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# Leading the tech revolution

Tech-savvy advisors.

Boomers want them.

Are you one?

If not, here's how to catch up. >>>



Choosing financial planning software for your practice is a daunting task. The abundance of platforms available means you must decide among them without wasting time, effort and the expense of licensing fees in hit-or-miss experiments.

One guiding rule is to follow your own personal style, in terms of analysis, presentation, user-friendliness and level of detail. Are you more of a generalist or an engineer at heart? And is your client base mass affluent, high-net-worth or some combination? Are you more visual or numerical? For instance, some packages produce reams of numerical output, whereas others offer more graphical alternatives that dazzle with attractive pictures.

In this mushrooming field of software choices, a small handful of providers still predominate, in terms of popularity and capabilities. NaviPlan and MoneyGuidePro lead the pack, followed by Money Tree and some of the proprietary broker/dealer systems. Planners often rely on a combination of tools to cover the bases. So here are some key factors to help determine your needs.

## CASH FLOW VERSUS GOALS

Some software applications are better geared to goals, and others to cash flow planning. Cash flows consist of inflows and outflows, including revenues, expenses, taxes, inflation considerations, investments, estate planning and risk management, like insurance. Goals are the end objectives, such as retirement planning, education funding, home ownership or matching a current lifestyle. "Goals programs tend to make more simplified assumptions around the cash flows," says Michael Kitces of Pinnacle Advisory Group in Columbia, Maryland.

Planners distinguish between weighting these two approaches, although in the end most discover that they require some of each. Ultimately your job is to learn and understand your client's goals, to analyze and dissect the cash flows, and then to figure out

the best course of action to ensure that cash flows can dovetail with the goals.

For cash flow planning, EISI's NaviPlan garners most applause (although it comes in two applications, a more goals-based Standard version, and an Extended one for cash flows). Robert Imparato of R.I.C.H Planning Group likes NaviPlan, because "it lets us customize to each client's specific situation, either dialing up or down the software for HNW's with sophisticated issues." Kitces, on the other hand, finds it rather more detailed than he requires, which means it takes longer to input the data. So for his cash flow scenarios, Kitces turns to Money Tree, and for goals planning, to MoneyGuide Pro.

## PRODUCTIVITY

Your client does not care whether you stayed up all night to prepare for a meeting. All that matters to him are results and returns to the bottom line. But for the planner, increased productivity means saving time that can be better spent on offering higher quality services and building the client stable. By minimizing the hours spent on administration, you can focus on client meetings and face-to-face opportunities.

Penny Marlin, a Delray Beach, Fla., advisor, likes the Total Planning System from Money Tree because it generates a wide array of reports with good detail on taxes, growth of assets and the impact of insurance. One can also enter specific mutual funds with a ticker symbol, so the value updates with online connectivity as the price moves. She can share the reports in PDF format with her clients and save them to a computer file. Moreover, after she enters data for a client, she can develop multiple scenarios without repeating the input process. "If you want to change the rate of return, retirement data or any variable, it's easy to do so and compare results," she says.

Enterprise Data Management systems, such as Investigo and Albridge, are Web-

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— Michael Kitces

based programs that enable an advisor to aggregate data across a client's entire set of assets and to consolidate a report. Investigo works in conjunction with other planning applications, such as MoneyGuide Pro to "populate" the software with all the holdings.

"We gather behind-the-scenes information from all the major clearing firms, mutual funds, and brokers like Schwab or Ameritrade," describes co-founder Scott Ferguson. "We also work with a screen scraper for mortgage balances, checking accounts and credit cards, so the advisor needn't worry about typing in hundreds of positions."

Timothy Stauffer, a planner in Fort Wayne, Ind., has used Investigo since its early days, after it was developed in 2001. He is impressed by its ability to aggregate data from hundreds of sources into a client-accessible format. "In the competitive world of independent financial advisors, that gives me an edge," he reports.

## SCENARIOS

With a plethora of alternative routes, you may seek a program to evaluate the relative benefits of choosing the best options over time. Ideally, you should be considering risk, time horizons and goals in a process of forward evaluation, as you create and structure the plan. "Monte Carlo simulations can be a significant factor, and not all programs do it well," Kitces cautions. ►►

Financial Crossing focuses on the liability side, by constructing about 5000 scenarios, out of which it returns the three best plans. The software considers multiple aspects of debt, such as mortgages, home equity, auto, credit card or student loans. "Our robust analytics evaluate the benefit of borrowing against financial assets, like securities-backed lending or margin debt," explains founder and CEO Adrian Nazari.

While you are taking a dynamic approach, never overlook the critical importance of year-long tax loss harvesting. It is a direct way to add alpha, uncorrelated with the market and may even spur clients to entrust you with additional assets to manage. Studies indicate that an effective harvesting program can improve after-tax performance by almost one percent a year, according to Chuck Ross, General Manager of GainsKeeper. "Advisors may find it time consuming, and not very sexy, but it's essential, especially for the highest net worth clients," he insists.

Optimal tax loss harvesting involves looking all year for opportunities to realize losses and minimize capital gains. GainsKeeper examines every tax lot, whether short or long term, as well as wash sales, and helps find the most efficient lot to sell.

## ANALYSIS

Clients who are paying fees for your services will invariably wonder whether you are worth it. That is why you will need some type of tracking system or performance reports, preferably from an objective source, so your clients cannot question where the numbers are coming from. "They can't think you are just making them up," says R.I.C.H.'s Imparato.

Typically, planners turn to Morningstar,



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which provides an overview for either current clients or new prospects, for rates of return on how a portfolio has performed, on a risk-adjusted basis. The product is available free on the Morningstar Web site, although advisors can purchase a more sophisticated version as a monthly subscription.

Every major broker/dealer also offers some sort of proprietary platform for evaluations, administration and monitoring. For instance, at R.I.C.H., the planners use Branch Net, from their broker/dealer LPL. "It's very time efficient, and saves us making mistakes," according to Imparato. While Morningstar calculates month-to-month, LPL pegs its reports from the day an investment is made, so it can capture a more exact picture of rates of return.

For his analysis, Scott Mosley prefers MPI's Stylus Pro, as a comprehensive research and modeling tool. Mosley, an independent investment advisor in Madison, Wis., notes how the product lets him both construct and deconstruct portfolios, showing sources of return and risk in clear, graphical formats. "The analytics allow me to work with products that display normal distributions, and with those that have abnormal levels of skewness and kurtosis."

## CLIENT RELATIONSHIPS

Keeping close to your customers depends on both a personal touch and an automatic

customer relationship management (CRM) system that keeps watch 24/7. You need some application that will enable you to automate all your routine contacts with clients, from birthday greetings to scheduled reviews. "Salesforce.com, a fantastic CRM, is the engine that drives my practice," Mosley says. "It allows me to map a holistic view, automating all my internal work flow processes, so nothing slips through the cracks."

Of course, attention to your flock goes beyond birthday cards. The entire client development cycle begins with prospecting, during the initial period of introduction and discovery. A key element of the job is the education that helps a client participate in the planning process. By simplifying complex subject matter, you can also build trust and encourage more buy-in through shared involvement.

Advisys offers a bundled software package, which includes an extensive educational component of 600 reports on a broad range of topics. Matters range from retirement, estate and education planning, to medical, home ownership and charitable contributions. Ken Kerr, Advisys CEO/CFO, describes the curriculum: "Our modules describe types of products, like whole life, term or universal insurance, and how different policies cover various needs."

One, or more likely a combination, of software tools should provide essential support, and at a relatively modest price. While they will make your job much easier, it could be a mistake to regard them as automatic black boxes. Whatever the software tools you decide on, remember that all the programs are limited to some canned assumptions. Planning is an art as much as a science. At the end of the day, it depends on the judgment and experience of the advisor.

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