

Morningstar® Managed PortfoliosSM Practice Perspectives



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Welcome to Morningstar Managed Portfolios Practice Perspectives. This newsletter is designed to provide you with thought-provoking content that will help you enhance your practice. Our goal is to provide you with additional perspectives about the topics you face every day—from positioning your services, to answering client questions, to tips on ways to maximize your time.

Morningstar Managed Portfolios with his clients for quite some time. Ron offers some insightful comments on the business of fee-based financial advice and the future of managed money, among other interesting topics.

We look forward to continuing to work with all of you. Please contact us with any questions.

This issue features an interview with Ron Lara, an independent planner who has been using

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Planner Profile Interview with Ron Lara, CFP

What helped you become the successful planner that you are today?

I started in the business in 1970 selling mutual funds door to door. I quickly realized that wasn't the way to really make it. An attorney advised me to learn the qualified market like the palm of my hand. I became a plan expert and started marketing them to accountants. I got referrals from accountants who didn't have as much knowledge in these plans and wanted to know which plans were best for certain companies. To this day I continue to get referrals from accountants.

What are your most productive ways of gaining and retaining clients?

The most productive way to gain new clients is to ask existing clients for referrals. Many planners don't ask – we do. If a client is happy with our services, I ask them for the names of two or three friends who might also be happy with our services. We get a lot of referrals.

Another good way to gain clients is to ask people you meet to see their investment policy statement. I ask them what their risk tolerance and expected growth rates are. Ninety-nine percent of individuals don't have an investment policy statement. When they answer no, I comment, "If you don't have an investment policy statement, how do you know what your advisor is trying to achieve for you and how do you know whether you are properly asset allocated to achieve your goals?"

With respect to retaining clients, my most important method is that I call my list of top clients. The 80 clients on this list provide 90% of my income. I keep in close contact with them and call them once a month, especially in tough markets. If I don't take care of my clients when things are bad, someone else will. In fact, we get most referrals in bad times. In many cases, the reason they left their previous advisor is because they didn't hear from them. It takes me under two hours

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Interview with Ron Lara continued

Ron Lara graduated from the University of Maryland with a Bachelor of Science in Civil Engineering. He was the Assistant District Engineer for Humble Oil and Refining Company from June 1968 to April 1969. He then served in the United States Army through April 1971. Following his military service, Ron entered the financial services field with a local DC firm. In 1977, he became one of the first designated Certified Financial Planners in the Washington, DC area. In 1981 he started his own firm, Lara, Shull & May, Ltd. Between 1985 and 1986 Ron developed his strategy for purchasing US Treasury Bonds. Then in 1987 he formally started his Treasury Bond Management program. After the success of this program, the Lara Group was formed in 1991 for the sole purpose of managing US Treasury Bonds.

Ron's many charitable affiliations have included memberships on the Board of Directors of the Fairfax Library Foundation, The Claude Moore Colonial farm at Turkey Run, and Joe Gibbs' Youth for Tomorrow home. A native of the Washington area, Ron is married with five children and two grandchildren.

a week to contact 20 clients. That's six hours over the course of four weeks to contact all my clients and I've touched them 10–12 times a year.

Our quarterly goal report also helps us retain clients. Our Retirement Fund Analysis gives clients the growth rate they need to earn to reach their goals. Initially, we give them a goal sheet that shows where they should be every quarter for the next five years. Each quarter they receive an updated sheet which shows where they are compared to their goals. It provides quarter-to-date, year-to-date, and since inception performance. Clients love this because they can immediately tell if they are ahead or behind their goals.

All financial planning firms are good and can do asset allocation. The difference between Lara, Shull, & May and other firms is that we have clearly defined, trademarked processes.

Which aspects are the most satisfying?

The money is okay, but the most satisfying aspect for me is the fact that we're responsible for the retirement of all our clients. We're satisfied when they say they're grateful, so glad to have met us, and thank us for being with them through both the good and bad. I have some clients who have been with me for a long time, even up to 30 years.

How do you coach/mentor new planners?

I recommend all planners be coached. I go to Chicago every 90 days for two days to participate in the Strategic Coach program started by Dan Sullivan. The most successful planners are there getting coached. The program is focused on how the best get better.

Through this coaching program, we developed two processes—our Retirement Success Solution™ and our Lifetime Success Solution.™ In the Retirement Success Solution, we identify a growth rate that

clients need in order to reach their goals. For our younger clients, we identify the growth rate they want to achieve and either allocate assets or determine the Morningstar Managed Portfolios strategy that fits their goals and then provide them with a goal sheet.

For clients with five million or more who want a more comprehensive solution, we take them through our Lifetime Success Solution. This is a comprehensive estate planning solution that assists them in achieving all their life goals.

We have several new planners in our firm. We give them marketing plans, explain how to use our processes, and make sure every new client gets an investment policy statement and a goal sheet. We have weekly meetings where we share new ideas and often invite various content experts. The more knowledge you have, the more confidence you have.

Where do you see managed money in the next couple years?

I see fee-based business as the predominant method of firms today trying to grow their business. I believe this area will grow to an even greater extent than where it is today.

What future challenges do you see?

The primary challenge I see is more commoditization of managed money. Investors will be able to go online and have portfolios designed for them without having an advisor or paying a fee. Pretty soon there will be online asset allocation models and recommendations, or maybe those even exist now.

There will always be some who question why they should pay me. The key is in the value you provide. If you're always adding value, fees are not an issue. That's why we have our processes. We're very good at integrating both tax and investment

Interview with Ron Lara continued

planning and this can't be done online for nothing. We keep our processes evolving. We just started a new process a few months ago which has been received extremely well. We combine wills with financial statements and provide clients with a flowchart that shows who gets what. I have yet to see a single estate attorney do this. In fact we've had several attorneys ask if they can hire the person who does it for us. Now we get regular referrals from estate attorneys to do the flow charts for their clients.

What do you do in the non-profit sector?

We manage close to \$100 million dollars for non-profit organizations. In order to add additional value to these organizations, we have set up pooled income funds for several large non-profit organizations. This strategy provides tremendous benefits to charities. We show them how pooled income funds can help build a large future endowment and help them get more donors. We don't charge them to set up or manage the fund and we provide them with the software to manage the operation of the pooled income fund. The

benefit to us is that we get to meet the donors who are high net worth individuals that could and have become significant clients.

We also do the nonqualified deferred compensation for the organization's key executives. We have yet to see a nonprofit organization do this for their executives. We believe our work in both areas provides added value over other firms and has enabled us to obtain the management of these endowment assets.

What do you do for fun?

I enjoy a variety of things, including: heli-skiing in British Columbia, downhill mountain biking, golf, and tennis. I also belong to a men's bridge group and enjoy reading history novels.

What advice would you give advisors today?

I'd tell all planners, especially new ones, to: learn tax planning, integrate tax planning with investment planning, become an expert in all types of qualified plans, get to know accountants, partner with banks, and become a CFP. ■■

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Business Builder

Coping with Market Extremes

Sue Stevens, CFA, CFP, CPA

The stock market is a very volatile place. On May 10th the Dow Jones Industrial Average (DJIA) was within 100 points of setting a new record high. It closed at 11,642.65 after hitting a high during the day of 11,709.09. One month later, on June 13th, the Dow closed at 10,706.14 after hitting a low of 10,653.23.

In one month's time, we had a market drop of over 1,000 points on the Dow. Ouch. But to keep things in perspective, even that was a bit short of a true market correction (a loss of 10%+) and nowhere

near a bear market (a loss of 20%+). Nevertheless, wild gyrations of this sort create anxiety in advisors AND their clients.

Making the Most of Market Uncertainty

Experienced advisors have lived through all kinds of market cycles. That experience can give you perspective and help you outwit the all-too-common mistakes of giving in to psychological pressure. If we boil down the essentials of how we can be of service to our clients, these three principles come into play:

Coping with Market Extremes continued

1) Focusing on the fundamentals

While cable news shows play to investors' fears, keep your eye on the true objective. Focus on your clients' goals and make sure you are still on course to hit them. Check each portfolio's overall asset allocation and sub-allocation. Make sure you're well diversified across a number of asset classes and that you haven't inadvertently overconcentrated in particularly risky areas. Morningstar, Inc.'s reports can help affirm the overall portfolio is positioned appropriately.

The most successful advisors are masters of communication. Make sure you get in front of your clients to reassure even those who don't voice their concerns. Every time you do that you increase the trust level that forms the foundation of a healthy lifelong relationship with your clients.

2) Navigate with the Investment Policy Statement

The Investment Policy Statement (IPS) is the backbone of a disciplined portfolio strategy. It spells out asset allocation target ranges, expected rates of return ranges, loss limits and sell criteria. You always want to manage your portfolios by adhering to the IPS, but in times of extreme market behavior, this discipline will help you control your own emotions and reassure your clients that you not only have anticipated this type of market, but you have a plan of action through your sell criteria.

For example, you may specify in the IPS that if any investment drops 10% or more, it goes on an internal "watch list." If the security drops 25% or more, you will carefully evaluate whether the security should be sold. That will depend on the objective, the client's risk tolerance, the risk level of the security itself and in most cases, tax implications.

3) Look for opportunity where there is uncertainty

When the broader markets drop significantly, it often means that individual securities, or funds, decrease in value for no "fundamental" reason. You should always have a "shopping list" handy that lists the securities you would love to purchase at the right price. Morningstar, Inc.'s screeners can help you identify the parameters of stocks or funds with strong risk/reward characteristics and whether they are over-, under- or fairly priced.

If you do find market opportunities in times of financial market extremes, communicate that to clients. That sets the tone that not only can you keep your cool during stressful times, but that you are actually finding and exploiting market opportunities that add to your clients' total wealth. The personal touch is comforting and allows clients to express how they are feeling. That information is important and can help you manage expectations.

Helping Clients Manage their Fears

No one likes uncertainty. But it's always around us in some form. Right now, there are many concerns—an escalating Middle East war, getting our troops home from Iraq, concerns with Iran, China and North Korea, inflationary pressures, the budget deficit, and so forth.

Your clients need your skillful guidance to help them deal with the blizzard of bad news that's blasting them daily in the media. Here are three ways you can get in front of your clients and focus the conversation on positive actions they can take.

1) Discuss potential changes to asset allocation

Market uncertainty gives you a good chance to observe your clients' behavior. You may find that what they've indicated on a questionnaire is

Sue Stevens, CPA, CFP, MBA, and CFA Charterholder, is Director of Financial Planning for Morningstar, Inc. and editor of the monthly newsletter Morningstar Practical Finance.

About Morningstar® Managed Portfolios™

Morningstar Managed Portfolios provides a number of solutions to help you serve your clients and build your fee-based

business. Contact your Regional Director or our Support Team by calling 877-626-3227 for more information.

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Foreign Equity

Communication Tools

For You
Program Overview
Market Commentary
Portfolio Reports
Program Tips

For Clients
Client Overview
Portfolio Information
Account Statement

Program News*

The Enhanced Portfolio Service is now available for accounts with an initial minimum of at least \$1 million.

SIMPLE IRAs and Individual 401(k) account types are now available.

*Please check with your home office to see if these offerings are available for your use.

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