial advisor?" Not surprising to me, the number one answer was "trustworthiness." The answer to their follow up question, "What professional advisor or firm do you believe to be "trustworthy?" helps reveal just who will dominate our profession.

At the top of the list in Exhibit 4 is the CPA. Does this mean that if you are not a CPA that your future is bleak? I think not, but study the rankings. It does indicate that commission sales representatives are at the bottom of the list, and fee-based practitioners are towards the top.

Exhibit 2

### Industry Segmentation 2004 FPA Survey

	Elite Ensembles	Other Ensembles	Virtuoso Solos	Other Solos
<b>AUM</b>	\$174mm	\$21mm	\$55mm	\$20mm
<b>Ave. Revenue</b>	\$1.3mm	\$207K	\$379K	\$175K
<b>Pre-Tax Income / Owner</b>	\$666K	\$104K	\$217K	\$70K
<b>Operating Margin</b>	10.10%	5.30%	20.00%	4.00%
<b>Ave. Client Size</b>	\$919K	\$527K	\$379K	\$263K
<b>Operating Profit / Client</b>	\$1,573	\$200	\$649	\$197
<b>After Tax Income</b>	\$288.8K	\$88.4K	-	-

Exhibit 3<sup>3</sup>

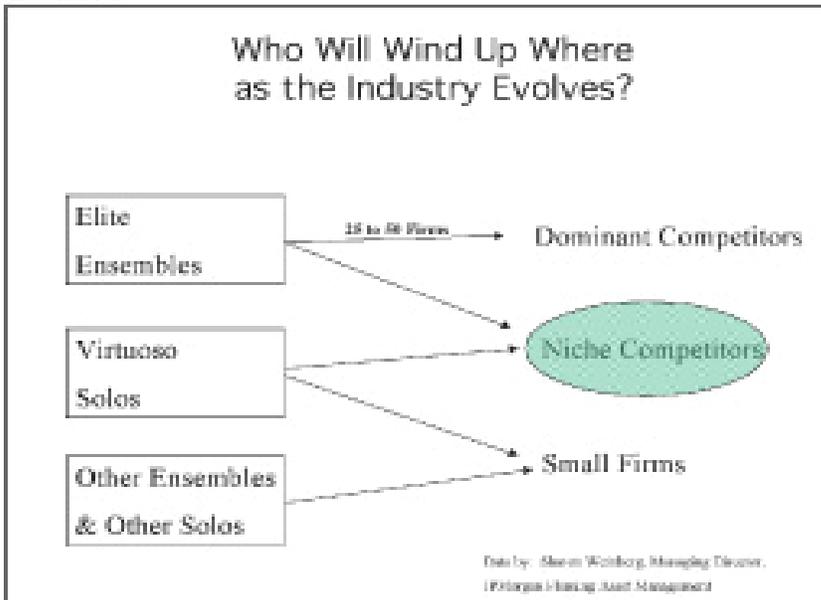


Exhibit 4

### Who Is Trustworthy?

CPA	53%
Private Banker	41%
Fee Based Investment Advisor	38%
Attorney	33%
Financial Planner	32%
Commercial Banker	28%
Investment Banker	25%
Mutual Fund Company	21%
Insurance Company	20%
Stock Brokerage Firm	19%

Survey by US Trust - 2004      \* Percent responding on a 1 - 10 scale, where 10 means "very trustworthy"

### **At The End Of The Day ...**

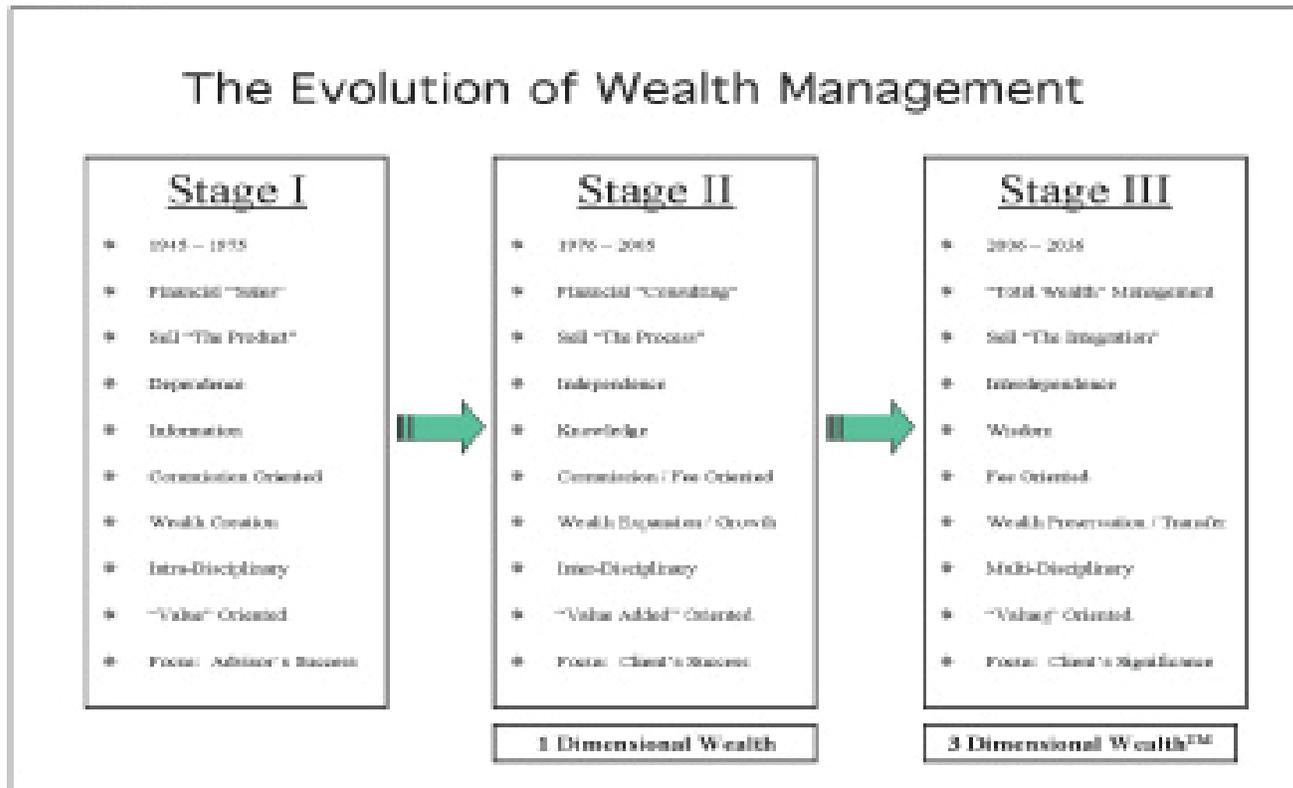
On January 27, 2005, in a presentation by Christopher Barnett of US Trust Institutional to a group of CIMA designees, Barnett's closing slide recapped their survey with a short list of concerns and wants by the affluent investors. My interpretation of his data is summarized in these two words: "family first." Our clients and prospects want to know the answer to these questions. How will terrorism affect my family? How will the rising cost of education affect my family? How will the rising cost in health care and my increased life expectancy impact my family? How will the uncertainty of the long-term return on my investments affect my financial independence and my family? To whom can I turn when seeking someone who will be trustworthy and provide my family the time and attention that they will need in making decisions in the future? Who will help my family manage our "total wealth?"

### **The Evolution Of Wealth Management**

We have arrived at the "critical epoch" in the financial planning industry, the year 2005; the place on the Sigmoid Curve that demands new and better ways to serve our clients. If we do not embrace this opportunity and evolve to the next stage as professional advisors, we run the risk of failing to become that niche competitor in the marketplace. What will this new "Stage III" in our industry look like?

In Stage III of Exhibit 5, the focus will no longer be simply on "Financial Wealth." A broader definition of wealth will be embraced and the integration of one's "total wealth" will be the order of the day. This will require a great deal of interdependence, with multidisciplinary practices capturing the lion's share of this marketplace. Clients will no longer be satisfied with "knowledge" but will demand "wisdom" from their trusted advisors. We will be entering the great "wealth transfer" generation. However, the emphasis will no longer be on solely adding to one's financial wealth, but on wealth preservation. A return to "values" as an integral part of a family's wealth will move to the top of the list for those who seek to grow and perpetuate functional families. The movement towards "fee-based" and away from "commission-based" will escalate, especially as we integrate one's intangible wealth into our "total wealth" plans. Success will take on a new meaning and the quest for significance will be "the road more taken." No longer can our wealth be viewed in only one dimension. We must think and act "three dimensionally" to truly be the professional advisors our clients are looking for.

**Exhibit 5**



### **Stage III—“3 Dimensional Wealth” Manager**

So after 30 years, the time has come to create a new breed of advisor. From “financial salesmen,” to “financial consultants,” to “total wealth” managers; it’s time to launch a new and fresh approach to wealth. I have come to the conclusion that wealth has three specific components: personal, financial and social. Each dimension is a measure of wealth in its own right.

As we all know that water exists in three different and distinct states. But the chemical composition is the same whether it is steam, water or ice. The same is true with wealth. It comes in three different and distinct states—personal, financial and social.

It is only when we begin to view wealth in its three dimensions, or states, that we can become “total wealth” managers. Clients must come to understand that a transfer of capital from their personal financial statement to a charitable trust is not a loss of assets. It is the same asset in a different state. A transfer of capital from one’s personal financial statement to pay for a family vacation is not a reduction of one’s assets, but a transfer from the “money bank” to the “memory bank.” Just as with H<sub>2</sub>O, the molecules are not lost in a

conversion from one state to another; each dimension of our wealth, when transferred from one account to another, does not diminish in value either.

In fact, a transfer from one dimension of your wealth may in fact enhance your wealth. A transfer from your financial to social wealth may create new tax benefits. The creation of a “Family Legacy Manuscript,” designed to preserve and protect your personal wealth, may have more value than the offsetting reduction in your financial statement to pay for it.

### **3 Dimensional Wealth**

What is “3 Dimensional Wealth?” It is the total measurement of one’s life. “3 Dimensional Wealth” will take your clients on a journey that will help them define, articulate and integrate all three aspects of their wealth. By synchronizing the dimensions of your clients’ wealth—that is, shaping and aligning all three dimensions—their final destination will be a more satisfying and fulfilling life with lasting significance.

As financial advisors, we have a significant impact on the whole family. Our advice will affect the relationship between spouses, between parents and children, and between siblings. With sound financial advice, we begin to see how all three dimensions of one’s wealth are impacted. So rather than dabble on the fringes of “total wealth” management, we need to pursue the process that defines, articulates and integrates all three dimensions of one’s wealth. But why do we need to address all three dimensions of one’s wealth? With only 24 hours a day, each dimension is competing for your time and attention.

Unless each of these dimensions is purposefully defined, frustration, confusion and inertia will result and ultimately lead to problems, as illustrated in Exhibit 7.

Exhibit 6

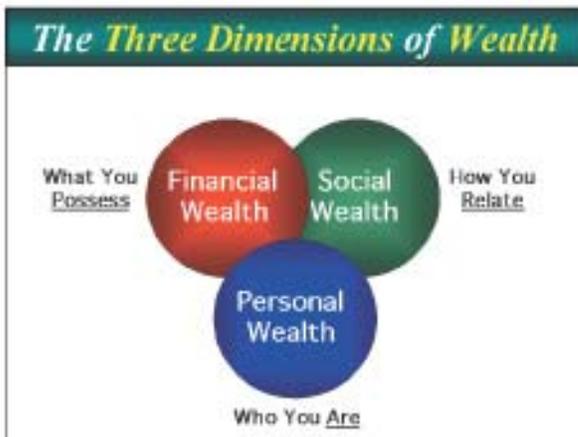
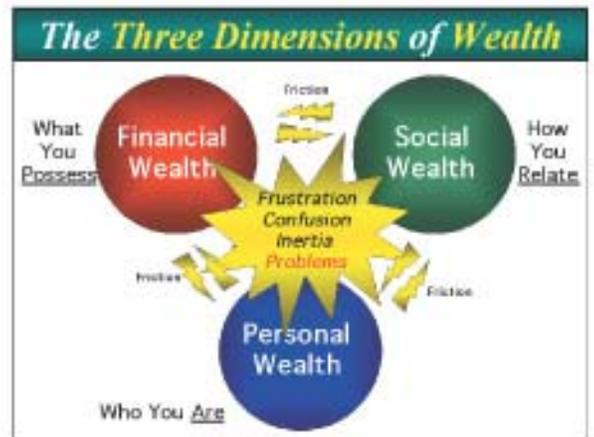


Exhibit 7



### The Next 30 Years ...

Just as when we began our "Stage II" journey in the 1970s, today we need those individuals who will set the standards and create guidelines for others to follow. The need for a professional association to give our new profession credibility is critical. We need the education and curriculum that will broaden the advisor's scope to encompass the totality of one's wealth. Yes, it's déjà vu all over again. And the "critical epoch" has arrived. There is no turning back. But what needs to be done, and what is currently being done to effectuate these changes?

### Integrating The Three Dimensions Of Wealth

"Total wealth" management requires that professional advisors learn techniques that will help clients integrate the 3 dimensions of their wealth. "Personal wealth" will be addressed with client's families, and advisors will be the catalysts for capturing and preserving their family values. The utilization of programs such as "The Family Legacy Manuscript" will become part of the practitioners' tool kit. A manuscript is a comprehensive document in written form, bound for each member of the family. A "typical" manuscript will be in excess of 80 pages and will provide the "credo" for how each family wishes to "carry on" throughout the 21st and into the 22nd century. Passing on "values" will move to the forefront of desirable goals for clients.

Families will discuss their "Social Wealth" as part of their "total wealth" management and philanthropy will become a "way of life." The desire to "make a difference" will be emphasized by advisors and naturally "caught by," rather than "taught to," younger generations. Utilization of "family foundations" will be a tool that will become a

staple for advisors.

Even in the realm of financial planning, “values-based” incentive trusts and “family banks,” will begin to surface. And why not? If there are tools and techniques that can be used to eliminate or avoid potential problems by shaping or modifying desirable behaviors, then let’s introduce them into the process.

Additional education will be required to elevate current one-dimensional financial advisors to “3 Dimensional Wealth Managers.” The blending of financial advising and psychological counseling will move front and center. Behavioral finance will become part of the curriculum for “total wealth” managers.

Multidisciplinary approaches to the “total wealth” management arena will blossom. Due to the vast knowledge and experience that is required to manage the total wealth process, the solo practitioner will have a reduced chance of providing these services. Like-minded groups of professional advisors will formulate so that all aspects (three dimensions) of one’s wealth can be addressed.

### **You Can’t Steer A Parked Car**

In order to navigate through life’s challenges, you have to be in motion. And the “total wealth” management movement is being created as you read this article. Here are just some of the programs that have been established:

- “3 Dimensional Wealth International” ([www.3DWealth.org](http://www.3DWealth.org)) has been created. This association serves those “values-based” professional advisors who wish to become “total wealth” managers. The mission is to provide financial advisors with an on-line/on-demand educational curriculum that adds a new level of psychological counseling to the traditional financial education programs, which exist today. The goal is to help advisors create their “niche,” thus distinguishing themselves from “the pack,” by uniquely qualifying them to counsel their clients through life’s difficult transitions.

- A new professional designation has been established, the “Certified 3 Dimensional Wealth Practitioner” (C3DWP). Professional advisors will earn this designation through successful completion of the educational requirements, along with adherence to the “Code of Ethics.”).

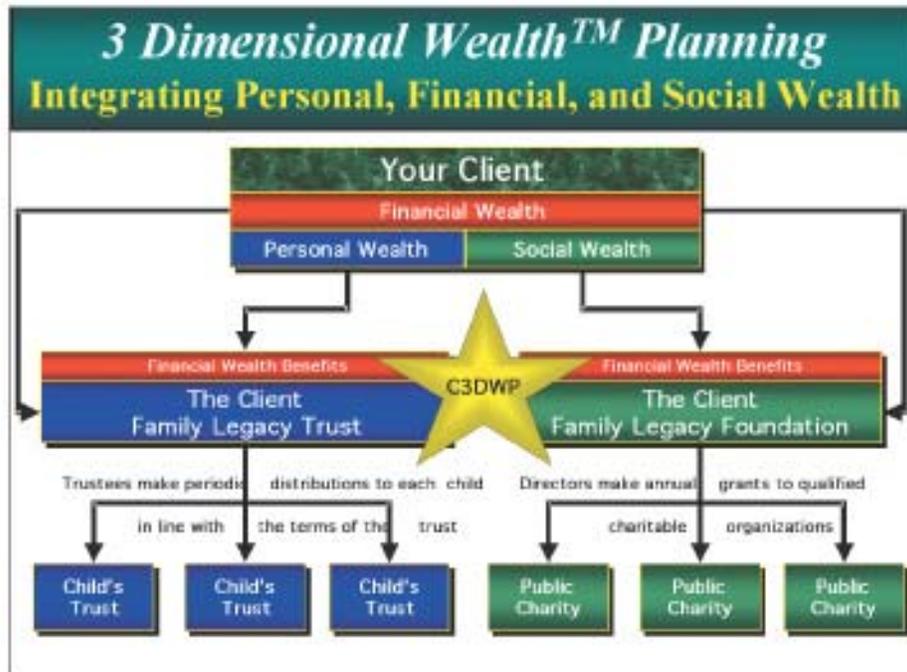
- I believe the future will generate clusters of professional advisors who speak the same “3 dimensional” language. These like-minded advisors will naturally gravitate towards one another and establish “3 Dimensional Wealth Counseling Centers” throughout the world.

- The “3 Dimensional Wealth plan” will become the tool that will

finally bring the client's whole picture into focus, as represented in Exhibit 8.

Advisors will take on a more interesting and meaningful career path as their clients' trustworthy "3 Dimensional Wealth Manager."

Exhibit 8



The purpose of this article is to share with the reader a radical and inspiring concept concerning success and wealth. My goal is to help redefine wealth and create a "balance sheet" for your clients based on the personal, financial and social aspects of their lives. If you challenge your preconceived notion of wealth, it will help you embrace this new, broader-based approach to wealth management. The future of our profession will be different, brighter and more fulfilling if we will elevate our thinking to a new level, or better yet, to a new dimension: "3 Dimensional Wealth."

## ENDNOTES

1. Rick Sidorowicz, *Life Beyond the Sigmoid Curve*, [www.refreshet.com/lpoadoc.html](http://www.refreshet.com/lpoadoc.html)
2. FFA 2004 survey, [www.ffa.net](http://www.ffa.net)
3. Sharon Weinberg, managing director, JPMorgan Fleming Asset Management, [http://www.jp-morgan.com/cm/cs?page-name=Templates/Page/JPMorgan\\_CacheItem&cid=8010369](http://www.jp-morgan.com/cm/cs?page-name=Templates/Page/JPMorgan_CacheItem&cid=8010369)
4. US Trust Institutional, *What the Wealthy Think: The US Trust Annual Survey of Affluent Americans*, [http://www.ustrust.com/public/ustrust/experience\\_ustrust/affluent\\_survey?cmsid=P-446707&hl1=experience\\_ustrust&hl2=affluent\\_survey](http://www.ustrust.com/public/ustrust/experience_ustrust/affluent_survey?cmsid=P-446707&hl1=experience_ustrust&hl2=affluent_survey)

## ACKNOWLEDGEMENTS

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