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This is the June 2005 monthly Wealth Management newsletter from Hoffman, White & Kaelber Financial Services, LLC. If you do not wish to be included in our circulation, please reply indicating your desire to be removed and we will be happy to oblige. Alternatively, any of your friends or colleagues may receive this on a regular monthly basis by sending their name and email address to info@hwkfs.com. Feel free to forward this to any of your friends who may find it useful. Thanks for your interest and I hope you enjoy the letter.

What Is Wealth Management?

What does it really mean? What does it involve? Are there specialized firms for this? Can I get these services from my accountant, banker, insurance agent or investment broker? The safest quick answer may be: It depends!

While looking for material on this topic, my searches kept returning web sites for a wide range of financial service firms. Many had used definitions that best suited their services. Are financial services firm trying to redefine themselves?

After some looking, I found a study performed by IBM United Kingdom Ltd. discussing the market. Of course, IBM is looking to sell software solutions. Yet, what I found seemed fairly objective.

To gain a better understanding of the concept “wealth management” or “wealth manager”, it may be more helpful to look at these words in reverse order – management of wealth or manager of wealth. Doesn't it sound like we're talking about something much more than taxes, banking, insurance or stocks and bonds?

At our firm, we work with a lot of business owners. These individuals face a unique host of challenges along with wealth preservation issues. Many of them tend to plow their hearts, souls and everything they own into their main asset – their business. When the business is established and profitable, it often makes sense to have a diversified retirement plan in place. Yet, for many, having a good exit or succession plan can play a larger role in protecting wealth. But, that's just one scenario!

As mentioned in our prior newsletters, we strive to provide articles on various aspects of wealth management to assist your understanding of why planning for the present and for your future has importance. Yes, we also promote our services; yet, you will find that we always seek to present thought provoking topics that are relevant to our wide audience.

According to IBM UK Ltd., there seems to a big disconnect with what clients are looking for versus how financial firms are offering products and services. In this month's letter, we will review this so called “wealth management gap”, attempt to describe how considerably diverse the range of client service needs seems to be, and provide a recommendation on how one might assess who to work with. Lastly, we will finish with a review of the investing climate for the month past, the current market outlook and our investment performance.

The Wealth Management Gap

The Certified Financial Planner Board of Standards defines financial planning as: “...the process of meeting your life goals through the proper management of your finances.” If

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wealth management is the managing of wealth, then might it be logical to say that that wealth management is financial planning for the wealthy?

I found it interesting that the IBM people portray wealth management as meeting a client's emotional and lifestyle needs and goals. "Most customers have a personal mission statement (although many have not identified or defined it), which reflects emotional needs, such as: "I want to retire at ____ and live my life to the fullest". "

Different people may have different priorities, but basically all human beings have the same emotional needs around which key life events and goals can be grouped. Unfortunately, the IBM report remarks that the large financial services firms "have responded to this by throwing more products at the wealthier customer, seeing the opportunity for cross selling." They also suggest that, "there are two very different definitions of wealth management now in existence:

1. Supply side – providers push products ...
2. Demand side – customers want someone to help them achieve their life goals."

The IBM study goes on to say, "most large financial services organizations have defined wealth management as offering a very wide range of products, providing broad advice and relationship management." Although, they suggest, most seem to fall short on the ability to provide good "all around" advice and endeavoring to build trusted relationships.

To me, this comes as no surprise. Most large financial services firms are either product manufacturers or financial product "super-markets" or a combination of both. Each offering something different or acting as an expert in fulfilling a specific need in order to distinguish their product from the competitor(s). And, traditionally, the industry has best rewarded those professionals who specialize in selling a certain segment of some narrow area of finance.

Wealth management doesn't seem to be about buying financial products. Rather, it seems clear that customers are more interested in making good decisions about their finances.

The Greater the Clients' Assets, The Greater the Needs

In *Trusts & Estates* magazine, an article by Sara Hamilton, founder and CEO of Family Office Exchange LLC, outlines eight general services most demanded by wealthy to ultra-wealthy families:

- Integrated planning. Advice that integrates investment goals, tax goals, retirement goals, wealth transfer goals and family philanthropic goals into a comprehensive family strategy.
- Risk management. This is more than identifying risk exposures and being counseled on the types and amounts of insurance coverage needed. It can also mean receiving help to arrange debt financing and help with the management of liabilities.
- Trusteeship. This can mean anything from needing private trust services to arranging for a corporate trustee. It may also involve administering an estate.

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- Recordkeeping & reporting. This can involve accounting and tax compliance for privately held businesses, family partnerships and investments of marketable securities. Yet, it can also include evaluating and analyzing investment returns as well as selecting and arranging for investment custodial services.
- Investment strategy and management. This usually starts by assisting with the identification of an investment policy through hiring someone to take a significant managerial role in making or placing investments. Asset allocation or investment diversification may be achieved through in-house management or through selection of external investment managers or some combination of both.
- Family continuity. This involves helping to prepare the next generation for the management of a family's wealth. It requires paying attention to family dynamics, providing education, helping to articulate the family's values and objectives and facilitating regular meetings to bring clarity, unity and a healthy understanding of roles and responsibilities.
- Family philanthropy. This can range from helping a family frame its philanthropic mission, to advising on outright and planned giving options. This may even involve arranging for the formation and management of a family foundation.
- Lifestyle management. Whether business or personal, a large number of needs can fit into this category. From bill paying, to cash flow management, to hiring domestic help, to arranging travel plans, to property management, etc., this category is often termed concierge services.

While I find the above list to appear rather thorough, I'd like to add one other need category that seems to be missing:

- Business strategy and management. This can range from helping to determine ownership and structure, whether in the start-up phase or succession planning phase of a more mature business; to helping an owner understand where the business stands today and, possibly, help determine where the business should be going. It may also involve executive coaching, leadership development or even helping to effect organizational change. Providing resources for part-time financial managerial roles can also fit in here.

As you can see, wealth management can be something significantly more than taxes, banking, insurance or stocks and bonds. And you may be asking yourself: how do I know who I should be working with?

Selecting a Wealth Manager to Work With

If you look back to the previous section, it referenced that the greater one's assets, the greater one's needs. Achieving personal wealth doesn't simplify life; more often, it creates greater complexity centered about preserving wealth. While some of the needs and demands discussed above might exceed your own, you should look for strengths and capabilities that will best serve your greater needs.

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Looking back to the Trusts & Estates article referenced above, they suggest that the most successful wealth management firms feature the following:

1. Objective Financial Advice. The firm should not have conflicts of interest. Because many providers are commission-based or paid to gather assets under management, they may not have the time or inclination to seek the best financial advice from all providers. But a team in an objective firm works to choose from all available suppliers.
2. Creative Solutions to Financial Problems. The professional staff must be knowledgeable about a broad array of sophisticated strategies to ensure the best solutions for the financial problems of their clients. This means that the team must comprise or partner with skilled professionals with experience across many technical disciplines including tax, legal, investment, and risk management.
3. Consistent Delivery of Complex Services. The firm must have the ability to deliver a high quality of service in a consistent manner to a growing number of clients. This requires a team that works well together to solve unique, complex issues for the client. The firm should have strong "know how" and technology capabilities.
4. Long-Term View of Relationship Building. Most financial firms realize that working with clients in a comprehensive manner leads to deeper relationships and lower attrition rates. However, building good relationships can take a long time. Some institutions have come to and gone from the periphery of the wealth management business because they didn't see tangible financial results fast enough.

By the way, Hoffman, White & Kaelber Financial Services, LLC, together with its affiliate and strategic partners is well positioned to objectively and creatively meet the needs of wealthy to ultra-wealthy families.

Hoffman, White & Kaelber Financial Services Investment Performance Update

There seems to be early evidence that higher interest rates are producing a gradual slowdown in US consumer spending. Also, much slower growth in real disposable income appears to be contributing to this downtrend. While most economists had predicted this for the second half of this year, it seems to be occurring now. One can only look to sustained high oil prices as the major cause of this softening in the economy. Having been around for the oil embargo of the 1970's, it's familiar that as oil prices stay elevated, we're certain to see a bigger the squeeze on consumer budgets as the impact reaches well beyond our experiences at the gas pumps.

If evidence of weaker growth continues to accumulate in the next few months, the Fed may pause on its measured pace of raising interest rates. However, it seems fairly certain that we'll see rates at 3.50% before anything like that happens. However, if core inflation rises above the psychological threshold of 2.5% over the next few months, the tightening phase will likely continue longer.

Despite slowing growth and an abundance of risks, it is important not to get too carried away with the doom and gloom. For now, many of the fundamentals of the US economy still

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appear quite strong. Corporate finances remain the most robust in decades and growth in profitability is expected to be in the double digits again this year. Yet, with stock valuations above their historical norms, it is also not a time to let your speculative juices get the best of you. Risk is high and investment opportunities need to be well thought out for the present.

For the month ended May 31, 2005, our one-month performance is up 0.56%, our year-to-date return is up 1.97%, and our average annualized return since inception is up 9.01%. While volatility has become exceedingly vigorous in the equity markets, our risk profile continues further downward to +/- 5.86%. This conservatively low risk level remains consistent with our strategy. With our expectation that this statistic gains increasing importance, our Sharpe Ratio remains at a respectable 1.28.

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