



Relation between Practice and Cognitive Capability

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Table of Contents

Foundation Principles..... 1

Advisor Working at Stratum I 3

Advisor Working at Stratum II 4

Advisor Working at Stratum III 5

Advisor Working at Stratum IV..... 7

Advisor Working at Stratum V..... 9

Relation between Practice and Cognitive Capability

Foundation Principles

1. There are things about you that you cannot change
 - Some people are just brighter than others. It's not a matter of how hard they try or what school they went to. Differences between us are fixed at an early age, perhaps at conception. Trying harder will not increase your ability to exercise judgment to handle complexity. Each of us is born into a maturation path that takes us into higher levels of capability at a predictable, unchangeable pace.
 - We also have differences in our motivational architecture. Of course, we can all do things we would rather not do and refrain from doing things we want to do. But aspects of our personal value systems are so ingrained that it is unnatural and unsustainable to go against them. Some people have the drive needed to build and grow a company; they are naturally motivated to build businesses and will consistently apply their abilities towards building as complex a business as they are capable of building. Some people will never persistently do what is needed to grow a business and will fail each time they set out to do it.
2. Capacity for judgment
 - Increases continuously with age (for most people), allowing an integration of a wider variety of factors. There are distinct levels of capacity and they relate to distinct levels of business building and practice development.
3. Full capability
 - Generally, we are motivated to exercise the highest level of judgment we have capacity for. So we generally will seek work that uses our fullest capability.
4. Three types of factors vary along with complexity of one's business
 - Mission. With increasing capacity to integrate we are able to provide a more comprehensive service and we are attracted to working at that level. With maturation, the work of the FA and of the FA's business integrates at a higher level.
 - Structure. With increasing capacity one can gain increasing leverage from the required support system. Building a supportive organization will maximize the FA's earning capacity and job fulfillment. But very few FAs build the organization they need, and the result is that they do too much work that they do not enjoy or that does not require their level of capability. The money they save by not hiring a support staff is gained expensively. An appropriate structure allows the FA to do the work most appropriate for them to do, and to delegate the rest of the work. Also, as the organization becomes more complex requiring a wider integration of factors, the length of the longest task the FA must work on increases, and the FA

Relation between Practice and Cognitive Capability



will find it difficult to devote sufficient work towards that longest task unless there is sufficient organizational support.

- Income ceiling. Each level of complexity of organization has a maximum potential for income generation.

In the following pages, we set out to describe Financial Advisory businesses and practices at five distinct levels of complexity. For each level, we describe the nature of the business, the nature of organizational support required and the income ceiling.

Consider the descriptions of work at each level from three perspectives:

1. Would the work at that level be so simple as to bore you, so complex as to overwhelm you or pose challenges that are just at your level of capability?
2. Would you find it interesting and engaging to do work at that level of complexity?
3. Would you find it interesting and engaging to do the kind of work that must be done at that level of complexity?

Many of us are drawn to do what we believe society expects from us. Some people believe they are expected to grow a large business with a large income. Some believe that all people are equally talented and that it is presumptuous to grow a large business. We suggest you focus on what you can do, what will challenge you and what will give you satisfaction.

Relation between Practice and Cognitive Capability



Advisor Working at Stratum I

1. Type of business

- Defines self as sales person or service provider. “I am selling a product or service.”
- Most likely an employee in a financial advisory firm. Successful as a sole proprietor only if there is little local competition or if the advisor has a very large natural market.
- Works with natural market: those people known by the advisor or people they know. If an employee in a financial advisory firm, an assigned market.
- No real marketing. Prospects are found by referral or cold calling.
- Sales process matches a product to a need. No diagnosis or search for greater opportunities to serve or sell. Find a product that fits.
- Minimal, reactive service. No proactive service.
- No management of the client relationship. Expectation that answering questions and responding to requests will maintain the relationship with the client.

2. Organizational support

- The advisor has no employees and no subordinates and has no need for them.
- FA’s Longest Task. Working one month out to generate enough commission to cover their draw (career) or to meet living expenses and pay their rent and expenses (independent). Appointment pipeline up to three months out.
- Tasks done by FA. Everything: reception, setting up appointments, making sales calls, filing paper work.
- Tasks Delegated. None

3. Revenue

- \$20,000 - \$80,000

Relation between Practice and Cognitive Capability

Advisor Working at Stratum II

1. Type of business

- Primarily product focused with some planning.
- Sole proprietor or junior partner in a team-based ensemble or employee in a financial advisory firm.
- Market is friends, relatives, associates and people they refer. Perhaps a target market.
- Marketing is by referrals and introductions from existing clients, cross selling to existing clients, networking within target market. May do some direct mail, telemarketing, seminars, etc.
- Find the best product for clients considering all of the relevant factors.
- Reactive service, but questions are answered with some analysis. Some consideration of opportunities to cross sell.
- All relationships are reviewed once per year.

2. Organizational support

- At most, an administrative assistant. But at this stage, the FA will likely not yet have hired an assistant. As a result, they must spend more time than they want to on filing and other clerical activities. And they have less time to network, review client relationships and engage in other value-adding activities that will grow the business.
- FA's Longest Task. Generate gross revenue in the year to hit targets/goals. Turn a key prospect into a client in six months. Move towards a desired state of relationship to members of the target market in nine months. Review all client relationships once a year.
- Tasks done by FA. Sales calls, solution design, perhaps prospecting calls, review of client relationships, design and host an event for individuals in the targeted market.
- Tasks Delegated. Reception, filing, sending birthday cards to clients, accounts receivables/payables, some underwriting and client/policy service.

3. Revenue

- \$80,000 – \$120,000

Relation between Practice and Cognitive Capability

Advisor Working at Stratum III

1. Type of business

- Financial, investment, retirement planning for the middle class and small businesses, moving towards implementation. Solidly in a marketing paradigm. Biggest challenge is the shift from the focus on marketing, sales and service towards resource management. Construct a financial, retirement, investment plan. Find the best investment and insurance vehicles for clients, considering all of the relevant factors and future considerations.
- Sole proprietor or partner in a team-based ensemble or associate in a financial advisory firm perhaps with a managerial role.
- Market is members of a targeted professional group, small businesses.
- Marketing process is referrals and introductions from existing clients, cross selling to existing clients, building a presence and recognized role within targeted professional group, small business market, newsletters, seminars, work with collateral professionals.
- Sales process begins to build relationships. The sales meeting is an opportunity not just to sell a product or service but also to demonstrate why the client should stay with the advisor.
- Requests for service are met promptly with value-added suggestions.
- There is a constant search for opportunities to cross sell to existing clients and all relationships are reviewed once per year. Meeting with top clients once or twice a year.
- Experiences are created for clients i.e. Client Appreciation Event, Birthday Lunches, etc.

2. Organizational Support

- One or two clerical assistants, perhaps some specialization of roles to support marketing, sales and client service initiatives. But the FA will frequently try to minimize expenses by having only one clerical assistant, if that. As a result, the assistant is often over worked. There may be a high turnover in that role resulting in the FA having to fill the position and train the new employee. And any needed clerical work beyond what the one assistant can do is either not done or done by the FA. As a result, the FA does a lot of work that does not require their level of capability and spends less time than optimal on building and managing the organization and building relationships with key clients.
- FA's Longest Task. Turn a key prospect into a client in 18 months. Move towards a desired state of relationship to members of the targeted profession in 18 months. Work on where a key client's finances or advisor's own business will be in two years.

Relation between Practice and Cognitive Capability



- Tasks done by FA. Sales calls, high-value prospecting calls, review of client relationships, build a relationship with one or more targeted professional organizations, design of marketing materials, conducting seminars, work with collateral professionals.
- Tasks Delegated. Some prospecting phone calls, appointment setting, reception, filing, sending birthday cards to clients, accounts receivables/payables, looking after small businesses, preparing proposals.

3. Revenue

- \$150,000 - \$250,000

Relation between Practice and Cognitive Capability

Advisor Working at Stratum IV

1. Type of business

- Financial, investment, retirement planning for the upper-middle class and small – medium businesses. Some specialization e.g. estate and retirement planning. Working on implementation. Trusted advisor for top clients. Biggest issue moves from resource management to practice management.
- Sole proprietor or partner in a team-based ensemble or manager in a financial advisory firm.
- Market is members of targeted professional groups, high-income prospects, small – medium businesses.
- Marketing is a full-time delegated function. Everyone in the office may be involved in obtaining introductions from existing clients and cross selling to existing clients, but one person is engaged full-time building a presence and recognized role within targeted professions, writing a newsletter, looking for opportunities to speak, writing pieces for local papers, etc.
- The sales process entails constructing a financial, investment, retirement, estate plan; finding the best investment and insurance vehicles for clients, considering all of the relevant factors and future considerations; helping with financial management, estate and retirement planning. The goal is to be seen as a trusted advisor.
- Client Service includes meeting requests for service promptly with value-added suggestions. Particularly for senior clients, proactive suggestions are made regarding coverage and the client's portfolio. Introductions are made to professionals in other disciplines as is appropriate.
- Client relationship management is a significant concern. Systems are put in place to automate those service aspects that can be automated. Preparations are made to bring in additional capabilities anticipating future needs of clients.

2. Organizational support

- Two or three clerical assistants, perhaps one or more specialists in a variety of areas, a marketing and/or sales assistant, an office manager. But many FAs who are capable of working at this level may only have an administrative assistant or two. Consider the difference it makes simply to have a Marketing Director:
 - The FA can determine the role of marketing in strategy, describe to the Marketing Director the desired brand for the practice and delegate to the Marketing Director the task of bringing the brand to that level

Relation between Practice and Cognitive Capability

- Without a Marketing Director, the FA must make all of the plans and arrangements for marketing: arranging a presence at key events, managing the web site, writing articles and getting them published, determining which events to sponsor, etc.

Without a sufficiently supportive organization, the FA cannot focus on just those tasks that will bring the greatest progress in practice management.

- FA's longest task, going out three to five years: talent pool management for own business, preparing for demographic and industry changes, wooing larger business owners and high net worth individuals to make them clients.
- The FA builds relationships with existing high-end clients to cross-sell and to obtain introductions/recommendations/referrals, does high-value calls to prospective clients, reviews client relationships, builds a relationship with one or more targeted professional organizations, and plans the strategy of the FA's business.
- Tasks delegated include appointment setting, reception, filing, sending birthday cards to clients, accounts receivables/payables, building parts of the business (e.g. related lines of business such as insurance or investment management are delegated, where someone else would be delegated the business building as a task), office management, marketing.

3. Revenue

- \$300,000 - \$1,000,000

Relation between Practice and Cognitive Capability

Advisor Working at Stratum V

1. Type of business

- Financial planning for the upper-middle class and above. Specialization in certain areas, coordinator of family matters with other advisors (e.g. lawyers, accountants). Complete family services including multi-generational planning. Working on enhancing Trusted Advisor status and referrals. Moving into significance and exit strategies. Possibly reframing the business: expanding into multiple branches or organizing as a broker-dealer.
- Family Office relationships, multi-generational depth, senior partners of professional groups, high-income prospects. Working with the client regarding their business interests and client holding companies in the context of the client's financial planning.
- Sole proprietor or senior partner in a team-based ensemble or CEO of a financial advisory firm.
- Service is to construct an integrated, comprehensive financial plan and implement the plan over time. Product placement is secondary to complex problem solving for the client, which may include tax-driven estate planning, and coordination of all related accounting and legal matters.
- Market is upper middle class and above. Possible corporate work.
- Marketing is primarily through introductions. The brand is the main focus with consistent treatment and emphasis within an integrated communications and public relations strategy.
- The entire enterprise may be viewed as focusing on client relationship management.

2. Organizational support

- One or more associates, assistants with assigned functions e.g. marketing support, sales support, client service, etc., possibly business partners who specialize in a variety of areas, possibly heading up specific areas of responsibility with their own staff. A Marketing Director, an Office General Manager, possibly also an internal compliance officer. FAs at this level of capability tend to have a number of people assisting them but they may not put in the appropriate effort to build the organization and its capability. The organization does not add optimal value because the FA does not:
 - ensure that roles are clearly defined and filled with people capable of doing the work in them
 - clarify role relationships so employees know how to coordinate their work
 - clearly specify the tasks employees are to work on

Relation between Practice and Cognitive Capability

- coach employees to improve their work
- hold employees accountable for their work

Work is left undone, is done poorly or is duplicated all leading to inefficiency, ineffectiveness and conflict. At this level, the FA must put significant effort into building an effective organization or they will not maximize their own effectiveness.

- FA's longest task is bringing the business to the vision in five to ten years – building relationships with communities, developing someone to take over the business in seven years, including preparing for demographic and industry changes five to ten years out. Working closely with the next generation for their planning needs over the next five years.
- The FA does strategic planning of own business, develops depth within family clients to multiple generations, coordinates other professionals in the context of the client's comprehensive plan, and builds significance within the community and professional organizations.
- All tasks are delegated except strategic planning and intimate client relationship work.

3. Revenue

- \$1,000,000 - \$5,000,000