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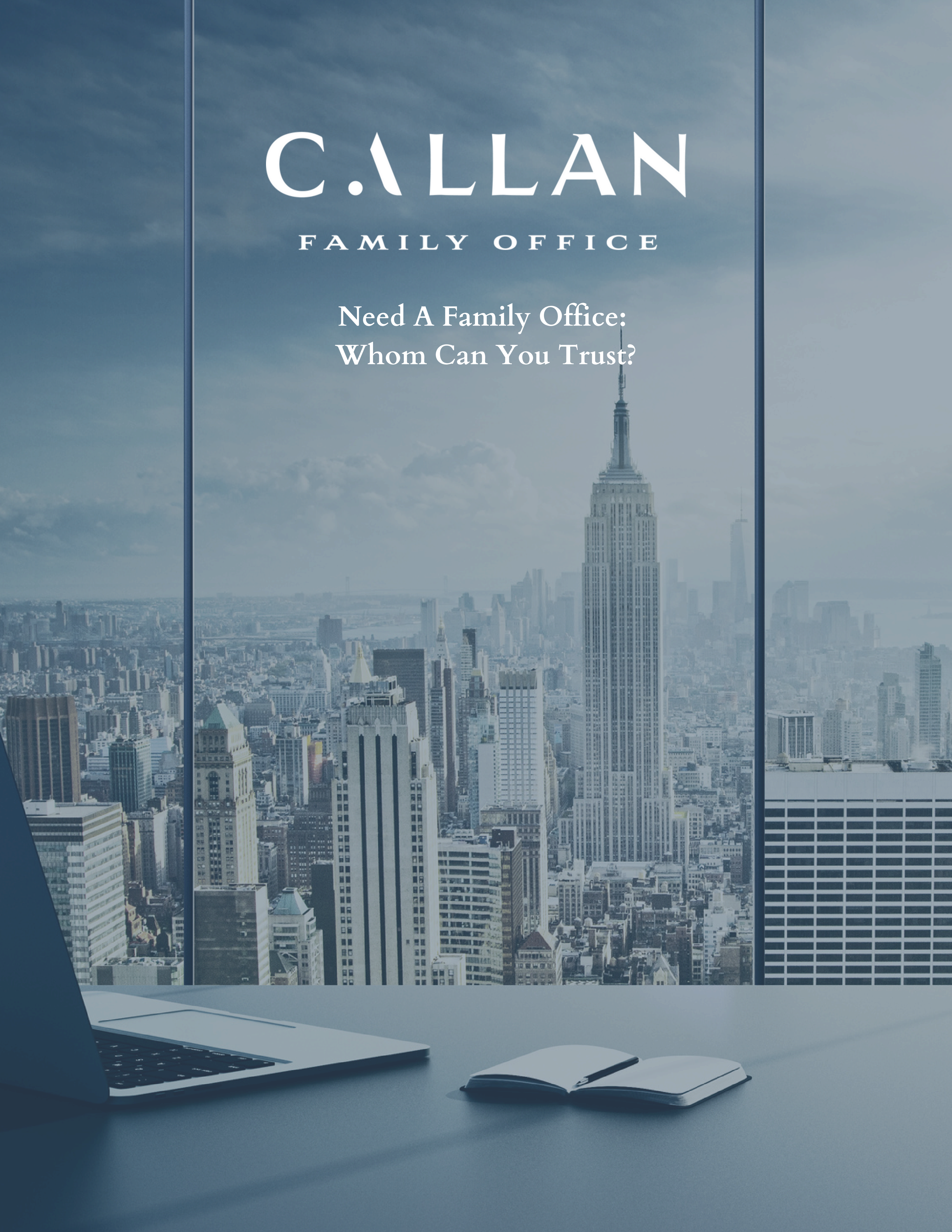
FAMILY OFFICE

Need A Family Office: Whom Can You Trust?



Whom Can You Trust?

The founder who sells a business...the next generation assuming the reins of the family estate...an executive who has been cashed out...and the entertainer who has become popular all have this question in common – *whom can I trust with my fortune?* Trust is the scarcest resource in the financial services industry because you cannot buy or sell it; trust needs to be built from scratch. Before beginning construction, you can determine who is trustworthy and apply rigor to your decision matrix. Here are some ideas.

Objectivity is the defining characteristic under siege by Wall Street to Main Street's detriment. The wealth management industry is flooded with bulge-bracket firms with veiled advice and products that seemingly address your problem while concurrently enhancing their profits. Their schedules are often set to every three months when they report quarterly earnings, but the ultra-affluent can think in terms of decades. So, if you want real objectivity, it's harder to find there. You need to search elsewhere – such as the **private and independent** portion of the industry – which has been ascending since the Financial Crisis. Because objectivity is an imperative, the publicly held titans of yesteryear are expiring to the benefit of a growing and thriving independent channel of advice. A good question to ask: *Who owns this business?* When the answer is something other than the employees or principals owning the firm, then just realize the alignment of interests between you and the firm is challenged, not to mention their objectivity.

Being a **Fiduciary** and serving like a fiduciary is not the same thing. A common industry posture is to replace the name of "broker" with "consultant" within a brokerage firm – they are still salespeople without the same constraints. Actual fiduciaries have a legal obligation to bring undivided loyalty to the client. Any salesperson can have you sign off on the fine print and glide along excess remuneration when you're not looking close enough. By contrast, actual fiduciaries have every incentive to explain all costs to you and be extremely **transparent** about their fees. A good question to ask: *What are all the expenses I'll pay, and how do you get paid?* When you're not exactly sure what you're paying overall, or why, check the business card; you're probably not working with a fiduciary.

Reviewing the **experience** and **credentials** of any provider has become straightforward, yet potential customers will look past these observable facts in favor of a pleasant encounter. Holding charm to one side, consider the relevant work experience and the education or designations accomplished. As the value of the customer grows, so should the professional profile of their providers. At a minimum, working with those with advanced degrees (**MBA, JD,** etc.) and esteemed industry designations (**CFA, CFP, CPA** etc.) comes well ahead of any security licenses. In addition, actual work experience that exceeds 20 years for the wealthiest clients is a must have. A good question to ask: *How many clients like me, and for how long, do you work with?* When the answer sounds something like fewer than 10 clients for less than 10 years, then realize that you're the guinea pig.

> The etymology of 'credit' can be traced to the Latin word of *credere* "to trust, entrust, believe". Credit, and the financial markets more broadly, has been built on trust for generations. Do not discount the importance of an advisory firm that is transparent, objective, and operates as a true fiduciary.

The **resources** of any holistic advisory firm can be stretched when the total assets under their care are less than $5 billion dollars. As the complexity of the client's needs grows, so do the resources and technology demands of the firm become ever necessary. It's a simple case of the haves and have-nots, which is often revealed in the limited reach or service of the provider. **Innovation** is a good hallmark of those firms with sufficient resources to improve today's service and expand tomorrow's ability.

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A good question to ask: *Does the firm have access to world-class, institutional-caliber solutions, and what's a new development at the firm?* When their reach is limited to the answers found at their current custodian, or the last new investment was in an office assistant, then realize the resources might run thin to meet all your needs.

No one person can get the job done. You need a **team of multi-disciplined professionals** who've worked long and hard together for many years. Understanding the **team's history** at the proposed firm has become tantamount to a successful journey ahead. Unfortunately, the industry has become marred with excessive mergers and acquisitions produced by clever financers, leaving firms bereft of any clear identity or consistency. A good question to ask: *How did this firm come about or how have you grown?* When the answer is something other than storied entrepreneurialism of organic growth by a strong team, then you may discover a roll-up organization hoping you won't notice the Frankenstein stitched from within.

Personal credibility is another imperative. Remain leery of the tarnished track records or individuals with a history of broken promises. A good question to ask: *How long have you all worked together and what challenges have you overcome?* A healthy team with a strong commitment to each other gives you every indication of the kind of commitment they're able to make to you.

The **culture, values, and pursuit of excellence** at any firm can be difficult to assess – but you must. It has long been said in business that "culture defeats strategy every time." Any successful organization is built on the culture that defines it. You'll need to spend enough time considering the people, statements, materials, references, client testimonials, and general reputation to get a handle on the culture and values at play within the firm—and they ought to align with your own. The pursuit of excellence is not a given yet bears out over time. A good question to ask: *Do you like working here and are you proud of your firm?* When the answer compares to being better than the last place, then there's mediocrity at play. A better answer leads with a persuasive workplace culture.

A few cautionary words about fraud. Tragically, our headlines continue to be filled with Ponzi schemes, affinity crimes, and bad corporate actors who abscond with client capital. There can be a difference between those who hold the money versus those who give advice or invest the money. Make sure the firms charged with holding the money (i.e. custodians) are large, recognizable, national players, federally supervised, and able to generate statements to you directly. And, when investing into private positions or complex assets, that annual audited financials are produced by recognizable, large, national players (i.e. accounting firms), and are clear of any conflict with the investment.

Finally, it's a people business and you want to **enjoy the people** you work with. Beyond being likeable, you need providers that you can freely share personal details with, and collectively reflect on the challenges you face. Taken together, these quality measures can help form the litmus test to consider the hardest question: *Is this a group I can trust?*

Trust is not a given, it takes time, but built correctly it will compound rewards going forward. And it is viewed within Callan Family Office as the scarce treasure it is.

For more information visit us at:
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