Investing in the Post-Madoff Era

Planning one's financial future is never an easy task, but with the Bernie Madoff scandal and the recession, has saving for a rainy day become more difficult?

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MANAGING WEALTH AND PLANNING ONE'S FINANCIAL FUTURE HAS NEVER BEEN EASY, AND IT ALMOST ALWAYS GETS HARDER AS ONE'S ASSETS GROW. COMPOUNDING DIFFICULTIES THESE DAYS WHEN SEEKING ASSISTANCE IN THIS REALM IS A STILL WEAK ECONOMY SUBJECT TO NASTY SURPRISES, AND MADOFF-LIKE SCANDALS THAT HAVE OFTEN BROUGHT INTO QUESTION THE VALUE OF EVEN LONG-TRUSTED ADVISORS.

How, then, can one best find the right professionals to help navigate today's murky financial waters? What are the credentials to seek and how can these be verified? What should you understand about fees being charged; about how often to meet with advisors; about the ways in which your own goals and dreams are melded into the way your wealth planning is handled? These are some of the questions and issues addressed in recent conversations with some of the state's top planning professionals.

Sax Macy Fromm's Ralph Heiman says given volatility in the market these days, "you might want a quarterly review of your portfolio," to make sure "it is [still] meeting your goals and accommodating your tolerance risk."

Merrill Lynch Wealth Management's Patricia A. Bell asks new clients whether "they merely want someone to provide brokerage services with their own ideas on how to handle assets, or are [they] seeking a real investing partner?"

Getting Acquainted

Most high income individuals already have one, and often a number of professionals such as accountants and attorneys helping them preserve, transfer and hopefully increase their wealth. Assisting or overseeing these professionals, or replacing those who have failed to meet expectations, however, can be challenging.

What is one of the first things to look for in a new wealth advisor? "Good personal chemistry between advisor and client," says Ralph Heiman, managing director of Sax Macy Fromm's wealth management service group in Clifton. "I would meet with someone new, talk to them, learn about them, get to understand what they want to accomplish and in what time frame."

Credentials, too, are very important, he continues, "but it's not just the titles and licenses. You'll want someone with long experience, satisfied clients, references - a long history of success."

Patricia A. Bell, senior vice president, investments, with Merrill Lynch Wealth Management in Short Hills, elaborates on this get-acquainted theme. "The big thing is to establish communication," she observes. "If you can't communicate, you can't effectively work with a client. I'd ask about [a new client's] family, their business, their positive and negative experiences when investing, what expectations they hope will be met" and whether "they merely want someone to provide brokerage services and have their own ideas on how to handle their assets, or are seeking a real investing partner."

Failure by an advisor to communicate, to adequately stay in touch with clients, can have serious consequences for a relationship. "One reason we were picking up clients [early last year]," notes Michael A. Flower, partner, Financial Principles in Fairfield, "was that their previous advisors were keeping their heads down ... It's in the bad times when communication is most important, when clients most need to hear from you."

Leslie Beck, co-director of the Financial Planning Association in Maplewood, emphasizes that the first meeting between potential clients and advisors "should always be free, and you should be wary of anyone who brings up product sales at this meeting." When it comes to checking a practitioner's background, it might also be wise to look on websites such as the Financial Planning Association's site which links to regulatory bodies so "... you can see if a practitioner has had any troubles or

complaints in the past," according to Beck.

The Madoff Factor

For several months in early 2009, before markets began to recover, "we were getting a great many calls from clients who were very concerned [about the markets]," says Heiman. "They just wanted to flee to safety." He would talk to them about historical movements in the economy, that things recover over time, but the question for many of these clients "was whether there was time for them to recover."

Compounding matters was the fact that the enormous pain that Bernie Madoff's shenanigans caused his own clients had a big ripple effect on the entire financial management industry.

"The Madoff affair has definitely been something we've had to address with both existing and new clients," reports Bradley H. Bofford, another partner at Financial Principles in Fairfield. "We've had to assure them, give them valid reasons why they should trust us. With new clients this is even more of a conversation.

"Madoff has actually helped us pick up clients, though," he continues. "There's been a shift in the financial landscape. In the past, people were more inclined to go with a big name, but that blew up in their faces. Now they are more inclined to look for more unbiased advice ... and make sure the person who has custody of their assets is a person they can trust."

Different Qualifications For Different Clients

No two clients have the same wants and needs, of course. Therefore, in searching for a planner/advisor, the prospective client will likely seek someone with the greatest expertise in areas where his/her greatest needs might lie. Bofford notes that different advisors tend to focus their planning in different areas such as securities, annuities and insurance. Specialists in these areas "all have their shingles out. Each [specialty-oriented advisor] takes different approaches; all have strong points and weaknesses."

Michael A. Flower, of Financial Principles, sees no need to change the long-accepted basic strategy: It is still to be well-diversified, plan to stay in markets for the long term and always personalize to meet your own goals and needs.

Bradley H. Bofford, also of Financial Principles, says, "Clients were very close to losing all faith in markets. That's eased now, but people are still more conservative [than in the past]."

Some planners might even have a basically non-financial focus, according to Beck. "One type of financial planner [for example], a life planner, looks more in depth at goals and aspirations - how different things affect one's whole lifestyle."

Considering the complexity of wealth management issues for those with significant amounts of wealth, it isn't surprising that a team effort is usually required to get things right. Such a team, says Heiman, "needs a quarterback. That's the first person you'll want [to employ]." This person looks over the entire picture and can refer a client to other professionals with highly specialized knowledge, as needed.

Different fee structures are available in the wealth management/financial planning field, and prospective clients should understand how and why these charges are assessed. Some in the field "charge commissions on purchases," says Bofford. "Some charge for doing a financial plan. Some actually invest assets with a fee for this work. Usually there's some combination of these charges." Adds Beck: "There's lots of discussion in the field about different fees. All have pluses and minuses. It really depends on the client's real needs."

Strategies Need Regular Tweaking

Even in tough times, the basic rules of financial planning haven't changed, according to Heiman. "You decide what you hope to accomplish, your goals, the purpose of your planning; each has its own time frame. Once you know this, then you get to what can you save and what you can earn questions.

"As an individual," he goes on, "you must determine your own level of risk, what might keep you up at night. Looking around today, is this a true recovery? Will I recover 100 percent or 75 percent of where

I was? Then decide whether to take greater risk going forward or focus on safety."

Flower also discerned no need to change the long accepted basic strategy. It's still to be well diversified, plan to stay in markets for the long term and always personalize to meet your own goals and needs. However, he notes that "there has been a small shift in asset allocation to a more conservative emphasis."

Leslie Beck, of the Financial Planning Association in Maplewood, says, "There's lots of discussion in the field about different fees. All have pluses and minuses. It really depends on the client's real needs."

Bofford agrees with that latter assessment. "Clients were very close to losing all faith in markets," he says. "That's eased now, but people are still more conservative [than in the past], spreading out their investment model more, seeking more liquidity and safety."

Has a more conservative investing emphasis, which some people are calling the "New Paradigm," changed things all that much? "Not really," says Bell. "We have always looked closely at a client's true risk tolerance. It's something that we don't ask about just once. Everyone is very different in this regard, and we revisit the question often because people's views change due to circumstances."

While basic wealth management strategies may be fairly stable, regular tweaking of a strategy's component parts is a necessity. Putting together an initial financial plan, says Beck, "usually requires three meetings, in person, not on the phone, over a month or two, depending on how quickly a client can provide needed information. Once a plan is in place, you should probably meet

once a year to get the plan refreshed" - more if there are major changes such as a job change, a new family member, or a death in the family.

When it comes to the investing end of a plan, given volatility in markets these days, "you might want a quarterly review of your portfolio," says Heiman, to make sure "it is [still] meeting your goals and accommodating your tolerance for risk." With respect to estate planning, he suggests a review every three years, though more often if there's a need to reflect new family dynamics or major changes in tax laws.

Conclusion

As a nasty confluence of markets and Madoff demonstrated in late 2008, wealth can sometimes vanish in very painful ways. Professionals and business owners must therefore take ever more prudent measures to preserve and enhance what they have worked so hard to accumulate. Fortunately, an excellent group of skilled wealth managers and financial planners in this state exist to help make this possible. NJB

NJSBDC Awarded Contract

The New Jersey Small Business Development Centers' (NJSBDC) Procurement Program is awarded a federal contract through New Jersey Transit in which NJSBDC will audit and review Disadvantaged Business Enterprise (DBE) certification applications for minority, women and other disadvantaged business owners interested in federally-funded procurement opportunities with New Jersey transportation agencies.

The NJSBDC Procurement Program will also be responsible for making recommendations for DBE approvals and denials, and educating and providing technical assistance to business owners interested in obtaining DBE certification. Moreover, the NJSBDC will provide DBE outreach services for the NJ Department of Transportation. The DBE program is intended to foster equal opportunities for qualifying business owners.