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STRUCTURAL ADVANTAGES



MULTI- AND VIRTUAL-FAMILY OFFICES LET ADVISORS FOCUS ON TOP CLIENTS.

Technology, complexity and personalization are three common themes of modern life. With the advent of the multi-family office and virtual-family office, wealthy families can benefit from these trends.

The multi-family office (MFO) or virtual-family office (VFO) offers personalized asset management that mitigates against complexity and uses the latest technologies—without incurring the expense of a traditional family office.

A traditional family office can cost upwards of \$1 million to \$5 million per year to maintain, so it's out of reach for most. The MFO or VFO is a great solution for families with a net worth from \$5 million to \$50 million for a VFO; and \$50 million and up for an MFO. Such structures offer all the benefits of a family office, without the expense.

The MFO/VFO concept allows advisors to give their high-net-worth clients the personalized attention and range of resources they desire. But should advisors be thinking about going after this market and adding multi-family-office services to their lineup?

"It's certainly not for everyone," says Thane Stenner of Stenner Investment Partners of Richardson GMP Limited in Vancouver. Stenner runs an MFO practice that works on behalf of approximately 47 families. "Maybe 2% to 3% of advisors should get into the MFO business."

But before discussing whether you should be thinking of developing this expertise, let's look at what a multi-family office is and how it works. The virtual-family office is a version of the multi-family office that relies more heavily on the use of technology to coordinate the team and keep the client informed.

Benefits to clients

The family-office concept was born on the east coast of the U.S. among the old money families. In 1882 John D. Rockefeller established the first family office to manage the family assets and philanthropic endeavours.

A typical family office is comprised of a group of full-time advisors who manage the family's financial affairs, and meet their investment, legal, estate planning, taxation, philanthropy and insurance needs. Some branch out into a myriad of tasks, such as helping the children get into desired schools or taking care of the family's various houses.

The main benefit is obvious: a team of professionals acts in concert on behalf of one client, under the leadership of a chief financial advisor. Together, they create and execute a well-conceived strategy and overall plan, built on the knowledge and trust that close relationships provide.

In today's complex world, a family office provides a highly **continued on page 24**

continued from page 23 personalized approach to wealth management. The qualified professionals on the team have intimate knowledge of the family's preferences and values and are able to provide estate planning services that offer continuity from one generation to the next.

The family office also centralizes information and planning, which provides families with numerous benefits, including:

- » A high level of privacy and confidentiality;
- » Absolute control over their affairs;
- » A greater feeling of security;
- » Simplified financial planning;
- » Reducing duplication of effort and errors;
- » Minimizing taxes and expenses; and
- » The ability to make decisions in a timelier manner.

The advent of the MFO

The family-office model was inspired by the traditional family office, and provides many of the same benefits.

The advantage of a multi-family office is that clients get the same kind of personalized attention and coordinated services, but in a much more cost-effective manner. Essentially, several families share the cost of a family office; and they further save money by picking and choosing which services they would like to leverage, given their unique circumstances and needs.

"The multi-family office makes the client's life easier," says Mark Weber, a principal with the SilverStone Group in Nebraska, which offers family-office services. They call it a holistic approach to high-net-worth management. "We get everyone working together for the benefit of the client. We don't supplant their long-term advisors: we're the quarterback and we get all their advisors at the same table—investment, legal and accounting professionals. We proactively meet once a quarter, and arrive with a formal agenda.

"No one discipline has all the knowledge and expertise," Weber explains. "We park our egos at the door and the team makes financial decisions knowing the full picture."

While Weber says it's usually the old-money families that tend to have a family office or multi-family office, he

"If you're going to deal with really wealthy clients, you have to have way fewer, so that you have the time to go to the depths the relationships require."

does see it as a growing trend for others with significant funds. There are people who want to be "good stewards of their finances," but who don't want or need full-time advisors.

Much of the growing interest in multi-family offices has to do with the supply side, starting with the availability of more viable alternatives and multi-family options in Canada. On the demand side, there's growing realization that running a single-family office is an actual business and entails hiring and managing staff. There are also a lot of technology and compliance-related costs.

The premise the SilverStone Group offers to their clients is that the MFO costs more than they're used to, but far less than a full-time family office. "We offer our services on an hourly basis," he says, "and can therefore bring in other professionals as needed, such as bankers or insurance specialists."

Weber believes the money saved through this coordinated approach—such as getting the best rates from a banker on the team—more than makes up for the fees. He also thinks the family model structure they employ, which brings in independent consultants and professionals from different firms, is superior to an institutional model, where all team members are under one roof. "The best ideas come from people who disagree," he says.

A complete financial perspective

Richard C. Wilson leads the Hedge Fund Group in Portland, Oregon and is managing director of the Family Offices Group, an 8,000-member global networking association of family-office professionals. Wilson markets the multi-family office approach as "the 360-degree financial solution for anyone with more than \$500,000 or \$1 million in assets under management."

He explains that in reality, you are still working with pretty loosely connected advisors of various types, but it is still one step up from working with completely disconnected parties.

"The benefits to clients is having a single party overlooking their total financial exposure and tax environment," Wilson says. "This helps the client take the right risks, and take into account additional considerations, such as their insurance needs."

Wilson feels strongly that once someone passes the \$7 million to \$10 million mark, this type of advice is more than worth paying for. "More and more professionals are realizing that while you still need to work with individual experts, the crossovers between tax efficiency, insurance, financial assets, and real estate increasingly need to be planned out together."

While the benefits to clients are clear, what about the benefits to advisors and

firms who offer, or are planning to offer, these services? “The benefits to the firms providing this model are that, as they increasingly become the go-to source for everything related to finance, they are likely to gain a much larger share of the total wealth of clients,” Wilson says. “It opens up new lines of business and many types of business partnerships that otherwise would not exist in the traditional financial advisory type of business.”

Fewer but deeper relationships

Stenner would agree that offering MFO services is both personally and professionally rewarding. About eight years ago he transitioned from a traditional wealth management practice to a focused multi-family practice, shaving his client roster from 350 to 20. Since then, he’s built up the number of core relationships to 47 Canadian and international families.

“The business model is aligned to fewer, but deeper relationships,” Stenner says. “Our ideal client has a net worth of at least \$10 million, and the average is closer to \$50 million.”

But is the business as rewarding to advisors as it is to clients? Stenner says while the demand for MFO services in Canada has risen significantly, there is a gap in the service models offered, the market is not well developed, competition is fierce and most advisors are not up to the challenge.

“The wealthier segment is looking for more customized services, and the wealth management industry is trying to cater to them and get to that level,” Stenner says. “It’s kind of a cottage industry that’s developing. There’s certainly a demand for these services but the level of expertise that’s required is pretty significant.”

The industry in Canada, though not as developed as it is in the U.S. (where

the market is 10 times the size), is trying to narrow the knowledge gap. For example, the Canadian Securities Institute is offering a Strategic Wealth course to help advisors learn to deal with issues faced by the high-net-worth families.

“Quite candidly, it comes back to the expertise and experience set of the people advising these families,” Stenner says. “It requires a lot of credentials, a lot of experience and a lot of training to deal effectively with these families.”

To develop this service offering, it takes not only training, expertise and experience, but also a huge leap of faith: advisors have to sell off most of their mass affluent clients so they can focus in on the wealthiest segment. “If you’re going to deal with really wealthy clients, you have to have way fewer, so that you have the time to go to the depths the relationships require,” he says.

It took Stenner about five years to properly transition most of his clients to other advisors. “You have to make a very conscious decision to do this. Are there risks? Absolutely! There are no guarantees of success, but the rewards are significant.”

Challenging, stimulating and rewarding

The rewards for Stenner include interesting work and meaningful relationships that make a difference in people’s lives. “I love solving problems. Wealthier people have way more complexity. The work is really challenging, but also very stimulating,” he says. “I got into this business because I wanted to have deeper relationships with my clients. Now, I get to know my clients really well.”

Stenner says the MFO business is tough to get into for several reasons. “It requires a leap of faith, you have to

be willing to live on a leaner income for several years as you transition to a smaller number of clients. You have to be well trained; it’s a lot of work and the competition is fierce. The wealthiest families are on everybody’s radar.

“In order to be good in this space, to operate, retain and grow with your clients and get referrals from them, you have to be serving them exceptionally well. You have to constantly add value with everything you do. You have to be sharp. You have to spend a lot of time with them.”

For advisors who want to get into the family-office business, here’s some specific advice:

- » Acquire the right education and expertise;
- » Make a strategic decision to focus on a certain market segment—be disciplined and realize there are a lot of hurdles to entry and that you may have to make some sacrifices;
- » Develop the right attitude, personality and work habits. Namely, be a good listener, anticipate challenge, think strategically, look at the big picture, acquire a wide range of knowledge and be multi-disciplinary; and
- » Get connected, build a strong network and find the right answers for clients.

“It comes down to making sure your clients know they are well served, and that they know precisely what your capabilities are. When they get to a high level of comfort, they will introduce you to others in a similar wealth category,” Stenner adds.

Clearly, building deep and trusting relationships, based on a high attention to detail, is the key to a successful MFO business.

And though this business is not for every advisor, and not every client needs or wants it, when the right advisor meets the right client, it is definitely the start of a beautiful friendship. ^{AE} **WARD**