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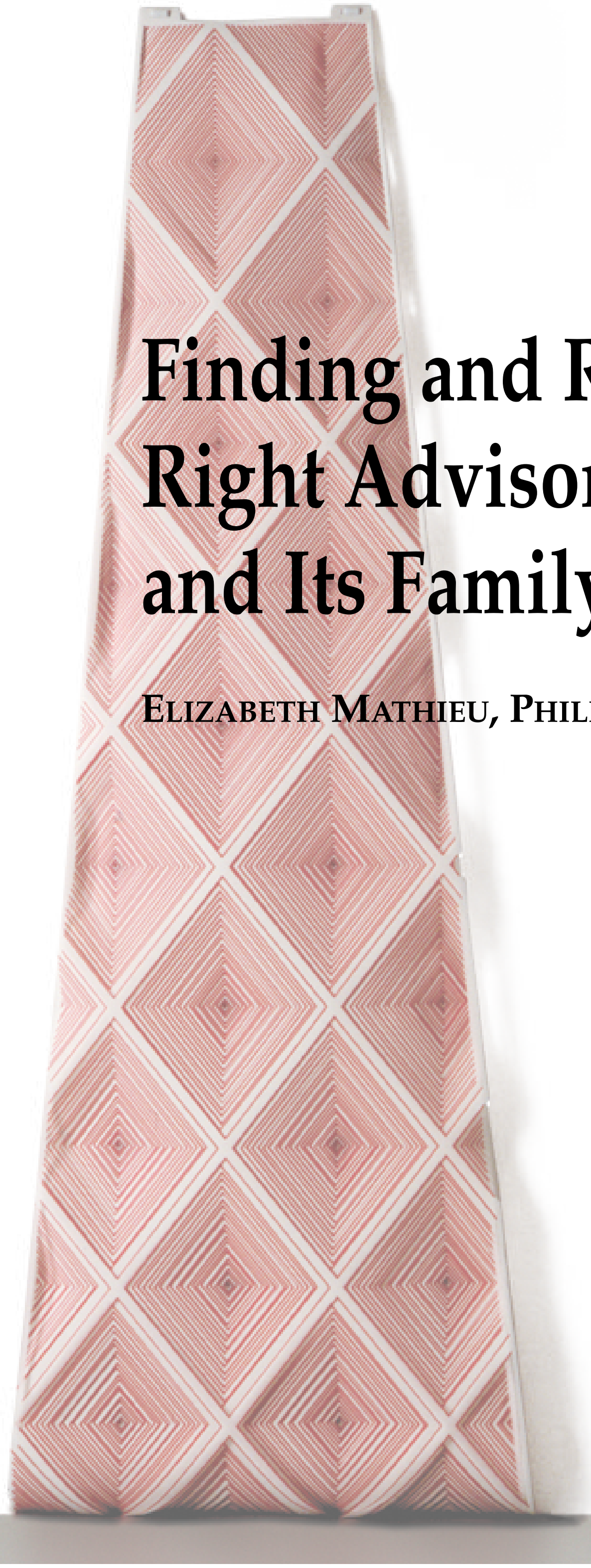
"Paraphrasing the words of Winston Churchill, one might eventually conclude that Modern Portfolio Theory is the worst alternative except all others when it comes to seeking to formulate a strategic asset allocation."

Jean Brunel - Editor's Letter



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Finding and Retaining the Right Advisor for a Family and Its Family Office

ELIZABETH MATHIEU, PHILIP STRASSLER, AND NATASHA PEARL

ELIZABETH MATHIEU
is a partner at SFO Advisor Select, LLC, in Greenwich, CT.
elizabeth.mathieu@sfoadvisorselect.com

PHILIP STRASSLER
is a partner at SFO Advisor Select, LLC, in Greenwich, CT.
philip.strassler@sfoadvisorselect.com

NATASHA PEARL
is a partner at SFO Advisor Select, LLC, in Greenwich, CT.
natasha.pearl@sfoadvisorselect.com

A long-time, trusted family lawyer, the trustee of a family's many dynasty trusts, is on the verge of retiring. She suggests that another lawyer in the firm, her colleague in the trusts and estates practice, take over the trustee responsibilities. *How should the family respond to that suggestion?*

Members of another family have entered into new types of businesses with heavy regulation and specialized tax rules. The family's accountant's bills have grown enormously as he learns about these special rules with which he is not familiar. *Should this family change or add another accountant?*

The CIO of a family office that uses a well-known investment consultant is retiring. A number of family members want to be more directly involved in, and knowledgeable about, the family's financial affairs. However, they find the quarterly meetings unproductive and the investment portfolio statements confusing. *Should the family choose another investment consultant?*

The purpose of this article is to address the key challenges facing a family and its office when a new advisor is needed, in any capacity. It offers a general framework to guide a family and its office in addressing the above-described scenarios or indeed any situation in which a search for a "great" advisor—one who is right for the family and for its family office—is required.

THREE ESSENTIAL FEATURES OF AN EFFECTIVE APPROACH TO FINDING THE RIGHT ADVISOR

It Reflects Each Family's Uniqueness

Single-family offices, although that is certainly not what they were called then, may have begun in both Europe and the U.S. several centuries ago, when wealthy individuals assembled trusted professionals to oversee and administer their wealth while they were traveling (Gray [2004]). The conceptual purpose of a single-family office today remains the same as the conceptual purpose long ago—to preserve and administer a family's wealth. However, achieving that objective has become more and more complex, with an ever-expanding array of global asset classes, exotic alternative investments, risk management algorithms, tax and legal strategies, and so on. At the same time, many families want their offices to support areas beyond their financial investments—aircraft operations, art collections management, medical care, philanthropy, and private staffing, to name just a few. Therefore, the responsibilities of, and uses of outside advisors by, family offices today are as varied as the number of families that have formed these offices.

The variations certainly result to some degree from the increasing complexities in the world in which families and their offices operate, in terms of markets, regulation, economics, demographics, and even fragmented professional advisor specialization. Family members' specific interests and competencies are the most important drivers of the individuality and uniqueness of each family and its office.

Thus the challenge for a family and its family office is understanding what they, as members of a unique group, require in expertise and trusted advice. In this way, they can design a process to ensure that they find the right advisor who can effectively address current and future needs as they evolve over time.

It Is Informed, Focused and Objective

Typically, individuals seek new advisors via "word of mouth"—by obtaining recommendations from other families or from their current advisors, particularly lawyers and accountants. There are three serious risks in this method:

1. *Inappropriateness*. The right advisor for one family with its specific needs and objectives may not be the right advisor for another family with a different set of needs and objectives.
2. *Potential lack of objectivity*. Professional advisors may offer names of other professionals with whom they have worked either within or outside of their firms. While the competence of the referred professional is likely not in question, the group of professionals from which they draw their recommendations is limited by their personal discrete experience. Alternatively, they may offer names of recognized "brands" from which they receive referrals, and therefore with whom they are familiar, but which may not necessarily be a fit for a particular family.
3. *Possible lack of knowledge about what it takes to be a great advisor in a particular field*. If you believe that "it takes one to know one," asking for a referral from someone who does not work in the particular field in which a family is seeking an advisor increases the risk that the family is directed to someone who is not great as measured by his or her peers. David Ogilvy, in his book *Ogilvy on Advertising*, relates the following story: "I once asked Sir Hugh Rigby, Surgeon to King George V, 'What makes a great surgeon?' Sir Hugh replied, 'What makes a great surgeon is that he knows more than other surgeons' " [1985, p. 21]. Arguably, the only way to know who is truly a great surgeon is to be one yourself!

To complicate matters, there are overabundant choices with respect to so many decisions, from the most mundane—such as choosing crackers at the grocery store to go with the cheese,[1] to the more sophisticated, such as finding an investment consultant, a trustee, or an estate manager.

> … [O]ne of the biggest problems for SFOs [single family offices] is "too many choices." SFOs are faced with a growing number of service providers. … Adding to the sheer volume of choices available is the fact that the lines between providers are blurring. (Carroll and Hnatov [2009])

In light of this overabundance, it is vital to establish and rank specific, objective criteria and benchmarks to comparatively evaluate potential advisors. Not doing so risks focusing on the wrong types of advisors from the wide array of options. As a result, a family and its office could either choose the wrong advisor or, potentially worse, never make a decision at all! Indeed, human beings can go to extraordinary measures to avoid making decisions, including analysis paralysis, praying for a miracle, asking someone else to do it or just saying "the devil you know… ."[2]

The Family Is Involved in the Process

If, instead of "asking around" for recommendations, or putting the process of finding an advisor in the hands of its office, a family sits down with its family office's professionals to work out what issue or expertise gap they are trying to solve—and precise requirements for a solution—the results are likely to be much better. Developing a collective view of key criteria and benchmarks for the ideal advisor should result in the family and its office having a significantly better chance of finding the right advisor for the long run—despite the multiplicity of options available. As John Hammond, a well-known decision-making consultant and former Harvard professor, observes:

> Bad decisions can often be traced back to the way the decisions were made—the alternatives were not clearly defined, the right information was not

> collected, the costs and benefits were not accurately weighed.… The best way to avoid all the traps [leading to bad or no decisions] is awareness: forewarned is forearmed. [2006, p. 118]

Furthermore, by being engaged in the process of finding an advisor, the family develops a deeper understanding of the value of the family office and how it cares for the family's welfare. As importantly, being engaged gives the family the opportunity to learn about itself and become more empowered to be in control of its destiny and the legacy it is leaving for future generations.

A family and its office could find that they do not have the expertise to develop criteria and benchmarks or the ability to find an advisor who meets or exceeds the benchmarks. However, if they hire a consultant to assist them, the scope of the consultant's assignment will have a direct bearing on the ultimate success of the search process. As Barbara Hauser relates with respect to a family member's observation about hiring consultants to design a family governance system:

> You can hire a typical consultant who will tell you the time, and then leave. Whenever you can't tell what time it is, you have to pay for him to come back. Or you can hire a more valuable consultant who will come in and will carefully teach you how to build a clock. You will not need that consultant again because you now know how the clock works and you can always tell the time. [2009, p. 52]

BUILDING BLOCKS TO DESIGNING A SELECTION PROCESS

Step 1: Define the Issues and Develop Benchmarks to Evaluate Potential Advisors

Finding a great advisor requires an understanding of the specific expertise that is needed to provide relevant advice. Finding the right fit requires consideration of how the family and its office operate and assurance that all voices are heard in this definition stage. With respect to the latter, some of the key questions are:

1. Do the family and its office have all the facts and the expertise to define the issues and develop criteria with which to evaluate potential new advisors?
2. Is the issue or problem one for the family as a whole or for one or several family members or professionals within the office? In other words, who are the stakeholders who need to define the issues, agree on requirements for a solution, and develop criteria for evaluating potential new advisors?
3. Are there other interrelated issues that need to be addressed first or in conjunction with this part of the process?
4. Would raising the issues and discussing the criteria with the current advisor be useful?

Step 2: Map Out the Research and the Interviews

Once a family and its office understand the attributes that constitute a great advisor for them, the next challenge is to find that person and/or firm. How the search process is conducted will of course reflect on the family and will have implications for privacy and even security.

Additionally, each profession has customary ways in which they are interviewed and evaluated by prospective clients. Investment consultants, corporate custodians, trustees, and multi-family offices, for example, are accustomed to being asked to respond to a formal written request for proposal (RFP), to introduce their key client team members, and to be visited in their offices (a site visit). They are also used to a relatively lengthy process of "dating before getting married" via multiple meetings with the family and the family office.

In contrast, lawyers and accountants are used to oral discussions and interviews as well as a less-involved, shorter, and less formal investigation of them and of their firms. "Dating before getting married" in these cases may require an agreement to a paid limited engagement to evaluate whether the advisor is right for the family.

In all cases, of course, advisors identified as potentially right for the family and its office should be comparatively evaluated. Also, once the choices have been narrowed down to one or two, references must be extensively questioned.

Notwithstanding the different ways in which information about prospective advisors can be gathered, and the necessary specificity of the information that needs to be assembled, the following are some generic questions for comparative evaluation:

- How does the advisor's current, past and projected future focus, in terms of expertise and client type, fit with the family and its goals?
- How impartial can the advisor be?
- Does the advisor communicate in a way that is clear and informative for both the family and its office?
- What is the advisor known for (reputation)?
- Is the advisor comfortable with what the family and its office consider to be good service?
- What is the advisor's fee structure?
- And most importantly, what questions has the advisor asked during the interview process? As Voltaire wrote in *Candide*, "Judge a man by his questions rather than his answers."

CONCLUSION

An approach to engaging a new advisor that is both customized to the needs of the family and rigorous and objective in evaluating potential advisors is critical to the continuing smooth operation of the family office and the satisfaction of the family it serves. Involving the family in designing and executing the search process also has the benefit of creating a learning experience for multiple generations and provides the building blocks for creating deep collective knowledge among family members.

In the last analysis, the interactive questioning process of everyone who is be involved in a new relationship, making no assumptions about the goals of anyone in that relationship, will improve the probability that the family and its office will find the right advisor for them.

ENDNOTES

[1]In *The Paradox of Choice: Why More Is Less*, Barry Schwartz writes, "Scanning the shelves of my local supermarket recently, I found 85 varieties and brands of crackers …" [2003, p. 1].

[2]For example, see Hammond, Keeney, and Raiffa [1998; 2002]; also Hoch [2001].

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