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Looking For Middle America

As many advisors strive to find wealthier clients, Sheryl Garrett is leading a movement that focuses on people with middle incomes.

By **Raymond Fazzi**

Two years ago, you could have called her a maverick.

While most of her colleagues were working their way up the client wealth chain, Sheryl Garrett decided to do something different: embrace Middle America.

She did it by opening up a small office in Shawnee, Kan., four years ago that was, by design, more like a dentist's office than that of a financial advisor. Fees were all by the hour. And the door was open to anyone who needed financial advice.

There were no requirements when it came to account size or investable assets. In fact, there were no accounts. Garrett decided to steer clear of asset management altogether, and stick to what she did best: create a financial plan. It was up to the client to implement it.

It was a daring career move at the time—one she turned to after 11 years spent in advisory offices that typically gave middle-income clients the polite brush-off. "I decided that my real desire and calling was to be able to kind of crack the nut and find a way to provide fee-only financial planning to anyone who sought it," says Garrett. Today, Garrett is no longer a maverick. Or, if she is, there are now a lot of other mavericks around the country following her lead. Garrett's business philosophy apparently struck a nerve with some advisors soon after her office opened. In 2000, after repeated inquiries from advisors interested in starting a similar type practice, including one who offered to pay double Garrett's regular hourly rate to be allowed to sit in on her client meetings, she started the

Garrett Planning Network. Comprised of like-minded advisors who mirror the practices of Garrett, the network has grown to about 115 advisors since it was launched in 2000. Members pay a first year's fee that starts at \$5,000 and an annual fee of \$1,200 thereafter.

Network members receive what amounts to a startup kit—a box containing forms, documents, videos and instructions for setting up an office that functions in much the same way as Garrett's. Advisors also can attend a three-day training course in Shawnee for an extra \$1,500 in their first year's fee. They also get listed in the "find a planner" database at the network's Web site, www.garrettplanningnetwork.com, and have access to an electronic message board that provides members with an electronic meeting place and a place to ask for advice.



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"I find the network to comprise idealistic, caring people who are focused on helping their clients and earning a living—the type of living they want," says Eric Rabbanian, among the first members of the network and owner of Rabbanian Financial Planning Inc. in Austin, Tex.

He's also a regular participant in the message board, once saving a client several thousand dollars on an international money exchange because of advice he received from a network member. "Willingness to share is something you tend to see in all professions and you see it in absolute spades in this network," he says, adding in jest, "I would call us a network of licensed plagiarizers."

One thing the network isn't, Garrett says, is a plan for advisors to get rich quick. She tells members that building a practice is similar to building any small business in that it will take time and hard work to become profitable.

And unlike other advisors who rely on asset-based fees, the hourly fee-only advisors of the Garrett network are dependent on a limited resource: their own time. Finding clients usually isn't a problem, she says. Garrett says she advises members of her network to build relationships with other advisors, who become a source of referrals when prospective clients don't meet their minimum asset requirements. "When members first come along, generally their biggest concern is, 'How am I going to get the clients?'" she says. "But once you get the word out and get yourself set up, getting clients is not the problem. Getting the work done in a timely and efficient manner is the challenge."

That's why she tells members from the start that it may take two or three years before they can get their businesses to a point where they're cash positive. She tells members that they should consider their maximum capacity to be about 1,000 billable hours a year. That is derived from 50 weeks a year, at 40 hours a week, with half of all work time as billable, Garrett says.

Garrett herself started her business billing \$120 an hour, raised it to \$150 two years later and to \$180 this year. All her hours are billable, even phone conversations, except for the initial get-acquainted meeting, which is free. Time with clients is billed in six-minute increments.

Sheri Iannetta Cupo, founding principal of Sage Advisory Group LLC in Morristown, N.J., says she prefers the hourly billing method because it's easily understood by clients—similar to what they're used to when dealing with doctors or attorneys. "Intuitively, people just seem to understand the concept," says Cupo, who joined the Garrett network in March, after starting her business in 2001.

Since she started, Garrett says that fee structure has never been a hindrance to even her lowest-income clients. About 80% of people who have the initial meeting with her go on to pay her for further work. The difficulty was managing the hours, she says. In her startup years, Garrett would have as many as 16 get-acquainted meetings a week, which would typically be followed a month later by 13 or 14 plan presentation meetings. For Garrett, that one-month period in her advisor-client relationship is crunch time, because typically clients come in for annual "checkups" after that point. But the continual flow of new clients was causing her to work 60 to 70 hours a week, including nights and weekends. "What I needed to do was have a personal life," she says. "If I hadn't set some boundaries, it would have just spun out of control."

She decided that she would no longer work on weekends, and set a firm rule that her appointments would be scheduled no earlier than 9 a.m. and no later than 4 p.m. By scheduling time for herself to do the planning work between appointments, Garrett found she and her clients were able to function with those hours.

"At first I thought I was going to have to accommodate the average working-class family anytime they could get there," she says. "What I found is that's not the case. People will come when you make time available."

Garrett now has about 600 clients, all of whom are on a schedule of annual checkups. Some of them will also occasionally call for help with specific issues. Garrett stopped taking new clients in January. New clients are now taken by Rosemary Danielson, a CFP who joined the firm in

March.

Garrett, in fact, foresees devoting a greater percentage of her time to the network. After two years, the network is generating annual revenue of \$300,000. That tops the \$180,000 in revenues from her advisory business, although she notes the network is less profitable because of higher operating costs.

She also wrote a book that was released in October, called *Garrett's Guide to Financial Planning: How to Capture the Middle Market and Increase Your Profits*. Her remarkable success using a compensation method many advisors derided as a map to starvation on Tobacco Road has started to raise a different set of questions.

"I'm not trying to get rich by any stretch," Garrett says. "I'm trying to make it possible that there are lots and lots of people practicing hourly advice across the country." Garrett's network has grown despite the fact that many advisors have been following a business growth formula that quite often involves dumping clients and replacing them with more affluent clients who can generate more fees.

"She's a great example of somebody who has found a niche and figured out how to make it work economically," says Mark Tibergien, a consultant with Moss Adams LLP in Seattle. "In that case, it's all about scaling the service to the fees you generate."

It's also an example of how advisors may need to look at more than just the bottom line when deciding how they want to structure their business, he says. "It's not just whether it's experiencing rapid growth or is extremely profitable, but whether you are personally fulfilled in doing it," Tibergien says.

Cupo says her decision to join the Garrett network was partly based on the freedom it provided in serving clients and its unique niche in the financial services marketplace. "I was searching for a way to approach building my business, and I wanted it to be different than all the other firms out there," she says.

One of her key differences from other advisors, she says, is that she's not zeroed in on any one type of client. "I wanted to work with whomever I wanted to, not single out certain people," Cupo says. "I wanted to be able to work with those who truly needed the help, not just the high-net-worth clients others were going after."

Glenda Moehlenpah joined the network when she founded Financial Bridges of Mission Valley, Calif., in March, after hearing Garrett talk about the middle market at a NAPFA conference a year earlier. "I'm a CPA, and I've done a lot of corporate work," she says. "I wanted to get more involved with people, and I felt that would be a way to do it."

Starting out slowly, working two days a week with an hourly rate of \$125, Moehlenpah has started achieving her goal of becoming more involved with the personal side of financial planning. She has seen about 20 clients so far, with annual incomes ranging from \$200,000 to \$11,000. In one case she lowered her rate to \$50 an hour for a woman who was \$40,000 in debt with no significant assets. "She's making an attempt to get out of debt, and I wanted to see if I could help her," she says.

Garrett says her network membership mostly consists of sole practitioners who are either just getting started in the business or are experienced advisors looking to get out of commission work. Among the requirements to join the network are that the advisors either are CFPs or are working toward the certification.

Their fee structure must primarily be built around hourly billing, she says. Like Garrett herself, some of the advisors will do some asset management—particularly for clients who may have difficulty implementing a plan by themselves.

Rabbanian, for instance, does provide asset management services for some of his clients. He cites two reasons: The service provides a second source of income that smoothes out cash flow, and it

strengthens the advisor-client relationship. "I enjoy the more intimate aspect of the client relationship," he says. "When a client has a baby, I'm one of the first to hear about it."

Bob Stowe started his advisory business as a member of the network in April 2001, after spending 15 years working in various corporate finance departments. Stowe, who owns and operates Stowe Financial Planning LLC in Plano, Texas, planned his business with the goal of working on a fee basis and not selling products. The network, he says, gave him a smooth entry into that style of business.

"By not having to go through all the trial and error, I've honestly taken years off my startup," Stowe says.

By modeling his business after Garrett's firm, Stowe feels he's also got the benefit of serving an untapped market. He views that market as households with annual incomes of \$60,000 to \$150,000, who have most of their assets tied up in their home and 401(k)s.

"I'm working with people who are honestly a lot like me," he says. For Stowe, and others in the network, that means clients are typically in their twenties and thirties, usually financial do-it-yourselfers who are looking for a professional to validate their goals.

Starting with a fee of \$150 an hour, Stowe says he operated at a slight loss in his first year, during which he took on about 30 clients. Stowe's work so far has mostly centered on laying out plans for achieving retirement goals and helping clients with issues that include 401(k) investments and college savings plans.

He expects to turn a profit in his second year. "This is a slow-start business," he says. "For me, it has gone slow, and I've been happy with that because I've been learning as I go."



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