

Founders Financial Network



Located in the heart of Silicon Valley, Founders Financial Network is an independent RIA focusing on wealth management for local high tech executives. We spoke with Bob Kresek, the Managing Partner of the firm, who discussed Founders' approach to investing, technology and automating their operations.

Founders manages \$600 million in assets with a staff of eight. Noticeably absent is any administrative staff; with its commitment to a paperless office, Founders operates with only its professional staff of CFPs, CPAs, and wealth managers. The average relationship for its 75 clients is \$7.5 million, though several clients are in the \$50 million to \$100 million range. For these larger clients, Founders operates as a multi-family office.

Founders Financial Network is a founding member of [Focus Financial Partners](#), a private equity-backed organization that is building a national network of fee-only financial planning firms with a fiduciary stance. Focus invests in each firm and the member firms own equity in Focus, creating a shared incentive to succeed. Each firm remains independently operated. "The cost of technology is too high," Kresek said. "We need to leverage these assets across a larger organization." He expects Focus, now 10 firms, to grow by a multiple of five or 10. "As the number of firms that are part of Focus increases, we will be able to leverage our size to get the best technology on a more cost effective basis".

Outsourcing and a paperless office

By establishing itself in a technology capital and cultivating relationships with high-tech executives, Founders has been heavily influenced by its clientele. Most notably, it has made a strong commitment to outsourcing tasks that can be done better and more cost effectively by others. To do so, Founders has used [Etelligent Consulting](#) for portfolio accounting, performance measurement, client reporting, and related tasks. Etelligent operates Schwab's PortfolioCenter to service Founders.

Two packages are used for financial planning on an in-house basis. [Financeware](#) is used for basic planning, because of its Monte Carlo simulation features and ability to incorporate scenario analysis based on changes to goals and asset allocations. [Thomson's Creative Solutions' PlannerCS](#) offering is used for tax planning. Founders uses [ProTracker](#) for CRM.

Founders relies on Adobe Acrobat and a Windows-based filing system to achieve a paperless office. HP technology is used to scan all documents, including client files, account statements, and compliance data. Once filed in a secure environment, these documents can be accessed from multiple sites. Backups are done on a regular basis. As the paperless system was implemented, Kresek found that many of the documents were too wide to be viewed easily on conventional computer monitors, and were being printed and later shredded. So Founders upgraded all its systems to wide screen monitors. Multiple documents can now be viewed simultaneously, typically without the need to print anything. All told, Kresek estimates that Founders spends \$50,000 annually on technology, including outsourcing costs, network and connectivity costs, and hardware and software maintenance and upgrades.

Financial planning and portfolio construction for Silicon Valley executives



Kresek begins client relationships with a careful assessment of financial needs, including tax issues, estate plans, educational needs and other financial goals and constraints. "We tend not to do one big comprehensive plan," Kresek said. "We identify the top priorities and build a phased plan that ultimately addresses all client needs and goals." Kresek interviews the client to build an investment portfolio with a goal-oriented approach, identifying goals and assessing which are critical. Once it is determined whether clients have enough assets to meet their financial needs, philanthropic goals are addressed and a sense of the asset allocation unfolds. Then Kresek builds a specific allocation by asset class.

Typically, clients come with a large equity and/or option position in their operating company, and the immediate need is for diversification, implemented in a tax efficient manner. Portfolio construction relies primarily on mutual funds, with 80% of Founders' assets invested in funds. Separate accounts are used for 14% of assets and 6% is committed to alternative assets in the form of hedge fund-of-funds. Kresek finds his larger clients often prefer the simplicity of mutual funds, as opposed to separate accounts.

Kresek relies heavily on institutional resources such as SEI, Lockwood, PIMCO and DFA for portfolio development. Kresek does not utilize a database for separate account manager screening, instead relying on sources such as SEI, Lockwood and Callan. Morningstar workstation is used for mutual fund screening. Kresek admits that they use only 10% of Morningstar's capabilities, instead relying on the research from their institutional partners. This research is used to create model portfolios as a starting point, and actual client portfolios are customized.

Three model portfolios are employed -- one that is indexed and passive and two that are actively managed -- each with its own set of mutual fund and separate account managers. Nearly half of Founders' assets are indexed, some with separate accounts. Separate accounts allow an index to be built, in a tax efficient manner, around the existing stock position of a typical client, sometimes incorporating future charitable giving plans.

Presenting performance results to clients is challenging. Founders is focused on goal-oriented results, but clients often care about performance versus benchmarks and growth in absolute dollars. Both are presented and both targets must be managed simultaneously. Etelligent has developed a front end to PortfolioCenter that has allowed Founders to customize performance reports for individual clients, and that has facilitated the process of presenting performance results.

Facing today's challenges

Founders has nearly 80% of its assets custodied at either Schwab or SEI. But capturing information on the remaining 20%, especially for its larger clients, is now Kresek's greatest challenge. "Our toughest task is effectively aggregating positions and transactions from different custodians," Kresek noted. "We have made great strides but there is still a fair amount of manual entry that needs to be done on a timely basis for client reporting." Aggregation is not a new challenge for Founders, nor does he believe that it is unique. "We see this problem across the industry, with RIAs, family offices, and multi-family offices, where huge amounts of effort are spent to collect custodial data." Founders is fairly successful at capturing standard brokerage accounts, through aggregation technology deployed at Etelligent; the problem areas are partnerships and structured products that are now making more sense for clients.

One of the intangible benefits of outsourcing is that Kresek does not have to commit internal resources to defining and managing automation priorities. "We did some major things last year,



and we are confident that Etelligent is moving in the right direction,” Kresek said. “So we don’t have to worry about big changes.” Similarly, Focus Financial took on the regulatory reporting, spreading the cost across its member firms. This has been a major change for Founders, aided greatly by their paperless office.

“Our biggest competition is not from independent advisors,” Kresek said. “It is from brokerage firms and investment banks that are making big technology investments, forcing us to innovate and automate to keep our edge.” He believes that Founders’ success comes from its flexibility and responsiveness, which cannot be achieved by the large wirehouses.

It also comes from the quality of its people. Kresek believes that the independent advisor community is doing well now by attracting good talent through the stability of RIA firms, and this stability of personnel allows RIAs to attract new clients.

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