



ROCKWOOD WEALTH MANAGEMENT

Legacy Financial Services Institutions versus Today's Wealth Management Firms

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Traditional financial services providers attempting to provide wealth management services to the affluent have struggled to meet the expectations of this group. This is largely due to legacy issues that prevent these firms from providing services in a client-driven manner. Affluent clients do not like to be sold; they seek client-driven solutions. They want to know a *process* is in place to address all of their most important needs—this is quite different from moving them through the sales cycle.

Such issues as commission-based compensation models, proprietary products, high turnover, rampant mergers, biased research, conflicts of interest and dramatic swings in management focus have plagued these *legacy firms*. This has made it nearly impossible to develop the type of strong relationship with a trusted advisor that affluent clients are seeking. Instead, these companies have placed their emphasis on the product development side of the business, not on developing client relationships.

A wealth management firm follows a very different approach than what is typically found in the financial services industry. Focus on understanding the client is paramount. With this understanding in hand, wealth management firms can draw upon all the resources of the industry, as necessary, on their clients' behalf. For example, instead of trying to provide all services in-house in a vertically integrated model, the wealth management firm utilizes an *expert advisory group*. The wealth manager thoroughly understands the client's needs, values and objectives, and then draws upon the resources of this group to provide an array of appropriate options and alternatives. This group consists of the top attorneys, bankers, tax experts, insurance professionals, trust and fiduciary experts, actuaries, retirement plan consultants, M&A specialists and a host of other experts whose services may be needed from time to time.



Wealth managers do not simply refer clients to other professionals; they bring in proven outside resources as needed for strategic advice or services to help the client accomplish a specific objective. The wealth manager still owns the task and is accountable to the client throughout the entire process. Members of this group come from many different firms and corporations based upon their ability to offer the most appropriate service to the client. The advantage of not offering these services in-house is complete

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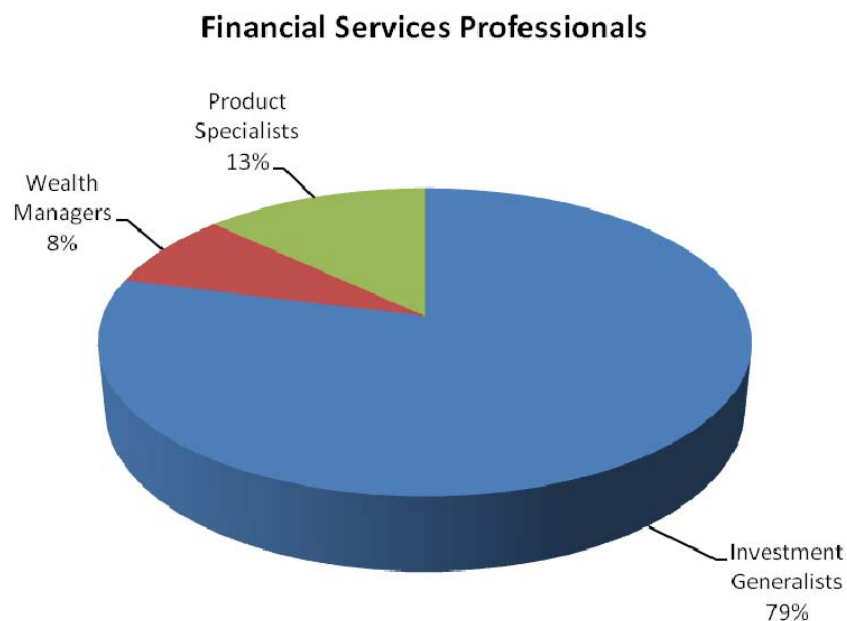
objectivity; the wealth management firm is not required to rationalize the cost of employing these resources but simply draws upon them as necessary.

A wealth management firm uses a holistic approach to understanding and providing solutions to all the major financial challenges of an individual's life. Critical services can be broken down into:

- **Investment Consulting**
- **Advanced Planning** (wealth enhancement, wealth conservation, asset protection and charitable giving)
- **Relationship Management**

Wealth management focuses on understanding clients' goals and crafting customized solutions based upon their needs.

The term "wealth management" is grossly overused in the financial services industry today. The vast majority of financial advisors—77.9 percent, according to a Prince/Geraciotti study—call themselves wealth managers. Yet just 8.4 percent truly fit this description, according to data obtained in a study of 1,177 financial firms. The others act as investment generalists (79.1 percent) or product specialists (12.4 percent).



2004: 1,177 registered representatives.

Source: *Wealth Management* (Wealth Management Press, 2003); Prince & Associates, 2004. Analysis: CEG Worldwide, LLC.

The following case study may help to illustrate the value of this process:

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Case Study

Today's business owners face a complex world full of emerging challenges as they strive toward their personal financial objectives. They need to balance the demands of running a business with the challenge of building wealth independent of the business. For the owners of many small to mid-sized businesses, the old legacy solutions provided by traditional financial services companies are not up to the challenge. Wealth management firms offer a better option.

The clients in this case are a married couple who own a successful business in Pennsylvania. They want to secure their retirement; rebuild their vacation property; protect their assets; and get their finances in order.

The couple had worked closely with a mid-sized bank in the past, but high employee turnover and mediocre bank products had degraded the relationship.

Investment Consulting

The clients' investments were being managed by a portfolio manager at the bank. Like many establishments that cling to antiquated portfolio design, the manager had invested in a handful of US large-cap stocks and a few mutual funds working from the bank's "approved list." The stock portfolio had consistently underperformed the market (S&P 500) for the past seven years. The mutual funds also underperformed their relative benchmark and were characterized by high fees, excessive turnover and very low tax efficiency.

Rockwood Wealth Management established an investment plan that eliminated the uncompensated risk in the portfolio and repositioned it so that it had a much higher probability of meeting the clients' objectives. Studies have shown that most individual investors accept a great deal of uncompensated risk in their portfolios. Attempts to pick "superior stocks" or to "time the market" have not enabled them to achieve the rate of return provided by the capital markets. According to Dr. Jeremy J. Siegel of Wharton, 75 percent of active money managers underperform the broader stock market. Our investment plan helps clients apply a disciplined, Nobel Prize-winning approach that has been proven to optimize investment portfolios over time.

Project Management, Private Banking and Contracts

As we implemented the investment plan, we started to address the clients' other major issues. The clients had purchased a home at the New Jersey Shore more than 20 years ago. After consulting with local real estate experts and architects, we realized that putting an addition onto the current home would not be advisable. The end result would not meet the clients' expectations, and the addition would add little to the resale value of the property. Instead, we decided to demolish the existing home and start from scratch.

We prefer to work with an independent project manager for construction projects of this magnitude. We have found that having an expert act as the client advocate saves the client a significant amount of money

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in the long run and, most important, ensures that the job is done correctly. Well-qualified project managers will ensure that critical elements of jobs are done as expected and that no corners are cut. They will also oversee the budget, review all the bills at each phase of the job and approve payment. In addition to assigning a project manager, there also needs to be a proper contract and a thorough background check on the builder/general contractor.

We became uncomfortable with the first builder the client selected. We did not like the terms of the contract; it required much too much money up front and provided no real protection for the client. Upon further review, the builder did not pass our background check (we discovered that he had served time in federal prison for cheating Cooper Medical Center in Camden out of \$21.8 million over a seven-year time frame).

We found another builder through a referral from the architect. We had secured New Jersey legal counsel for the client to draft a suitable construction contract. We also decided to take advantage of the low cost of money and to take out a mortgage on the current Avalon home in order to finance the construction. A 10/1 ARM was a much cheaper option and much less complicated than a traditional construction loan; the only challenge was finding a bank that was willing to lend with the understanding that their security was soon to be completely demolished. We were able to arrange advantageous financing through a highly regarded private banking group that was accustomed to structuring this type of credit facility. We also made sure that we had an insurance plan in place to cover the home during the course of construction.

Corporate Benefits

Once the rebuilding of the Avalon home was underway, the clients wanted to focus on retirement security. One of the first things we had reviewed was their current company retirement plan(s). Their bank had sold them on their 401(k) plan services a few years back. We had the plan reviewed by independent plan consultants, who highlighted two key points: 1) the current 401(k) plan documents were not updated, so the clients could not take advantage of the current catch-up provisions and put an additional \$5,000 away pre-tax; and 2) the current investment options were commission-based products with front-end sales charges, high turnover and high expense ratios. In addition, the clients faced potential fiduciary liability if their employees made poor investment decisions. We also recognized we had an opportunity for the clients to add an additional retirement plan to their benefit plan and save a substantial amount of money.

While revamping the 401(k), we added a Cash Balance Pension Plan to allow an additional pre-tax contribution of over \$100,000. By combining the two plans, updating the provisions of the 401(k) and changing plan administrators, the clients were able to shelter over \$135,000 of income in these two plans and were offered significantly better portfolio options.

Asset Protection, Risk Management and Estate Planning

Smart use of qualified retirement plans allows us to accomplish several things. It is easier to accumulate retirement savings; clients save on current federal, state and local income taxes because the entire amount

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of the contribution is pre-tax. The funds will grow tax-free until they are distributed, and under the Employee Retirement Income Security Act of 1974 (ERISA) these plans are generally exempt from creditors' claims.

From our work with business owners and professionals, we understand that one of their biggest concerns is the possibility of losing their hard-earned wealth. And this concern increases along with net worth. Studies have shown that nearly 60 percent of individuals with a net worth between \$3 million and \$10 million are very concerned about being sued; due to time and health issues, they express real doubt about being able to replace their wealth. For that reason, we factor asset protection into our risk management and estate planning work.

Asset protection does not mean avoiding responsibility for legitimate debts. But in today's litigious society, smart planning can help you avoid being held hostage by a plaintiff's unreasonable demands and allow you to stay in control of your wealth.

In this case we were able to tie asset protection planning directly into the clients' estate planning, which had not been updated in over seven years. Working with some of the region's top insurance experts and a very highly respected estate planning attorney, we systematically reviewed and updated the clients' homeowners, auto and liability coverage, and eliminated some gaps in coverage. We increased the personal liability umbrella and also converted some term insurance into universal life (the clients would not otherwise be insurable). The insurance trust was made the owner of the policy, thereby removing the \$1 million death benefit from the taxable estate. Careful re-titling of the assets served the dual purpose of making them harder for potential litigants to attach and optimizing the amount of money the clients could pass along estate tax free to their children. Careful use of disclaimer provisions provided the clients and their executors with a great deal of flexibility to manage an ever-changing tax and legal environment in the future. This is a critical aspect of estate planning today.

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Corporate Banking

The final issue we would like to highlight is an example of an ancillary benefit that flows from strengthened relationships as a result of the expert advisory group. The client developed a strong corporate banking relationship. The corporate banker we brought in was able to offer better pricing on their checking and cash management –specifically a 2.5 percent increased yield on their deposits, and doubled their line of credit.

The Wealth Management Firm Advantage

Legacy firms that attempt to resolve everything in house would only be able to offer incomplete solutions to clients like ours. These firms simply do not have the depth or the expertise to address all of the clients' most pressing financial concerns, and their ability to serve clients is limited by the proprietary products and services they offer. Most of the other financial services firms in the industry are also poorly equipped to help clients with all of these issues. In addition to investment consulting, we drew on the expertise of a project manager, a real estate attorney, a private mortgage banker, pension consultants, an actuary, a trust and estates attorney, a high-end property and casualty agent, a life insurance agent, and a corporate bank in order to address these clients' needs. The key to success was that the wealth manager knew the clients well enough and had the experience necessary to identify opportunities and to coordinate the efforts of various experts as needed by the client. This type of coordinated effort simply would not have been possible in the traditional financial services company.

Firm Background and Philosophy

Rockwood Wealth Management is a wealth management firm based in New Hope, Pennsylvania and Annapolis, Maryland. A commitment to a client-centric practice and unwavering integrity in all of our endeavors ensures that our clients' best interests are always our best interests. We specialize in working with high-net worth clients, helping them to streamline their financial affairs while offering high-level expertise for asset management, tax & financial planning, risk management, private banking and estate planning.

Rockwood offers a disciplined and process driven approach to helping our clients accomplish what is most important to them. We provide a meaningful, consistent relationship with an advisor who knows you, your values, your family and what is truly important to you in life.

Fee-Only Independence means that we remain unbiased in our advisor-client relationship as we accept no referral fees or commissions in any aspect of our practice. Fee-Only is more than a description of compensation; it dictates that our interests are naturally aligned with our clients. The result is unbiased financial advice rendered by our advisors who are committed to acting as a fiduciary in a client-centered relationship. Rockwood Wealth Management works hard to preserve our station as an independent firm, void of conflicts of interest, and dedicated to the loyal pursuit of satisfying our clients.

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About the Advisors at Rockwood

Brian D. Booth

Brian D. Booth is the Managing Member of Rockwood Wealth Management. He has twenty years of experience in personal wealth management where he focused exclusively in the areas of asset management, financial and estate planning, private banking, trust and fiduciary matters.

Brian has a Masters of International Business from the Edinburgh Business School, UK and received his Bachelor of Arts from Rutgers University. He has been a CERTIFIED FINANCIAL PLANNER™ (CFP®) practitioner since 1994 and became Certified Trust & Financial Advisor (CTFA) in 1996. He is member of National Association of Personal Financial Advisors (NAPFA), the Philadelphia Estate Planning Council, the Bucks County Estate Planning Council and the Institute of Certified Financial Planners. He is also President Emeritus of the Princeton Committee on Foreign Relations and a member of the Union League of Philadelphia.

John R. Augenblick

John R. Augenblick is committed to the development and growth of Fee-Only comprehensive financial planning as an active member of the National Association of Personal Financial Advisors. With expertise well respected in the community, he writes a finance column for the Bucks County Herald independent newspaper and serves on the board of directors of Team Capital Bank. John works with his local community by volunteering his time as a member of the Finance Committee for the New-Hope Solebury School District.

John graduated from the United States Naval Academy with distinction, earning a degree in Systems Engineering. While teaching engineering at the United States Naval Academy, John earned his MBA at Johns Hopkins University where he focused his studies on portfolio development, investment analysis, and corporate management. John is a CERTIFIED FINANCIAL PLANNER™ practitioner and has earned a Certificate in Financial Planning from Florida State University.

Thaddeus (Ted) N. Toal, Jr.

Ted is a senior partner of Rockwood Wealth Management and runs the Annapolis, MD office. Dissatisfied with the level of client care in the broker-dealer/commission model, Ted became a fierce client advocate and adopted a Fee-Only business model as he launched an independent firm, Toal & Associates. Today he is an active member of the National Association of Personal Financial Advisors and the Institute of Certified Financial Planners.

Ted, a CERTIFIED FINANCIAL PLANNER™ practitioner, graduated from Towson University with a Bachelor of Science degree and received his Certificate in Financial Planning from Florida State University's Center for Professional Development.

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