



PRIVATE TRUST GROUP OF AMERICA

A Strategic Resourcing Partner for Wealth Management Professionals

SPRING 2006

Sharing Ideas ~ Building RelationshipsSM

VOLUME VI ISSUE 1

Change is the incubator for success. We can embrace change and be energized by the opportunity, or we can shy away from it and become paralyzed by inaction.

Topics of Discussion

Managing Wealth Means Managing Expectations 1

Small Accounts Can Lead to Big Profits 1

New Hampshire Bill Promotes New Type of Depository Trust Company 2

Investment Policy Statement—Don't Invest Clients' Funds Without One 4

Managing Wealth Means Managing Expectations

The following excerpts were taken from a recent article written by PTG's staff. For a copy of the complete article, please call Sandi Lotito at 978-463-9099.

What is Wealth Management?

In its purest form, wealth management can be described as an integrated process of managing the accumulated economic value of one's possessions and liabilities during his/her lifetime, and assisting with the creation of a succession plan to take effect in the event of disability or upon death. Unfortunately, the term has been applied so often to the individual disciplines within that integrated process that it has lost some of its true meaning.

A wealth management professional's role is of great consequence to the overall economic success of the family unit – in much the same way

a good CEO guides the economic value and success of a business enterprise. This means providing expertise (either directly or by coordi-

“Managing expectations will uncover early warning signs that could mean the difference between working with a happy client and losing an unhappy one.”

nating the collective efforts of other specialized professionals) in such areas as asset protection and risk management; investment management; cash flow; debt management; tax; retirement and estate planning.

In essence, wealth management is a comprehensive plan that protects the family unit's accumulated economic wealth from neglect and

other eroding forces that threaten its financial independence and security. And the wealth management professional is the family banker, lawyer, accountant or other trusted advisor coordinating and overseeing the plan, and keeping a thoughtful mind focused on the future.

Managing Expectations

Managing expectations is an ongoing process that begins with a clear understanding of stated institutional objectives, without which services will not be uniform; professionals within the organization will not have a clear sense of purpose; and clients will not be well served.

Managing expectations also requires the careful completion of all documents and agreements, which gives the

(Continued on Page 2)

Small Accounts Can Lead to Big Profits

The definition of a small account varies from institution to institution, but the dilemma of managing them efficiently and profitably is quite uniform. Many of us accept small accounts as a necessary cost of doing business, but we often lack the creativity or the initiative to do much with them.

We have found one institution that has turned its small accounts into a remarkable success story by building a

program that resulted in: 1.) Better utilization of staff and services; 2.) Reduced costs associated with account servicing; 3.) Increased profitability on smaller accounts; and, 4.) Increased visibility with high net worth clients.

Rogean B. Makowski, Senior Vice President & Trust Officer for The Washington Trust Company's Wealth Management Group, recently spoke about "Re-Engineering the Small Ac-

count Relationship to Increase Profitability" at the American Bankers Association Wealth Management & Trust Conference. Ms. Makowski has graciously agreed to allow us to share some of her ideas and comments about how she and Washington Trust were able to achieve a remarkable turnaround in the way they manage small account relationships.

(Continued on Page 3)

Private Trust Group of America 29 Water Street Newburyport, MA 01950

Tel. 978.463.9099 Fax 978.463.9499 info@privatetrustgroup.com www.privatetrustgroup.com

Sandi Lotito Founder & General Manager

David Hemmerling Client Relationship Manager

Maria Stergiopoulos Client Relationship Manager

Les Revzon Compliance & Conversions

Managing Wealth Means Managing Expectations (Continued from Page 1)

client a sense of purpose and serves as an important first step in building long-term client relationships.

Regardless of where a client falls on the wealth management spectrum, some agreements are necessary to protect both the client and the wealth management professional and his/her organization. Many are mandated by banking and investment regulators, but one of the most important agreements, an Investment Policy Statement, is completely optional. Whether managing financial assets directly or overseeing that relationship, every client should sign an Investment Policy Statement. (See accompanying article — Page 4.)

All of these documents and agreements, taken as a whole, represent the basic building blocks upon which the relationship will be measured and, ultimately, whether or not it succeeds. But, as essential as they are in setting standards from which to measure success, they must be accompanied by ongoing communications that continually challenge the assumptions and test the results.

Without written and well-understood institutional objectives, the organization will lose its focus and drift outside its intended market. The drift is rarely on the upside; it invariably occurs on the downside, resulting in

the organization accepting business that it cannot service profitably.

Similarly, client objectives must be clearly understood in order to effectively manage individual client relationships. This begins by demonstrating an ability to carefully listen to a client's questions, concerns and problems to get a sense of what is important to him/her. These candid conversations will often expose the root cause of his/her dissatisfaction with a current provider. If the root cause is something that can be overcome, it gives you a decided advantage by focusing on how you can help. Conversely, it could just as easily uncover

reasons for not accepting the business.

Managing expectations will uncover early warning signs that could mean the difference between working with a happy client and losing an unhappy one. And, as everyone knows, there is no more compelling reason for a new client to give you his/her business than a recommendation from a happy one.

“The greatest good you can do for another is not just to share your riches, but to reveal to him his own.”

— Benjamin Disraeli

New Hampshire Bill Promotes New Type of Non-Depository Trust Company

The following excerpts are from an article written by Sheila K. Christie, Esq., Partner and T & E Practice Group Leader for the Portland, Maine law firm of Pierce Atwood LLP. Sheila is licensed to practice law in New Hampshire, Maine, Kentucky and Ohio. She works out of the Portsmouth, NH office and can be reached at 603-373-2046. Please call her if you would like a complete copy of her article.

Over the past several years, the State of New Hampshire has been gaining a reputation as an increasingly attractive site for the administration of trusts. As further evidence of the state's seriousness in bringing about positive change and increasing its ability to draw financial assets away from large money centers, Senate Bill 394 is working its way through the legislative process.

Among several new incentives to use the state as a favorable trust situs, SB394 provides for the creation of a new type of non-depository trust company, known as a Family Fiduciary Services Company (“FFSC”). This entity may be an LLC and may be established with a minimal initial capital requirement of \$500,000.

The FFSC would not do business with the general public, but rather would serve as a corporate entity for family trusts—therefore allowing families to utilize corporate trustees where required or desired without losing control of the administration and decision-making process. The definition of “family members” includes several degrees of blood relatives, collateral relatives and spouses, thus is quite broad.

Most importantly, a FFSC may request exemption from essentially all state reporting, auditing and accounting requirements for trust companies, thus creating a maximum benefit of corporate stability with a minimum initial outlay and minimal exposure to bureaucracy.

The new FFSC would enhance some already strong incentives to consider the state as a favorable situs for family trusts, including a current law that allows trusts to opt out of the Rule Against Perpetuities, permitting so-called Dynasty Trusts to be established in New Hampshire. Additionally, Trustees in New Hampshire have been granted the express authority and guidance to create Total Return Trusts where appropriate, either by the power to adjust between

principal and income or the power to convert a trust to a unitrust.

Technical modifications and improvements to New Hampshire's version of the Uniform Trust Code (“UTC”) have enhanced the modern statute's usefulness to Trustees, and provide several important features relating to trusts and their administration, thus creating a favorable environment for proactive, involved personal Trustees.

The UTC also grants the courts authority to modify irrevocable trusts to achieve tax objectives, increasingly important in today's ever changing landscape of federal estate and gift taxation, as well as to correct errors and ter-

(Continued on Page 3)

New Hampshire Bill Promotes New Type of Non-Depository Trust Company *(Continued from Page 2)*

minate small trusts.

Even more striking, the UTC specifically authorizes binding non-judicial settlements to be utilized for a wide array of trust administrative matters that previously would have required court involvement. The UTC allows interested par-

ties to enter into binding agreements, outside of a courtroom, on such matters as the granting of trustee powers, the withdrawal of trustee powers, the transfer of trust jurisdiction, the construction and interpretation of the trust terms and any other item that could be approved by a court and does

not violate a material purpose of the Trust.

It may be a worthwhile exercise to consider partnering with New Hampshire professionals or establishing a New Hampshire presence to take advantage of these new opportunities.



Small Accounts Can Lead to Big Profits *(Continued from Page 1)*

Having tried, with mixed results, some of the more traditional ways to manage small account relationships (common trust funds, mutual funds and individual portfolio management), Washington Trust embarked on a project that would: 1.) Create a program that would cover both financial planning services for the “emerging investor” (Washington Trust’s alternative to a retail investment program); and, 2.) Create a truly efficient and effective way to manage smaller fiduciary relationships (small trusts that could not be terminated and had little growth potential).

Makowski said, “We believed there was opportunity in attracting the emerging investor. That we would be able to create a sense of loyalty with those individuals or businesses that would experience other lifetime events that would make them viable wealth management or bank clients.”

Washington Trust decided to buck the trend by trying to capture the emerging investor through trust and asset management services rather than a retail brokerage operation. According to Ma-

kowski, “It was important to structure these relationships as a sound fiduciary investment solution, so that we didn’t become something we were not – a broker/dealer, which would add one more layer of compliance and complexity to the cost of doing business.”

The program was implemented using the following

“We immediately experienced an increased sales effort by our portfolio managers. They now had time to participate in more sales calls and to generate leads from existing clients. We encouraged this behavior by creating a bonus plan tied to their involvement in business development.”

five-step process that was based on a financial plan, and not on the sale of individual products:

1. Apply prudent investment practices by strictly adhering to the Uniform Prudent Investor Act. According to Makowski, “Step one was to create the Financial Plan. The best way for individuals to understand and accept an investment program is for them to be a part of the process. Studies have shown that today’s investor wants to be an informed partner and be part of the decision-

making process. They want to take some control.”

2. Help the client articulate and identify their goals and objectives by educating them as to the types of risks and potential returns associated with taking more or less risk.

3. Create investment models to meet various objectives.

4. Document and implement an investment policy that is consistent with clients’ goals and objectives.

5. A process for monitoring and supervising each client relationship.

Makowski added, “A big part of making this work was having the right business partner. We selected Accessor Capital Management, a Seattle-based financial services firm, because they provided the best fit for what we were looking for: 1.) Investment quality; 2.) Tax

efficient portfolio models; 3.) Assistance with legal and compliance requirements; 4.) Leading edge technology that would provide educational tools for our relationship managers; and, 5.) A customized site for client access to account information.

With a new plan in place to improve staff utilization, Washington Trust was able to redirect some of those resources to grow its business. Makowski said, “We immediately experienced an increased sales effort by our portfolio managers. They now had time to participate in more sales calls and to generate leads from existing clients. We encouraged this behavior by creating a bonus plan tied to their involvement in business development.”

According to Makowski, “As successful as this program has been for our smaller relationships, the most significant reason for implementing it was to allow us to capture and take advantage of the increased capacity utilization for our primary business line: Wealth Management

(Continued on Page 4)

Investment Policy Statement—Don't Invest Clients' Funds Without One

The following article was contributed by John W. Morris, Principal, Crestwood Advisors LLC, a Boston-based Investment Advisory Firm. John can be reached at 617-226-0050.

Historically, an Investment Policy Statement (“IPS”) was most commonly used by institutional, tax-exempt clients (foundations, endowments, defined benefit plans) to ensure that all investment objectives, tolerances and details were placed into a written plan. Today, an IPS is also commonly used for individual and family clients (commonly referred to as taxable clients) to articulate, in writing, specific investment goals and investment strategies.

The IPS is often viewed as a “roadmap” which gives guidance and guidelines to both the client and the investment provider. This written document is intended to provide all parties with greater information at the inception of the relationship, which should lead to a more pro-

ductive and successful investment engagement.

The IPS provides a valuable framework which can be referred to by all interested parties to insure that the client’s specific objectives are being fulfilled. The IPS is

“It is in times of market exuberance and/or market turbulence that clients often review their Investment Policy Statements to remind them that there is a well-structured, customized plan in place designed to deliver long term growth and success.”

embraced by investment advisors and clients alike since it eliminates ambiguity and second guessing; the more information that can be included in the IPS, the better. In most cases, an IPS should be reviewed annually.

A comprehensive Investment Policy Statement will include a wide range of information. Some of the topics to be included will be specific information on the client’s investment goals,

desired asset allocation, asset selection, investment implementation ranges (how much equity, fixed income and/or alternative investments).

The IPS should also discuss the client’s risk tolerance, time horizon, preferred

methods of communication (email, voicemail, in-person visits). The client’s tax rate and whether the account(s) is tax-deferred (IRA) or taxable should also be included. It is also helpful to include any tax loss carry forward figures, if they exist.

The benefits of an Investment Policy Statement are numerous. The end result of creating this valuable document is a well informed client and advisor. If executed

properly, the IPS should give the client confidence that a plan is in place specifically tailored to his/her needs. For the advisor, it provides a written plan that the client has agreed to—in writing. Remember, the IPS is not a legal document—it is merely a “battle plan.”

It is in times of market exuberance and/or market turbulence that clients often review their Investment Policy Statements to remind them that there is a well-structured, customized plan in place designed to deliver long term growth and success.

“Tell me, I'll forget. Show me, I may remember. But involve me, and I'll understand.”
— Chinese Proverb

Small Accounts Can Lead to Big Profits (Continued from Page 3)

for the affluent client.”

Herein lies the lesson from Washington Trust’s experiment with re-engineering the small account relationship. Designing a carefully integrated program with an outside business partner who can provide educational support and top-notch investment solutions will not only turn smaller account holders

into “emerging investors” (which will result in increased efficiencies, reduced costs and increased profits for that end of the business), it will allow portfolio managers and senior trust officers to devote more attention to high net worth clients and business development efforts. Rogean Makowski and Washington Trust have provided the

creativity; it’s up to each one of you to generate the initiative and resolve to re-engineer your own small account relationships to similar advantage.

Headquartered in Westerly, Rhode Island, The Washington Trust Company is the oldest community bank in the country. Established in 1800, it is the third oldest publicly traded com-

pany in the United States and has exercised trust powers for more than 100 years. Ms. Makowski can be reached at 1-800-582-1076.

Accessor Funds are provided through Accessor Capital Management, a financial services firm located in Seattle, WA. For more information about Accessor Funds, please call Robert Harper at 1-800-882-9612, or Sandi Lotito at 978-463-9099.

Private Trust Group of America specializes in providing administrative and operational support to trust departments and wealth management offices nation wide. Our executive staff has over 100 years of combined trust and related technology experience, and our professional staff’s average experience exceeds 22 years. Please take a moment to review our website at www.privatetrustgroup.com for an overview of our services.