Entrepreneurs are Gap Challenged Individuals

By Thomas G. Fee

Entrepreneurship enjoys favorable status within the higher education system, from single classes to graduate degree programs. I am somewhat skeptical of these programs since I believe that entrepreneurship is not something you aspire to, but rather a part of who you are, almost a condition. This condition has levels of severity, from mild curiosity about pursuing an idea, to "never having heard an idea you did not like." Someone should design a twelve-step program to help entrepreneurs control the urge to solve every "gap" that they perceive.

What do I mean by gap? If I had to crystallize the concept of an entrepreneur down to a sentence, it would be this: An entrepreneur is an individual who is driven by a passion to search diligently for *gaps* in current products or service offerings, is willing to break tradition, and has the tenacity to fight through the process with a measured regard for other's opinions.

The Basis of gap-analysis is *looking for enough differentiation from the status quo, but not too much*. The approach must be unique, but not so unique that your idea is too far ahead of its time. Conversely, if your product or service is not different enough, you will find yourself fighting the existing industry inertia.

The best way to explain the concept of gap analysis is not through abstract theory, but with real-life examples, and the only way I can do that is with my business. Fourteen years ago, when I was in my late 30's, the man who managed my money asked me to join his firm with the possibility I would buy it from him. Although my degree is in business finance, I had not been in the industry.

I agreed to join him, and began analyzing the decision making processes in an attempt to understand what decisions were being made on all levels, and why. My first six months were driven by the question, "*If I were my only client, what decisions would I make.*" This turned out to not only be an appropriate question for the benefit of my clients, but it was also perfect for my gap-analysis.

For the sake of brevity (another characteristic of our breed), instead of doing a narrative of the gap analysis, I will list my observations of certain aspects of the financial services industry. These general observations are *not* meant to be an indictment of every professional—remember, with an industry as large as this, I am looking for a gap.

1. Clients are first seeking a relationship based on trust and competence.
2. The predominant way for delivering product is through commissionable sales.
3. The sale of product means that the income is earned up front by the seller (broker). This seems to be wrong; the services delivered and compensation received by the advisor should be in closer alignment with the client.

4. The industry overuses variable annuities that carry excessive compensation and expense.
5. The total expenses clients incur are too high.
6. In the identification of what a client's investment policy should be, there appears to be too high of a degree of "commoditization" of the client (i.e. answer the following ten questions and we will know how you should be allocated).
7. Too many changes around the construction/management of portfolios can be as bad as too few.
8. In portfolio management, discipline around the process is critical.

Once I had defined the gap, it became clear to me that it made more sense to start from scratch than to try to convince my former money manager to change.

The firm I started is Vector Wealth Management (at that time it was Vector Financial Network). Two of the first decisions we made were to become a Registered Investment Advisor, and to drop our securities licenses. We would not earn any commissions for the products we purchased for our clients; we would instead charge ongoing fees as we continued to manage their portfolios. Three primary advantages to this change were: the amount our clients would pay us at the outset of a relationship would be significantly less, the feeling of being "sold" was reduced or eliminated, and most importantly, we became fiduciaries for our clients. Being a fiduciary means that we are compelled to act in our client's interest, which is a different and higher standard than the registered representative status that most brokers hold.

To further develop the Vector model we:

1. Created a proprietary software application for the design of client specific investment policies (this was the second such program we created- the first turned into another company that we sold a few years back. That application is currently used by many firms across the country today).
2. Instituted a portfolio mix that is much more institutional in nature and therefore has characteristics that generally result in lower expenses and taxes.
3. Utilized firms such as Charles Schwab to custody our client's assets.
4. Created three separate areas within the firm: advisors, portfolio management, and client services. The goal is to have greater depth at each of these aspects of the client experience.
5. Added additional services that allow our clients to view us as if we were their personal chief financial officer.

There are many other subtleties to our model that follow the same client focus, but go beyond the limits of this particular article. Perhaps the best way to measure if we are on the right track is the results: today we manage or oversee in excess of 300 million dollars, we are in the top 5% of firms like ours in the country by size, we have received recognition for being among the top wealth managers nationwide, and we grow virtually 100% through referral. Whatever success we have goes back to that *gap* analysis, which was based on a simple question-"*If I were my only client, what decisions would I make.*"