

Serving the Middle Market

By Leslie J. Thompson

Over the past 20 years, the financial services industry has undergone dramatic changes. Outside of the usual market fluctuations, advisors have had to navigate new compensation models, emerging technologies and shifting client service trends.

"If you go back to the Eighties, most retail advisors were focused on transactions," explains Bill Meyer, Vice President of Client Experience for H&R Block Financial Advisors. The industry evolved in the Nineties to help people around investment planning and asset allocation, he adds, and firms developed products and platforms to support that model.



This evolution has also led to a shift from commission-based to fee-based practices. But, all the while, financial service providers have kept their eyes steadfast on one market niche: affluent investors.

Today, however, another change is in the wind, as savvy advisors are recognizing a new market opportunity with middle income Americans.

"I talk about this as a paradigm shift around advocacy, and trying to do the right thing for clients," says Meyer, who expresses great passion for serving this broader audience. "If you're a school teacher, you have the same goals and dreams as someone who has a lot of money. The needs of those people are still significant."

Changing the Focus

According to the U.S. Census Bureau, more than 35 million U.S. households earn between \$40,000 and \$80,000 annual income—a range broadly defined as the middle market. Although the wallet share may seem like small pickings,

competition is limited, and the clients themselves are eager participants in the planning process.

"This audience typically has not had a consultant available in the past," notes veteran CFP [Sheryl Garrett](#). "The [ability to offer] advice and coaching and serve as a catalyst to these individuals is our most significant value we can provide as advisors."

In 1998, Garrett walked away from her wealthy client practice in favor of serving the middle class, charging an hourly fee for her time and expertise. Two years later, she made her business model available to other advisors through the [Garrett Planning Network](#), which provides training, marketing materials, compliance documents and proprietary planning software. The tools allow advisors working with middle income clients to quickly systematize their business and minimize the time spent on back office operations.

Maximizing Your Resources

Charging by the hour also offers independent advisors a level of flexibility and freedom they might not have when working with wealthier clients or as part of a larger financial firm.

"In my former practice, we were literally on call," says Garrett. "I was the person who designed and managed the portfolios, so I felt this overwhelming sense of responsibility [even] when I went on vacation. That's why I needed to make a change. I needed to know when 'done' arrived."

Even so, time management can be one of the greatest challenges for financial professionals making the transition to the middle market. After all, whereas a planner working with the affluent may only need a few dozen clients to build a healthy book of business, those working with the middle class often need several hundred.

To be successful in this niche, advisors must leverage time wisely by limiting the scope of their services.

"We cannot and should not do the same amount of work for these individuals as we do for our affluent clients," cautions Garrett, whose practice had more than 600 engagements before she turned to full-time consulting. "Our affluent clients are

delegating the responsibility of managing their affairs to us...so we should be paid more for providing those services," she says. In contrast, middle class clients often only need advice on a specific topic, such as retirement planning, and they can handle the implementation of the plan themselves.

Notes Garrett, "That's one way that our services can become very affordable to the average American—because we're focused on being the financial advisor, not the financial secretary."

Breaking into the Market

The challenge of new client acquisition is offset by the low competition for the middle income market, and the eagerness of clients to find a fiduciary who can meet their needs.

"If you don't have a few hundred thousand dollars of investment assets to start with...you don't have many choices," notes Karron Wages, president of Financial Decisions Institute (FDI) in Little Rock, Arkansas. Founded in 2000 to serve the middle income niche, the firm offers financial planning services for \$75/hour, and investment management for a flat fee of 75 basis points.

"We had to narrow our services down so [clients] are getting everything they need, but just what they need," notes Wages.

Although it took more than three years to break even, the company now has 185 clients and nearly \$18 million in assets under management. Finding new business has never been a problem, because FDI receives a constant stream of referrals from three local money managers who serve a wealthy client base and have higher minimums.

Recognizing the Opportunity

Not surprisingly, a few of the larger financial firms have begun to realize they are missing a large part of the market and are developing products and services tailored to the middle class. As with independent advisors, however, they face the challenge of adjusting their offerings to maximize profitability.

"To really do well and serve middle America, you need to focus around the right level of advice delivery," says H&R Block's Bill Meyer. "It starts off with philosophy. Are you an investment planner, or are you a financial planner? We believe you can do both."

The firm encourages advisors to expand their focus beyond transactions and money management, and devise investment plans that take into account a client's life-stage goals, such as saving for college or funding their retirement. The aim, says Meyer, is to take the existing best practices and optimize them for the middle class.

Notes Sheryl Garrett, "This is the virtually untapped market—it's the millionaires next door, five to fifteen years before they hit that millionaire status."

Finding Your Niche

Although building a business to serve middle income investors may not be right for everyone, many advisors find this type of work very gratifying.

"You are definitely giving up some of the financial side of it, because you can't be expecting to make \$300,000 if you serve this market," says Wages. But, what you lose in earnings, you may gain in job satisfaction.

"For me, the rewards are working with people who really need your help and guidance—people who are still climbing the ladder to reach their goals, rather than people who are already there," she says. "You're doing a really good job for them."

Learn more

Join the Discussion in Sheryl Garrett's Expert Forum: [Untapped Markets: Building Your Business with an Hourly Planning Model](#).

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