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## Frontline News

### Advent Buys Techfi For \$23 Million

Advent Software Inc. has bought Techfi Corp. for \$23 million, in a move that further consolidates its position in the portfolio management market.

Techfi, a privately held firm in which Morningstar was a 23% shareholder, will be absorbed by Advent and its name will eventually disappear. But its products will continue to be sold and marketed by Advent.

Techfi is a three-year-old firm primarily known for its AdvisorMart and Financial Office products. Based in Denver, the company had about 500 customers at the time of the sale.

Advent has no plans to change the pricing on either product. "All products continue going forward," says Irv Lichtenwald, Advent's chief financial officer.

Despite such assurances, the acquisition is one in a series of moves that has some advisors concerned about the choices they are left with in terms of software tools. Earlier in the year, many advisors saw their choices limited when Schwab announced that it would no longer sell its Centerpiece software to advisors who are not Schwab clients. The Advent acquisition will result in the elimination of a competitor that many advisors valued as a lower-cost alternative to Advent's product line.

"I would think a lot of advisors can't be happy about this," says Joel Bruckenstein, a Morningstar technology columnist who follows the advisor software market.

After the Centerpiece announcement, he says, "to most people's minds, Techfi was the only viable alternative left. Now, that alternative is gone." One advisor compared the transaction to an oil company giant acquiring an alternative energy provider.

Advent officials, meanwhile, portrayed their acquisition as a way of rounding out their product lines to also encompass the middle and lower tiers of the market. Techfi's product line, Lichtenwald says, will be "a lower-priced alternative for those who do not need the complete functionality of other Advent offerings."

The acquisition also is acting as an impetus for pricing changes that will cut across all of Advent's products. Lichtenwald says Advent for the first time will offer its customers the option of buying term instead of perpetual licenses on its products.

Term licenses offer lower upfront costs than perpetual licenses, but can cost customers more over the long run because of recurring fees. That's why Advent expects a short-term revenue loss with the change, followed by a jump in total revenues of \$8 million to \$9 million in 2003, Lichtenwald says.

### **CRM And Schwab Split Over Junxure**

Advisors who use Junxure client-management software should brace for some potentially confusing changes in the coming months. That's because there's been a break between Charles Schwab, the company that's been marketing and selling the software for the past year-and-a-half, and CRM Software Inc., which developed the product.

As a result, each of the companies will be selling their own versions of the software. CRM, however, will sell its version as Junxure-I, with the last letter standing for "independent."

"We are marketing it to any planner that wants it," says CRM President Ken Golding. The issue of independence, as it turns out, is at the center of what's driving the changes.

The two companies split when Schwab decided earlier this year that it will limit sales of Junxure to advisor clients of Schwab—the same policy Schwab adopted with its Centerpiece portfolio management software.

But CRM, which received a percentage of Junxure sales, wanted to continue selling to the broad market.

The difference in philosophies led in April to an agreement in which Schwab, through its subsidiary Performance Technologies Inc., will retain rights to use the Junxure source code and to continue supporting the 1,300 customers who use the software. Schwab also retains the right to use the Junxure name for six months.

CRM, meanwhile, will take back full rights to the software and the Junxure name and do its own sales and marketing. Current users of Junxure may also renew their licenses with CRM if they wish, Golding

says.

The prices for both versions currently are identical, he says.

"It depends on whether you want to go with Schwab and their support mechanisms or with the creators of the program," he says.

### **FPA Paper Scrutinizes Regulation Of Advisors**

Should there be drastic changes in the way financial planners are regulated, or is the status quo good enough? In hopes of stimulating discussion of the issue, the Financial Planning Association (FPA) has released a white paper that scrutinizes whether changes are warranted in how the financial planning profession is regulated.

The paper notes that contrary to popular belief, planners are heavily regulated in a piecemeal fashion. The irony, however, is that there are no clear regulations covering the core of their work—financial planning.

"They'd certainly like to see less regulation," says Duane Thompson, the FPA's director of government relations, of the organization's membership. "But if they could at least see regulation that fits what they do, that would resonate with a lot of them."

The 140-page white paper, written by Cornell University law professor Jonathan Macey, lays out six alternatives for the regulation of financial planning. The options include maintaining the status quo and establishing a self-regulatory organization akin to the National Association of Securities Dealers (NASD).

Another approach, according to the paper, is a "consumer protection-litigation model" in which consumers would be encouraged to file lawsuits against uncertified and incompetent individuals representing themselves as planners.

"The goal of a litigation strategy that would seek to hold untrained and uncertified planners liable is not to create additional litigation risk for financial planners," writes Macey. "The goal, rather, is to provide incentives for all those who hold themselves out as providing financial planning services to obtain professional recognition through certification."

The paper says other strategies could include stricter qualifications for investment advisor representatives, professional licensing on a state level or interstate compacts, which could theoretically allow more regulation by states.

### **Guide Planned For Disaster Victims**

Two non-profit groups are teaming together to help disaster victims cope with their financial losses.

In a venture they say was partly inspired by the plight of September 11 victims, the National Endowment for Financial Education (NEFE) and the American Institute of Certified Public Accountants (AICPA) say they will publish a broad-based guide for victims in late summer.

The publication, *Disaster Recovery: A Guide to Financial Issues*, will cover a broad array of topics, including relief funds and charitable assistance, life and disability insurance, credit and debt-elimination issues and the tax impact of settlements and assistance. The guide also will place a heavy focus on the financial consequences resulting from the death of a loved one, the groups say.

"For people who've suffered because of a disaster, the right guidance is even more critical" than usual, says Anat Kendal, the AICPA's director of planning.

The guide will expand on publications that each of the organizations has already produced. In 1997, NEFE issued *After Disaster Strikes: How to Recover Financially from a Natural Disaster* in collaboration with the American Red Cross and the Federal Emergency Management Agency. The AICPA recently published *Regaining Financial Balance* specifically for the September 11 victims and their families.

### **LPL Names Casady AS COO**

LPL Financial Services, the nation's largest independent brokerage, appointed Mark Casady as its chief operating officer. Casady previously had served as head of the mutual fund group at Deutsche/Scudder Asset Management.

In his new position, Casady will report directly to the San Diego-based firm's chairman and CEO, Todd Robinson, and its president, David Butterfield. Casady will add depth to the management team at LPL at a time when it is preparing to go public, probably in 2004. Earlier this year, the Securities and Exchange Commission approved the firm's stock purchase plan for employees and reps.

Casady should prove to be especially valuable in the asset-management arena, a business that LPL emphasized long before most other independent broker-dealers realized its potential. Its reps now have about \$16 billion in assets under management. "With broad experience and extensive knowledge of the industry, Mark's skill set complements that of our existing management group," Robinson says.

The firm made a transition to self-clearing several years ago and has invested heavily in technology, which should enhance the scalability of

its asset management platform.

### **Study Shows Advisors Want To Build Strategic Alliances**

With advisors facing a more difficult economic climate, many of them are looking to increase their business by targeting affluent clients. And the way many advisors hope to achieve that goal is by building partnerships with other professionals, according to a new survey.

The survey by CEG Worldwide, based in New York, shows financial advisors now are less interested in receiving training in sales and marketing and more interested in learning how to build strategic partnerships.

In all of the firm's previous research, the most sought-after marketing support from financial institutions consistently has been advanced sales and marketing training. For the first time, that interest was pushed into second place by a desire for assistance in building joint ventures with other professionals. In the study conducted in May of 1,117 financial advisors, 81.5% said they were looking for this type of support.

The shift coincides with an interest by more CPAs to offer financial services. A January 2002 study by CEG Worldwide shows less than 20% of CPAs currently offer such services, but nearly half expect to offer them in roughly three years.

John Bowen, CEO of CEG Worldwide, says advisory businesses have enjoyed very good growth rates, but the more difficult economic climate has made many realize they won't get those results by continuing business as usual. "One of the things many advisors are looking at is, "Why don't I look up market?" he says.

But marketing to the very affluent is not easy. The best way to reach them is through relationship marketing, Bowen says, and its most effective form happens when delighted clients tell their affluent friends about an advisor's services. The next-best method is referrals from other professionals, he adds.

Joint ventures with financial advisors will be one of the most attractive ways for CPAs to enter the advisory business because they can share risk and don't have to commit as much as they would need to in starting a new business, Bowen maintains.

### **New Lipper Index Tracks Fund Holdings**

A new index is offering investors a peek behind performance numbers by tracking changes in mutual fund holdings. The new line of indices has been started by Lipper, and is called the Holdings-Based Indices.

It consists of 19 individual indexes, which are divided among 13 diversified equity categories, such as large-cap growth and small-cap value, and six sector categories, including health and biotech and science and technology.

The company describes the indices as "best for analyzing a fund's relative weightings and determining the sectors and stocks that have driven its performance." Up and running since January, the indexes collect fund holding data on a monthly basis, and the components and weightings of each index are adjusted to reflect the new fund portfolios.

The indices provide an aggregate view of the holdings, including average cash holdings and holding breakdowns based on sector, capitalization and country.

The indices, for example, would allow investors to assess how much style drift is taking place within each equity sector. It also provides asset managers with a new tool for performance attribution, says Jim Shirley, a Lipper research analyst. "The fund companies themselves are interested in how their portfolios look against the funds they're competing against for assets," Shirley says.

The diversified equity fund indices currently contain data going back to December 31, 1999, he says. The sector categories date to December 31, 2000.

### **Averitt Sees Significant Growth For RIA Unit**

Within a few weeks of becoming president and CEO of Raymond James Financial Services (RJFS), Richard Averitt is looking at ways to build the firm's nascent investment advisor division. As part of the plan, RJFS is adding a no-transaction-fee platform for registered investment advisors.

With only a dozen offices and about \$1 billion in assets, the investment advisor division is the fastest-growing part of RJFS. However, the firm, after a little more than a year in operation, has managed to persuade several prominent advisors, including Karen Spero of Spero-Smith Investment Advisers in Cleveland, to move some of her clients' \$250 million in assets to RJFS.

"I was very impressed with their technology at Raymond James, and I can see their commitment from the top down," says Spero, who adds she also will continue to use Schwab Institutional as a custodian. "[RJFS is] an experienced organization that knows the lay of the land. By getting there early, we can have some influence over their development."

Averitt says that there will be changes, like the expansion of the investment advisor platform. "I've been here for 18 years, and I wasn't

brought in here to fix something,' he says. "The whole point is to hold onto our values and still be open to change."

## **Dow Jones Newswires**

### **CFP Exam Focusing More On Baby-Boomer Issues**

The barriers have gotten higher for those thinking about getting a CFP designation.

Chalk it up to a fast-changing financial services industry. As baby boomers are aging, issues becoming an integral part of the planning process include debt management, planning liability, emergency fund reserves and statistical modeling.

These topics are getting more emphasis on the certification exam, the two-day, 10-hour test given three times a year by the CFP Board of Standards. Also, these issues are carrying more weight in accredited financial planning programs at 142 U.S. universities, according to the board.

Changes to the CFP exam are based on information culled from an industry job analysis conducted every few years, says board spokesman Lance Ritchlin. Data from the most recent survey, done in 1999, provided the basis for reworking the upcoming July exam.

Last year, the CFP exam was administered 5,360 times to first-time and repeat applicants, according to Ritchlin. That's a 17% rise from four years ago, when 4,591 tests were given.

Debt, including home equity loan, bankruptcy and consumer protection laws, is getting more emphasis on the test these days because baby boomers are much more likely than their parents to rack up high levels of debt and to have multiple credit cards. The average consumer between 40 and 65 years old had about \$16,000 in unsecured debt in 2001, a 7% rise from just three years before, according to Amerix, a Columbia, Md., company that provides technology to nonprofit credit-counseling agencies.

More questions on the CFP exam are based on planners' liability because the industry is increasingly held responsible for advice and investment management in a depressed market. This makes it crucial that financial planners know their vulnerabilities and protect themselves by putting recommendations in writing when possible.

The exam also includes more questions on emergency fund reserves and statistical modeling. Emergency funds are becoming more important as companies announce layoffs and the economy continues to stumble, but many families don't have one, according to the Financial Planning

Association in Atlanta. Statistical modeling that relies on quantitative software-based analyses is becoming more popular among financial advisors, who are using some of these simulations to project whether clients will have enough money for retirement.

### **Bearish Market, Conflicts Are Fueling Fee-Only Trend**

Scrutiny of conflicts of interest on Wall Street is leading more financial planners to rethink how they charge clients for advice and investment research. Amid a bearish market and intolerance for conflicts in the financial industry, planners are focusing on ways to stabilize income streams and eliminate some of the biases inherent in financial planning.

The result: More planners are shifting away from a commission-based approach to a fee-only method. It's a movement that has been inching along for years, but anecdotal evidence suggests that the pace of adoption is accelerating as examination of financial services firms increases.

"It's more of an evolution than a revolution," says Matt McGinness, a senior analyst at Cerulli Associates, a Boston consulting firm that focuses on the financial services industry. "Fees change gradually because of market forces."

In another sign of change, some advisors are moving toward charging a retainer for their services after the depressed market of the past few years decimated investment portfolios and cut individual fees to those who charged under the assets-under-management model. But even the fee-only, assets-under-management approach doesn't necessarily guarantee that the financial planner will be working in the client's best interests.

Conflicts can arise when clients decide to decrease investable assets in their portfolios. "You might be more hesitant to recommend that a client pay off a loan or give away money," says Rob Moody, a CFP and president of Compass Advisors LLC in Atlanta. "When your compensation as an advisor is based on a percentage of assets under management, it creates an incentive to advise clients to invest more aggressively to reach their goals."

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