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Whitepaper: Developing Your Niche to Retirement Planning

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For years now academics have been questioning the wisdom of offering retirement planning advice based on assumptions put together by theories developed around <u>growing</u> a portfolio (i.e. MPT or others) versus <u>spending</u> within the portfolio. Today we will be discussing the later through a better methodology to retirement planning called *Adaptive Distribution Theory* as discussed in James Sandidge article published by *The Journal of Investment Consulting* [1]. To simplify, the theory suggests that spending during retirement decreases over time rather than being stagnate or even increasing by inflation as previously thought. The article states, "the drop in consumption post-retirement has been documented in multiple studies and can be observed anecdotally among senior citizens." [1] That has certainly been the case with our clients during our over 45 years of combined experience in practice. So the goal of advisors who follow *Adaptive Distribution Theory* is to focus on creating an asset allocation that is designed to be used for spending, to recognize the fact that spending can decrease overtime allowing advisors to potentially reduce the risk within the portfolio, and lower expected required returns within a portfolio. It is also a theory that believes that the key driver to plans is not required rates of returns but the standard deviation, or risk, within the designated asset allocation that is a core driver to a plans success. The outcome of this is a crucial lesson for all advisers who work with retirement planning and we believe this theory should be required reading for practitioners in this field. However, the academics fail to recognize the most important aspect of this breakthrough theory as it applies to practice management.

> ***"I became a specialist because I learned the principles that govern asset allocation and asset spending are incredibly different and dangerously so."***

This theory, when completely understood and adopted by your practice as a set of values, can be how you differentiate yourself from a crowded field in a very convincing way. It is how you become a subject matter expert. For us, *Adaptive Distribution Theory i*s a game changer when it comes to explaining why you are different than the many other advisers who cater to the retirement community. This is an opportunity to demonstrate to a prospect that you are a specialist, and a subject matter expert not just in the area of retirement planning (like every other adviser) but in designing a portfolio to maximize spending power. In fact, there are many designations, one of them called Retirement Income Certified Professional®, that are catered to this theory that give advisors the tools needed to become specialists in retirement income planning.

This is important because it is our belief that all advisers need to target a smaller group of prospects who have more assets and do this by developing a niche practice and marketing system. The idea around this is to find clients where you can show them you are different than others. As Matt Oechsli discussed in his article *What Niches Bring the Most Riches,* he referenced that, "71 percent of all advisors who bring in $20 million or more in new assets a year have a niche." [2] This is also an important message to your existing clients as well. We all know the importance of keeping clients invested in the strategy long-term and not being subject to short-term emotional decisions. Having a clearly defined strategy shows the client that you are different than others, that your thought process is well thought out and increases their confidence so they will stay invested. The net result will be better outcomes for the client and your practice as your client retention increases.

Let's use an example of this between two advisors. The first adviser gives the traditional pitch as to why to work with that adviser and his ability to do financial planning whether that be through an earned designation or on experience. The second adviser comes in with a theory and belief behind their pitch and says, "I'm not the adviser for everyone. I'm a specialist in working with people that are focused on making sure they have enough income to support themselves and their goals in retirement. I became a specialist because I learned the principles that govern asset allocation and asset spending are incredibly different and dangerously so. That is why our firm believes in Adaptive Distribution Theory for all our clients and here is what it means for you." This adviser shows the chart in table 1 from the article *Adaptive Distribution Theory*, to support his/her claim that shows the difference in spending between age groups and discusses their belief in *Adaptive Distribution Theory* and why they believe it to be the correct thought when it comes to planning. If needed the adviser goes on to show how *Adaptive Distribution Theory* teaches ways to deal with down markets as not growing the income every year but once every two years or once every 5 years has a dramatic effect on the outcome of a plan. The end result will be that the second adviser who has this unique story is going to win that relationship 99% of the time. Experience and designations aren't necessarily a differentiator!

Table 1: Average Change in Spending

Age	Change in Spending
Age 50–64 to 65–79	–20%
Age 65–79 to 80–89	–22%
Age 80–89 to 90+	–12%

Recognizing the need for niche marketing, and the need to be a subject matter expert that can differentiate yourself are the cornerstones to building a practice that can break down the walls and can get advisers on their way to building billion-dollar practices . *Adaptive Distribution Theory* gives you what you need to implement that tomorrow!

About the Authors:
Timothy Kneen spent 33 years in practice at both wire houses and the RIA he co-founded. He and Maxwell Smith co-authored the book Breaking Through the Wall to help advisors build their practices by avoiding the mistakes he made along the way and learn how to scale to a billion-dollar firm. Today, Tim and Max help other advisers through their firm Lumina Consulting.

References

1. Sandidge, James, Adaptive Distribution Theory (December 1, 2016). Journal of Investment Consulting, Vol. 17, No. 2, p. 13-33, 2016. Available at SSRN: https://ssrn.com/abstract=2879999
2. Oechsli, Matt. "Which Niches Bring the Most Riches?" *Wealth Management*, 8 June 2018, www.wealthmanagement.com/marketing/which-niches-bring-most-riches.