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BUSINESS PROFILES

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Adding Value

by Julie Shannon
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To say that Kevin Supka is passionate about his job is an understatement.

Supka is president and CEO of Independent Advisor Group, LLC, (IAG) a Horsham-based firm founded in 1993 that has since grown to 10 offices throughout the Greater Philadelphia Area. Supka and his team provide support and a range of supplemental services to independent financial advisors. In other words, they make sure each advisor has the tools needed to run his or her business in the most efficient and effective way possible. In order to provide the most up-to-date services, Supka and his team stay abreast of the latest market trends, government regulations and other changes that might influence their advisors' approach to practice management.

We spoke with Supka and Carla McCabe, the director of succession planning and practice management for IAG, about the evolution of managing money, how the firm has adapted with the changing times and why both new and experienced financial advisors should come to IAG to help grow their businesses.

How has managing money changed over the years?
Kevin Supka: Money management has changed dramatically over the last five years and it's been on steroids the last 12 to 18 months. If you were to look at value-add benefits in the form of a pyramid, the base of the pyramid was your ability to provide best-in-class research, portfolio management, portfolio strategies, etc. At the top of the pyramid was financial planning. Now the pyramid has been completely inverted with holistic financial planning at the bottom, being the most important part. We are now discussing all financial aspects of a client's life, including things like mortgage rates and terms, car leasing versus car ownership, and, certainly, taxes are a big part of every conversation. At the very top of that pyramid today is portfolio management, which has become commoditized. The new value add is taking a comprehensive approach to a client's financial life, rather than simply managing their money.

What caused this commoditization of portfolio management?
KS: Over the last year and a half a new regulation was introduced to our day-to-day practices, which is the U.S. Department of Labor Fiduciary Rule. What that rule basically says, is that as an advisor, everything should be done with your clients' best interests. As a 25-year professional in this business, I find the fact that this needs to be made a major talking point to be surprising. Of course we do everything in our clients' best interests. Are there instances where people have not? Yes, of course,

but you can find that in any industry. Consequently, this regulatory rule prompted the pyramid inversion. What the rule seeks to do is ensure reasonable costs and expenses for every financial product you can think of—whether it's a mutual fund, electronically traded fund, investment trust or annuity—and the ultimate end result has caused investment management to become commoditized. We are just beginning to see the effects of this occurring.

What might some of those effects be?
KS: The industry is going through a massive movement of trimming cost containment with a discernible focus on charging an advisory fee rather than commissions. For example, I'm going to charge you X amount percent to manage your money and, at the end of the day, we'll surmise that everything I'm recommending that would be put into your portfolio has already had every conceivable cost wrung out of it. So that in the interest of transparency, you would know exactly what it would cost to manage these investments. I'm not saying it's a bad thing, per se, but it's a huge shift for this industry. When you see the evolution of money management over the last five years, what I just described has been a significant part of it.

Does this affect financial advisors who come to you seeking support for their business and clients?
KS: Yes, this has an effect on advisors at both ends of the age spectrum. Older advisors— over age 55 (41 percent of the advisor population1)—are finding that they may need to transition their lifetime work to a fee-based model and, by doing so, feel they will be asked to do "more for less." Some of these advisors may not be open to that amount of change and many may decide to exit the business entirely. The challenge is they will need to find a firm like Independent Advisor Group, LLC to buy their business. IAG is committed to acquiring those businesses and transitioning them to the new advisory model as appropriate—the new paradigm—and having those clients and assets effectively managed by marrying them up with younger advisors who are relatively new to or are coming into the industry and are looking for a book to manage and grow.

In essence, we provide an exit strategy for the older advisor and an entrance or growth strategy for the younger advisor. At the same time, first and foremost, we are making sure that the client—the end user— has his or her needs met as effectively and cost efficiently as possible.

So, if an advisor needs an exit or entrance strategy as you've just described, why should they come to a firm like yours?
Carla McCabe: Having an in-house resource like my department—managed by someone who is dedicated to working with advisors and helping them meet all their needs as they pertain to practice valuations, succession planning and running their business like a business—that's what sets us apart. We use key performance indicators to help advisors look at their business more objectively, and my passion is working with advisors to help them understand what drives value and how they can grow their business. Succession planning is something lacking tremendously within the space with some statistics stating that at least 70 percent of financial advisors lack an emergency succession plan2. Under the new DOL rule, we believe an advisor's planning in this area is needed to genuinely function as a fiduciary for their clients. Succession planning, as a component of effective practice management, is a big focus as we help bridge the gap between older advisors and the next generation.

KS: I was lucky enough to get Carla to sign on and work for us. When an advisor comes here, they truly realize they are managing a business and not just a practice. You need to have a model and a structure in place that's capable of riding through all of the different market scenarios—whether markets are at an all-time high or pulling back. We instill that in the advisors that are affiliated with us. With this new paradigm, you have to be adaptable to change if you are going to survive and thrive. Because we expect the industry to continue to evolve and change, Independent Advisor Group, LLC has positioned itself to thrive, and we welcome conversations with other advisors in search of the same.

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