

Computer Needs for the Independent Investment Advisor

By: Robert Burgoyne

1) Why An Advisor's Computer Systems Are Critically Important

Dependable computer systems are essential to the smooth operation of an Advisor's business.

Your computer system's components include all of the following:

- The PCs on your desk
- Any notebook computers you use
- BlackBerry and other portable wireless devices
- Your networking hardware and Ethernet cabling inside your office
- Your Internet connection
- Your staffing
- Your written plans, and
- All the other myriad services and hardware that we must spend money on to provide great service to our clients.

It's a complex set of resources and dependencies that must all work together perfectly at all times, especially during critical market periods.

If an advisor experiences any computer downtime, it can mean lost profits, loss of reputation, loss of important records and information, or being out of compliance with applicable regulations. Properly running computer systems will increase your profits through superior marketing efforts and give you confidence that you will never lose information or be out of compliance during periodic audits.

2) A Foolproof Method to Make Smart Computer Buying Decisions: Define Your Business Requirements, Apply Your Budget, & You'll Know:

a) What to Buy (software, services, support, and hardware)

The most expensive technology items you might purchase are proprietary software programs that are specific to the financial services industry. In many cases these programs were derived by looking at the deficiencies or shortcomings for the financial services industry of equivalent mass market products. Next, the developers created new software that addresses those shortcomings.

Because the market is much smaller for financial industry specific products, the prices are much higher. For example, you could buy a mature generic contact management software program for \$200 or less and use it to keep track of all important client information. With a little effort, you will be able to produce great reports that keep you in compliance, increase your marketing effectiveness, and bolster your confidence. Or you could spend several thousand dollars on a modified and enhanced version of a contact management program which is dedicated to financial services professionals that offers additional capabilities. My suggestion, especially for new advisors just starting out on their own, is to go with an inexpensive mass market contact management product.

There are now many computer services marketed to advisors that can help you in various aspects of your business. For example, you might want a real time stock quotation pricing service. You will also find that there are numerous providers of online news, delivered to you via email. You will also notice there are online backup services which will backup and archive your computer's data.

There are also many vendors who provide Internet connections and telephone connections over the Internet. My suggestions are the following: try to keep costs low except where the service directly impacts the client's impression of you, the advisor, or where potential downtime costs you real dollars that are much larger than any possible savings. As an example, there has been a lot of excitement about the Internet based telephone services, known as Voice over IP (VoIP). My experience is that the audio quality for VoIP is about the same as a cell phone and not nearly as clear as a regular telephone connection. A second example is your office's Internet connection. Cheaper Internet connections work well most of the time. But when the connection goes down it is often difficult to get support from someone who cares, and your service may require time to be restored. Imagine the potentially astronomical cost to your business if your Internet goes down during market hours on an important trading day.

All computer services require support, and you will also require support for the overall configuration of your office's systems. My experience is that nothing is as frustrating as trying to run a business using vendors who provide inadequate support. Keep this in mind as you try to achieve the delicate balance between keeping your fixed costs low and keeping your business running smoothly at all times. My partners and I have evaluated dozens of vendors over the years and in many cases the support has been unacceptable.

In terms of supporting your office, many advisors are faced with the decision of how to select a good computer support vendor who comes onsite to your office.

The choice usually boils down to a vendor who is nearby your office and costs less, but who lacks domain knowledge of the financial services industry, versus a vendor who may not be close by, costs more, and has specific knowledge or experience in the financial services industry. Based on the needs of your practice and your conversations when screening computer support vendors, you will be able to learn what each vendor can do for you.

Hardware is the good news. It is now almost entirely standardized. Advisors don't really need any non-standard computer hardware as compared with regular businesses. Many financial services professionals like to use a dual monitor configuration for their PC; these are now available from many different vendors at reasonable cost.

b) Who to Buy it From (local vendors vs. mail order, generalists vs. specialists)

As a general rule I buy everything mail order unless I have an immediate need for the item. I keep a few hard disk drives as inventory in case a client needs an immediate replacement when the stores are closed. The local big-box retailers simply can't compete on price with the mail order vendors and usually the service from the local vendor is nothing special.

Financial services firms do not have a large number of specialist companies to buy software and hardware from. You will come across a few but I can't see any significant advantage in routing your purchases through them.

c) When you need to make changes and adapt

Technology moves very quickly and all of us must spend time to keep up. If no one on your staff has time to read computer journals, you need to have regular contact with a computer support professional who does. Changes occur almost weekly which impact how I do our company's purchasing on behalf of clients. I do this in order to keep costs low and the value we deliver high.

In addition, many of you have clients who are knowledgeable in technology because they are employed as technology professionals. You need to be able to have a reasonable conversation with these people to impress upon them that you are doing your best to offer them great service, using modern, up-to-date computer resources.

3) An Easy Way to Define Your Computer Requirements — All Advisors Have Two Primary Tasks:

- Maintain Existing Business and Production Levels
- Prospect for New Business

If you can maintain focus at doing these two tasks, and if your computer systems support the activity, you are well on your way to having a successful practice as an independent advisor. Let's look at each task in greater detail.

a) Maintain Existing Business and Production Levels

i) Production

First and foremost your computer systems must smoothly permit any and all tasks you need to earn your fees and/or commissions. This means zero downtime during market hours. For most advisors, buying a more expensive Internet connection from a business-class vendor is the minimum requirement to assure this will happen. Having a second computer, such as a notebook, ready to go in the event of failure of your primary system is another good practice. Be sure to test or use the second computer sometimes to confirm that it can do the job correctly.

Many advisors custody assets with large broker dealers and use that broker dealer's software to bill clients and deduct fees. You must have an intimate understanding of the broker dealer's software and procedures to insure this process works 100% smoothly every time. If you make any errors you risk making compliance violations, delaying payment of your fees, or billing the client improperly. I suggest you pay special attention to your billing procedures and be 100% certain of the processes you have in place.

ii) Client Communication

Advisors must call, email, and prepare hard-copy letters for their clients. Contact management software permits the advisor to log all such activity and to prepare reports which list the contact history. These reports can be printed out and placed in the client's file for use during audits.

iii) Portfolio Management

A discussion of portfolio management software is beyond the scope of this article, but the use of such programs is becoming increasingly popular. Such programs can prepare very sophisticated proposals and reporting data, as well as helping you to prepare and execute trades. My suggestion is to be certain that you can use such software from more than one of your computers, since you never know when you might experience downtime.

iv) Remote Access

Working from home or on the road has become commonplace, and smooth access to the files on your office's computers is now an important requirement for nearly all advisors. To facilitate this, we recommend using Windows XP Pro on all of your computers. You will also need a device or service that permits you to connect in to your office's network, but which also protects your network. This is something which will require professional assistance to deploy.

v) **Internal Communication**

Internally you will want to be able to easily email your staff and retain copies of those emails. There are numerous ways to setup and establish your email system, but the important thing to remember is that you will need to retain copies of all email involving certain matters for audit purposes.

vi) **Compliance**

Being able to smoothly prepare reports and printed material during an audit is a must. Much of the process of surviving an audit is having a well maintained filing cabinet of papers, but you will also need to augment that with being able to print out additional materials upon request. Making sure your printer is always in good working order, with plenty of available paper and a replacement toner cartridge available at all times is a must.

You will also need to document that some form of access control to your computers and your network is in place. Typically a written document can accomplish this.

b) Prospecting for New Business

The cornerstone of any advisor's marketing system is a good contact management system. You or someone in your office will need to be well-versed in all aspects of how to add contacts and extract useful information from the system. You will likely want to do any or all of the following:

- i) Marketing Campaign Support: mailing, emailing, telephony
- ii) Seminar Support
- iii) Lead tracking

Be sure to maintain good records of all marketing collateral and lists of who you contacted. This information may be requested during an audit.

4) Areas of Special Concern

a) Who is responsible for technical support?

In general, because the investment advisory business often has time critical components, I think it is best to identify specific individuals rather than 1-800 phone numbers as your first line of support. To accommodate vacation schedules, plans must be in place to delegate responsibility to secondary individuals.

If you are new or just getting started, you may not feel you have the budget to hire a specific person to support your business. I can only tell you that your potential pain and frustration can be quite extreme when you are trying to receive

telephone based support from a new person who doesn't know your systems. Try to get someone who can be personally responsible ASAP.

b) What is the plan to have smooth audits?

Smooth audits require planning in advance and monthly checks to confirm that you have what you need. Again, designating this responsibility to a specific person is your best course of action.

c) Backing Up, Archiving, and Restoring Critical Data — what is the plan?

The key here is being able to restore critical data that is lost or accidentally overwritten. Someone needs to be responsible for insuring that data is backed up regularly, taken offsite on permanent backup media (archived), and then, most importantly, the backed-up data needs to be validated periodically. Too many times we have seen users try to restore data from backup media that is faulty.

Again, designating this responsibility to a specific person is your best course of action.

d) What happens when employees leave the firm?

When employees leave the firm there are a variety of concerns. Will the departing employee try to bring data with them? Have they secretly been copying data offsite in preparation for their departure? Who will take over that person's responsibilities? Who will remove the departing person's remote access to your systems and client data, both at your office and from the third party vendors you use?

If you ask yourself these questions, you will probably come up with more questions as well. The key is to do this work in advance, and write it down, so that when a person leaves all you need to do is refer to your documents which tell you what needs to be done.

e) What is the impact when you need to change vendors?

Depending on what the vendor is doing for you, the impact may be minimal or great. Changing broker-dealers is an enormous potential impact. Changing your telephone or Internet service vendors can also have a big impact. Try to write down what each vendor is doing for your business so that you can analyze what the impact might be.

f) Data Lockup — how far should you trust your vendors with your most critical data?

Because we are all connected together by the Internet, there are many vendors who will offer to backup your data or "keep it safely" for you on their servers. Some degree of interdependence is fine, but you must also strive to keep copies of the most important data entirely on your own computers and in your filing cabinets. Even the most reputable vendors go through management changes, takeovers, and other changes which can have a great impact on your day-to-day

business. You must always be aware of where your data is being kept and what your potential exposure might be.

g) Is there really such a thing as a paperless office?

The idea of the paperless office has been pushed on us for many years, but I have never seen one. So the question becomes: is it worth trying to save more records electronically, reducing your need to retain paper records? For the small advisor without a large staff, I can't see this working too well. Scanners with reliable paper feeders aren't cheap and you will need to augment that with some good organizing software. Go for a good paper filing system and keep it up to date. David Allen's fine book: "Getting Things Done: The Art of Stress-Free Productivity" has a lot of helpful information.

h) Is online training and web conferencing useful?

Vendors are increasingly trying to offer training online via websites. If you are someone who can make your way through such training, by all means avail yourself of the opportunities. No special computer hardware should be required.

Recently, Internet based web conferencing has become popular as an additional feature of "chat" software. If you have more technically savvy clients, you might want to experiment with buying a webcam and having a "face-to-face" virtual meeting. Keep the audio conversation over a standard telephone line though. And for best results, try to make sure that both of you have a hard copy printout of any materials or information you want to cover.

5) Concluding Remarks

Advisors can avail themselves of many useful and productive capabilities offered by today's modern computer systems. But the expectations are getting higher each year, and the quality of support available from many vendors is rapidly diminishing. Maintaining a balancing act of keeping costs reasonable, while providing a full set of technical capabilities both from the office and while working at home or on the road, all with zero failures, is your challenge. If you succeed, your clients will be thrilled, your audits should be smooth, and your revenue should grow over time.

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