

August 2000



## Planner Profile

### Bert's Crusade

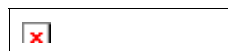
Bert Whitehead is looking for a few (or many) good planners to join forces with him and bring fee-only financial planning to America's not-so-rich

*By Margaret Opsata*

*Photography By Jon Rehg*

#### Continuing Education: CE Credit Test

Answer questions for one hour of continuing education credit.



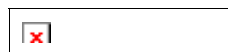
#### Web.Advisor: Add These Sites to Your Toolbox

Bring the best of many worlds together: These Web sites let you customize your window on the world, filling it with just the news and tools you want. A survey of build-your-own-portal sites and other Internet goodies. by Andrew Gluck

#### The Business of Advice:

##### This Is a True Story

If you've ever argued with a client hell-bent on investing in something because "Well, golly, it worked for my brother-in-law," you know the power of real-life stories. But you can use this fact to your advantage, too.



#### Cover Story:

##### Hoop Dreams

Don't let parents sacrifice their retirement nest eggs on the altar of the kiddies' Harvard degrees: Mom and Pop need to take care of their own futures, too. Here's a look at the latest ways to keep college tuition from breaking the bank.

#### Mutual Fund Spotlight:

##### Pushing 65

The ebullient Spiros Segalas keeps his optimism in check by forcing himself to sell one of his 65 large-cap growth stocks before buying another. The discipline has paid off for Harbor Capital Fund's investors with

Bert Whitehead has made it his mission to "rescue" commission-based salespeople from what he calls the "dark side" by teaching them to survive and prosper on fees alone. His rescue vehicle? The Cambridge Connection, a program he invented that's part training program, part planner network, part financial-planning-practice-in-a-box. And just as a fellow Midwesterner once strived to bring motor cars to the masses, this planner from Franklin, Michigan, aims to help planners provide fee-only planning to the not-so-rich of America's families. Says Whitehead, "I would like to be remembered as the Henry Ford of fee-only planning."

To date, about 100 people have completed the training program, which has five parts. It begins with a self-study manual that is divided into modules like tax planning and insurance review that correspond to the recommended topics for client meetings. Accompanying the manual are 10 demonstration videotapes depicting client sessions that Cambridge advisors have conducted, plus the appropriate software to use for each meeting. This software, which consists mainly of Excel spreadsheets developed in-house, is an essential element of the Cambridge approach. "We try to keep it simple enough that data can be inputted while the client is sitting there," says Whitehead, who recommends that the advisor sit next to the client at a table where both of them can view a single computer monitor. To illustrate concepts, Cambridge uses what it calls "Bert's back-of-an-envelope approach."

"You just put in four or five numbers and you can show people that, to have this much money to spend when they retire, they need savings of that much," Whitehead explains. "Then you show how long they have to save a certain amount a year at a particular rate of return. It is so simple that clients learn the concept as well as the actual numbers for their own situation," he says.

Advisors-in-training then attend six days of classes in a hotel conference facility near Cambridge's Michigan headquarters. Two training sessions are held a year. Each trainee also completes a 40-hour internship, typically spread over two to four visits. During this time, the candidate sits in on actual client conferences. "A lot of the system, I find, is learned by

stellar 10-year returns.

### Planner Profile: **Bert's Crusade**

Henry Ford made the automobile affordable enough for John Q. Public. Michigan planner Bert Whitehead aims to do the same for fee-only financial planning . . . and he's assembling a network to deliver the goods.

### Industry Trends: **Trustworthy**

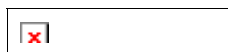
Trust a trust company? You can't be serious. But while a few toes may be trodden, planners and trust companies are beginning a careful dance that should be music to the ears of every client. Got an empty spot on your card?

### Probability Software: **Evening the Odds**

The FPA is getting a handle on its new identity, as evidenced by April's Retreat 2000 in Phoenix. The ride is still wobbly, but the future looks smoother.

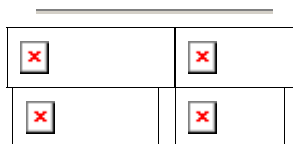
### Practice Marketing: **Your Attention, Please!**

Snappy jingles, sandwich boards, life-sized chickens hailing passing cars - perhaps these aren't quite the marketing ploys you had in mind? Check out these reviews of a shelf's worth of books that will show you the right way to get noticed.



### **Changing of the Guard**

One of the FPA's joint chiefs steps aside



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next advisor training session.) Advisors also serve on committees, known as Project Action Teams, which seek more efficient ways to serve middle- income clients.

After one team recommended that the advisors find an alternative to tax-inefficient index funds, Whitehead developed the Cambridge Index. This is a group of 50 stocks, selected by formula, to mirror a synthesis of three indexes: the S&P 500, the Dow, and the Nasdaq. "Every December and January, clients each buy the 50 individual stocks. At the end of the year, they automatically sell anything with more than a 10% loss, then buy it back a month later. Anything with more than a 10% gain they gift out, after they have held it a year, either to their own gift foundation or to their children over 14, and replenish their portfolio with the money they did not have to give away. Then they rebalance with the 50

imitation," Whitehead says. Finally, each person is assigned a coach from the network who confers for half an hour a week by telephone during the advisor's crucial first few months using the Cambridge method.

Joining the network costs \$12,500 apiece (\$11,600 if remitted in advance). Planners then pay \$1,500 a year (less 10% if they pay up front) to maintain their membership.

When Whitehead introduced the training program in 1995, he imagined that most candidates would be commission-based planners wanting to transition to the fee-only world. But they aren't. "A third are starting from scratch, often as a second career, and a third are people with existing tax or fee-only practices who want to learn our system," says Whitehead. Applicants must have earned the CFP designation or an equivalent credential, such as a CPA with a PFS or a law degree with an emphasis on estate planning. They must also want to practice on a fee-only basis (and eventually to join NAPFA), to work with middle-income clients, to do comprehensive planning, and to be technologically competent. "All our software is updated monthly and must be downloaded from the Internet," Whitehead points out.

Since Cambridge advisors do not use cold-calling, Whitehead suggests that new advisors build a clientele by forming a "French Club" that consists of 12 to 20 acquaintances who want the benefit of superior financial planning at a bargain price. Why call it a French Club? "Because members are 'le guinea pigs,'" Whitehead says with a chuckle. He proposes charging the second-year renewal rate from day one as an incentive to join. French Club members often begin referring new business almost immediately, and most advisors become self-sufficient within 12 months.

Members of Cambridge Advisors are not required to use Whitehead's entire system or, indeed, any of it if they choose not to. "I agonized over how much control to exert, but I decided that any amount could lead to negative results and antagonism," Whitehead recalls. So he gives everyone the freedom to adapt part or all of the program to their particular needs, asking only that they share their experiences with others in the alliance if they come up with something that works better for them.

Advisors also network with each other by e-mail and swap messages on a very active, password-protected online bulletin board. They also exchange ideas at an annual Cambridge conference, which everyone is encouraged to attend. (Those unable to be present are required to attend two days of the

next advisor training session.) Advisors also serve on committees, known as Project Action Teams, which seek more efficient ways to serve middle- income clients.

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new stocks we come up with and run with it for another year," Whitehead explains. To work efficiently, clients must commit at least \$250,000 to the strategy.

The growth horizon for Cambridge Advisors is practically limitless, Whitehead believes, if enough people can be trained in his system. A steady supply of advisors seems eager to learn the Cambridge method, and more middle-income Americans are demanding good financial planning every day. The bottleneck is the training itself. There simply are not enough experienced trainers within the company to accelerate the training pace. One solution might be for a college to take over the training, an idea that Whitehead has started to discuss with selected schools.

A pillar of the Cambridge approach is that financial planning should always be client-driven. Rather than churning out a typical financial plan - too often a 200-page, leather-bound exercise in boredom - Whitehead prefers to evolve a financial plan through a series of client meetings, each centered on a single theme like portfolio analysis, tax planning, or estate planning. "If you treat financial planning as a process and focus on only one thing at each meeting, you not only educate clients, but you give them closure after each appointment," he says. He also is no fan of traditional asset allocation systems. "Most asset allocation programs are irrelevant to Middle America because they don't take into account taxes and real estate."

Real estate is an important part of asset allocation at Cambridge. Whitehead is influenced by the advice in the Talmud that everyone should keep one-third of assets in land (real estate), one-third in business (equities), and one-third in reserves (cash and bonds). Actual allocations vary with the client's age, income, and goals, but real estate almost always forms part of the picture.

Whitehead has incorporated his asset allocation ideas into a 10-level chart, the Cambridge Financial Life Cycle. The document also determines what fees Cambridge clients pay. The first three stages of the cycle occur in childhood. Level four begins when someone becomes self-supporting and ends when net worth exceeds annual income. A person moves to level five until net worth reaches three times income. Level six spans the time when net worth is three to seven times income. People then move to level seven until their net worth grows to 10 times their annual living expenses. Level eight, which usually coincides with retirement, occurs when net worth stands at 10 to 15 times expenses. "Level nine is the point when people have more money than they can possibly spend in their lifetime," says Whitehead, who defines this situation as net worth exceeding 15 times annual living expenses. People move into the final stage, called Sunset, when they have less than a year to live and must undertake an orderly disposition of their assets.

Whitehead's firm offers a dizzying assortment of fee arrangements in three main categories. The Limited Retainer is designed for clients who need no help preparing their taxes and have a net worth of less than \$50,000. The first year costs \$425 to \$975, and renewals run \$175 to \$295 a year, depending on how much below the \$50,000 ceiling their net worth actually is. Limited retainer clients get one to three hours of access to an advisor each year. Additional time is billed on an hourly or project basis, with the cost deducted from the first-year fee when the client moves up to the next level, the Standard Retainer.

Clients who use the Standard Retainer are entitled to four one-hour appointments a year and unlimited telephone access for other questions that may arise. The annual cost is a combination of a base fee, determined by the client's place on the Cambridge Financial Life Cycle, plus a percentage of annual income, determined by the client's preference for tax preparation. The base fee starts at \$500 for people at level four and rises in steps to \$2,000 a year for level nine. Those who have Cambridge prepare their taxes pay an additional 0.50% of annual income for a simple tax return or 1.0% of annual income for a complex return. Clients who do not use Cambridge for tax preparation pay the base fee plus 0.25% of

annual income.

Then there are two premium retainers. The Strategic Financial Retreat is designed for people who are in transition, perhaps moving from employment to self-employment or from work to retirement, as well as for folks who have not updated their financial planning in some years. It costs a flat \$5,000 a year whether Cambridge prepares the taxes or not, and gives the client two half-day appointments a year with Whitehead himself.

The other premium program, the Wealth Management Retainer, costs between \$10,000 and \$30,000 a year and is only appropriate in specialized situations, such as when a client is selling a family business. In keeping with its middle class emphasis, Cambridge generally refers clients with more than \$10 million in assets to other planners. Overall, Whitehead's firm has between \$150 million and \$200 million in assets under management. The firm has discretion over slightly more than half this amount, which is invested through Schwab and Waterhouse. However, clients pay the same fees no matter whether Cambridge or the client handles the trades, because Whitehead has discovered that the time involved in doing either is about the same. "We spend more time buying and selling in the discretionary accounts, but that balances out at the end of the year when we have to spend more time processing the 1099s of people who do their own trading," he explains.

Annual revenues at Cambridge Connection currently stand at about \$2 million and should top \$2.3 million by the end of this year. Twenty percent of the revenue comes from Cambridge Advisors; the remaining 80% comes from Whitehead's own enterprises.

While Whitehead's company is headquartered in the Detroit suburb of Franklin, Michigan, it also maintains a full-time office in Tucson and part-time presences in Orlando, San Francisco, and Stockbridge, Massachusetts. Employees in the Michigan office are divided into three teams, each headed by a senior advisor who is also a partner. There is also a client coordinator/receptionist, a clerical person, and a business manager. The Tucson office is staffed by two team advisors, one paraplanner, and a client coordinator, with Whitehead acting as senior advisor when he comes to town five or six times a year. There is no permanent staff in the other locations, so Whitehead typically meets clients at his hotel.

Seeing clients in five different cities keeps Whitehead busy enough, but his activities do not end there. A recovering alcoholic as well as a former tax and family lawyer, he serves as Webmaster for the International Lawyers in Alcoholics Anonymous. He also is active in Creating a Sober World, a project that introduces the concepts of AA into countries like China, Cuba, and Uzbekistan.

Given his altruism and his zealously fee-only bent, you might expect Whitehead to shun such lowly activities as marketing his firm. In fact, however, he has incorporated into his own practice more marketing gimmicks from the commissioned sales world than any fee-only practitioner we have met.

Like most planners, he depends on client referrals to bring in new prospects. But while many of his competitors merely hope that clients will be kind enough to mention the practice to their friends, Whitehead motivates his clients to do so by using the same kinds of incentives that product sponsors have dangled in front of their commissioned sellers for years.

Every one of Cambridge's 800 clients are invited each year to a formal cocktail/dinner dance at a posh hotel or club. For Whitehead's squarely middle-class clients (median income is under \$100,000; a third earn less than \$65,000 a year), the Cambridge party often is the social event of the year. Whenever a prospect referred by a current client signs on with the firm, the person who made the referral receives an invitation to a Cambridge Silver event - a beach picnic, a hot air balloon ride, or a night at the opera. An

even higher reward exists for the firm's most loyal clients: the chance to join the company's marketing advisory board, known as Cambridge Gold. Gold consists of about 60 clients, each of whom serve two-year terms. They are treated to fancy lunches during the first year; during year two, they are invited to a four-day, all-expenses-paid conference in an idyllic spot like a Bahamas resort.

"We don't push Cambridge Gold. We never say, 'Recruit a certain number of clients and you get to go to Florida,'" says Whitehead. "We just tell people that the board exists and they may be invited to join if they continue to show their support of fee-only planning."



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