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Choosing a wealth manager: It's like finding a CFO for your personal wealth

Thought Leadership on Wealth Manager Strategies for the CEO presented by Kendall Capital Management.

If you're a CEO, you have a CFO who is charge of your company's finances. He or she undoubtedly has a good skillset for managing a corporate balance sheet. But when it comes to managing a CEO's personal finances and wealth, including retirement planning, a different set of skills is required.

A good wealth manager can be expected to know the rules of financial planning and be able to help his or her clients efficiently and effectively reach their retirement goals. They should be able to illustrate a retirement planning solution for differing retirees, looking at short-term, mid-range and long-term needs and challenges, and be prepared to help clients honestly map out pros and cons of alternative investment strategies to help them meet their retirement goals. The first step clients should expect from their financial planner is a thorough assessment of their current household financial situation.

The financial assessment should look at characteristics of the assets owned by the client. From real estate to stocks, bonds, private equity, venture capital, mutual funds and exchange-traded funds (ETFs), the wealth manager should assess the taxable or non-taxable nature of investment accounts along with the cost basis (i.e. original cost) of all assets owned by the client. The assessment should also determine if assets are in a qualified or non-qualified retirement account such as stock options, non-qualified deferred compensation plans, IRA or Roth IRA, 401(k) or 403(b) plan or a Federal Employees Retirement System (FERS) account, and if pension income is coming from a previous employer.

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Helping retirees gain an understanding of their retirement dreams and goals is the initial challenge. Then, the wealth manager has to guide retirees in recognizing if they have enough money to meet those goals and realize those dreams.

Recently, a CEO let me know that he was planning to retire at the young age of 60 and would be leaving a company he had played a major in growing over the past several years. He had accumulated a bewildering set of qualified and non qualified retirement benefits: stock options, deferred compensations, retirement plan options including partial lump sum payout, annuity payout for his life only, payout for his life and his wife's life (she is age 52), or a payout with an integrated Social Security option. We ran many "what if" scenarios to come up with a combination strategy. We took into account his intention to find another job, his wife's desire to work and potential wedding and college expenses that would be incurred, respectively, by their son and daughter. We recommended a process of using or "cashing in" his non qualified benefits to first meet his income needs over the first 10 years of his retirement, then roll the qualified benefits into a IRA to allow funds to continue to accumulate on a tax deferred basis as long as possible.

Clients should expect a wealth manger to monitor their financial plan moving forward. To have a proper financial plan, not only do you need to have clearly defined goals and objectives but you also need to monitor the markets, interests rates, and tax changes. As we saw so vividly with the fiscal cliff resolution a couple of years ago, a wealth manager must be up to speed on all of the macro forces that could affect the client's financial future.

Additionally, the wealth manager must also take into account personal and family factors affecting the individual, especially health concerns, financial needs of children and grandchildren, and how the retiree intends to deal with them. Monitoring these factors is what helps a financial planner keep a client's financial house in order so that clients can retire comfortably.

For example, a 78 year old retired CEO had approximately $5,000,000 worth of investable assets. With monthly pension and Social Security benefits, he was in the need of an additional $10,000 per month to meet his current monthly living expenses of $15,000. To ensure that this retiree could meet these costs, any potential unexpected healthcare needs, as well as balance his need to maintain long-term purchasing power so that he can even pass an inheritance onto three great-grandchildren, we developed a three-pronged asset allocation. To cover current living expenses for the next four years, we invested 10 – 20% in fixed income securities. To meet mid-term living expenses (five to 10 years out), 30 – 50% was invested in common and preferred stocks. To address expected long-term income needs more than 10 years out, and to maintain purchasing power of the underlying assets to pass wealth on to his children, 20 – 30% was invested in growth and value mutual funds.

In the final analysis, by choosing to work with a fee-only advisor – a professional who does not profit from particular investment products – the client can expect that the wealth manager will have his or her best interests at heart. You wouldn't expect your company's CFO to plug numbers into a computer spreadsheet and spit out a one-size-fits-all solution –and that is not what you should expect from a personal wealth manager, either. It is important to have the expectation that a wealth manager can design an effective retirement planning solution that addresses the retiree's specific 'bucket' issues – putting retirement savings into the right areas and spending money out of the right 'buckets' in order to have sound retirement security.

Clark Kendall, founder of Kendall Capital Management in Rockville, Maryland, has more than 30 years of experience in investment management and wealth management strategies. He is one of a select few professionals in the world who has earned the triple designations of Chartered Financial Analyst (CFA), Certified Financial Planner (CFP) and Accredited Estate Planner(AEP). Kendall focuses on providing independent financial direction to Middle Class Millionaires in and around the greater Washington, D.C. area.

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