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## REFERRALS

*Although Wealth Planning & Management, LLC, seeks referrals, we reason that the established system of personal referrals to professional services is necessarily neither totally personal nor entirely satisfactory. The practice is more random than popularly believed, and it results in solid long-term relationships only when all parties appreciate unavoidable pitfalls as matches are made. We ask our clients and friends to make referrals to us with understanding of how we receive referred prospects.*

The dock master presented Juan Carlos to a yacht captain: “This boy will do a good job,” he said. Juan Carlos did a good job. He worked hard to wax the boat, a tortuous task in 95 degree heat. The job looked good. He was friendly, on time, and diligent. He charged a bit more than some, a bit less than others. The captain liked him. The captain referred Juan Carlos to a neighbor boat, only to hear this response:

“I do not like him at all. He did a terrible job for us, and I have told others not to use him.”

“How can this be,” thought the captain. “How did this fine person earn my support and praise while alienating my neighbor? What is wrong with my perception? Why did the dock master make the referral? Should I continue to recommend Juan Carlos? Do I place my reputation at risk by recommending him? What went wrong here?”

Nothing was wrong. Contradictory responses are normal, because the practice of making referrals is no less random than other means of finding professional assistance, such as a review of Yellow Pages listings or checking membership in professional associations. With or without a personal endorsement, the quality of professional service

survives on the specific relationship between one individual and another, not on the unique confluence of events that brought them together. A personal introduction feels good and, through predisposition, tends to lead to “a good first impression.” In most cases, the positive predisposition tends to improve rapport, to enhance service. In some cases, however, the predisposition arising from a personal referral causes both advisors and clients to pursue a business relationship having little chance of success. Both the prospective client and the provider want to prove that the referring party’s endorsement is welcome and correct. The need to ratify the opinions of others is born in the human animal; it is part of friendship. The need, however, can mask another fundamental reality. This is the reality that the referring party has a unique human relationship with the provider. For example, the basis for referral for financial services might be a long relationship managing growth stocks, but the prospect wants to trade stocks, or to deal in options, or to build a portfolio of international securities—tasks perhaps unfamiliar to the investment manager.

In the movie and play “The Graduate,” recent college graduate

## Referrals, *continued from page 1*

Benjamin attends a reception in his honor. A 50-year-old friend of his father, slightly inebriated, tells Benjamin, “plastics”—an incomprehensible career referral because Benjamin has no developed character and no idea what to do in life. The scene is hilarious to those who remember how important “plastics” were in the 1960s stock markets. Though funny and slightly ridiculous, this type of referral is heard frequently at cocktail parties and informal encounters between the young and old. How many times does the young executive with \$10,000 in his pocket ask advice from the chief executive who, with several million dollars in his pocket, tells the young person: “Go into tax-exempt bonds. This is the only way. No worry, no taxes. I’ve done it for years, and it feels great.” With this advice from a respected source, the young person runs to a mutual fund store to purchase a fund of tax-exempt bonds, but he has no understanding that the investment is appropriate only for persons who pay high tax rates, such as the chief executive who tendered the advice with no consideration for his listener’s personal circumstance. From this encounter arises the most important rule of referrals:

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### **THE REFERRING PARTY MUST UNDERSTAND THE CIRCUMSTANCE OF THE PROSPECT.**

This rule is true in all things. The referor<sup>1</sup> to a dentist must know what service is needed. Same as to an attorney, to a home repair specialist, or to a financial services professional. The prospect should receive carefully and analyze critically any suggestion made by a person who does not know the needs of the prospect, his/her particular situation, likes and dislikes. Is there anything more off the mark than a ski trip recommendation to a person who cannot stand the cold? If the person approached for advice does not ask personal questions, the prospect should aggressively volunteer personal information so that the referor or advisor can see the big picture and the genuine need. Juan Carlos did a terrific wax job, but can he varnish?

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The prospect, the referor, and the referee<sup>2</sup> are three parties to the matchmaking exercise. The most limited of these three is the referor, the person providing the referral. He or she has contact and personal knowledge of few persons in the profession under discussion, perhaps only one person, the provider who receives the referral, the person with whom the referor has dealt for years. Most of the time, the referor lacks depth of knowledge, having had experience only with one set of circumstances, one or two types of portfolios (or medical, legal, or other needs), and exclusively with his or her own personal attributes and outlook. Hence, a referral mentioned by a friend arises from a narrow set of coincidences. A personal referral, however, has one unique and potentially important element:

### **MOST OF THE TIME, PROVIDERS AND CLIENTS LOOK ALIKE.**

The “look alike” principle is widely accepted in analysis of professional relationships. It states that the client has many personal characteristics similar to the provider. Some of the characteristics shared by client and provider are age, health, educational background, reading habits, risk tolerance, political and social views, similar homes and cars, and similar family structures. If the friend or acquaintance providing the referral (the referor) “looks like” the prospect, all three parties share some common characteristics, and a good match is likely to result. Only the prospect can weigh the potential impact of this phenomenon, and only if he/she knows well the referring party. The prospect must understand the reasoning behind the referral, and the prospect must gain at least a superficial sense of the temperament and circumstances of the referor. Otherwise, the referral lacks depth and substance.

Providers relish receiving referrals. When interviewed, successful practitioners in every field always state that their major source of new business is referrals from existing clients. In the grand scheme of things, the providers’ declarations are misleading. In crude terms, the statement, “I get new business by referral,” may be translated, “I do such a fabulous job that all the people I serve respect me and want their friends to deal with me.” Such a self-serving declaration is suspect, in part because it is a way to articulate self-praise without seeming pompous, in part because it declares, “I am very successful. I do not market any more.” In stating, “I get clients by referral,” the provider neglects to explain how, at the outset, before he had skills, before she was known, having just graduated from college, or having been recently discharged from the military, or

<sup>1</sup> Possible new word.

<sup>2</sup> Another new word? Hmmm. If it seems like an old word, pronounce it again.

## Referrals, *continued from page 2*

having changed professions, how this person gained the original base of business, the set of clients from which referrals arise. Without clients, referrals are impossible, but no provider, in public, explains how the business started. Following is a list of the only ways a provider builds an original book of business.

- Joins a prominent firm whose leaders provide prospects.
- Works in one field, such as accounting, developing a clientele by the previous method, then leaves to start another firm, taking clients along, perhaps to a slightly different field, such as financial planning.
- Receives a distribution of clients within a firm following the death, retirement, or departure of a colleague whose clientele is split up among remaining professionals.
- Merges with or purchases (usually for cash over time) an existing business having a good base of clients.
- Has unusual marketing and communication skills such that he or she is in demand as a public speaker, attracts significant audiences, and a predictable percentage of each audience become clients.<sup>3</sup>
- Makes a cajillion cold calls.
- Is born to a situation through family connections or perhaps through personal connections from college, the military, or activities as an athlete. Once in a while, having a famous name produces a long list of clients.

These are the primary ways by which ethical providers garner a client base, a factor forgotten during talks

<sup>3</sup> This is rare. The best I ever saw was trained as a drummer—a showman, an excellent communicator. Fortunately, he also is a fine professional giving good financial planning service.

with prospects and when teaching younger professionals how to get new business. “Just get referrals,” they say, when, in fact, the number of referrals received each year is entirely a function of the number of clients served. A provider with 1,000 clients will get more referrals than the provider with 100 clients. Probability theory explains the entire phenomenon about why one professional business is larger than another and why young doctors join existing practices and law school graduates aspire to work for “the best” law firms. We all start with nothing. We all receive great gifts from those who precede us. None of us make it on our own. Drawing on referrals from the original base, like a snowball going downhill, we can grow, hoping to leave behind a good base of business for those who follow us. As providers, we must be thankful for the fuel that started our engines.

The size of a firm, or the amount of business managed by an individual, is not an indication of quality service. If several referors mention the same firm, this indicates only that the firm has a large client list. On the other hand, if a professional provider has been in business a long time, has worked for quality firms, and has grown personally through continuing education, prospects can have above-average confidence that the person is ethical, hard-working, and worthy of consideration. Here is a final “on the other hand:” A negative word about a provider implies merely one bad experience, perhaps a difficulty to which the referor contributed. A professional will have a problem now and then, a miscommunication or error. When a negative reference is heard, the listener should look further. Remember Juan Carlos.

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Prospects have many good sources for referrals. The simplest is Yellow

Pages listings. By calling five firms in the telephone book, and by visiting at least three, a prospect will find good service. Professional associations also provide referrals to members who have met minimum standards of accomplishment within the association. An example is the Financial Planning Association.

On request, it makes referrals to Certified Financial Planners, persons who specialize in understanding the entire nature of an individual’s net worth.<sup>4</sup> However, many fine providers are not members of this association. Among providers who do not tend to join are trust officers, accountants, and brokerage firm account executives who specialize in narrower activities, such as timing and trading, options, tax-exempt municipal bonds, locating money managers, selling to institutions, sales of restricted securities, and so on. A prospect who relies solely on membership in a professional association will miss these persons.

Brokerage firms make referrals to professional money managers. The referrals are made to companies, not to individuals, and only companies meeting minimum objective requirements are in the referral pool. Typical requirements are a minimum amount of total money under management, a minimum amount on deposit with the referring firm, and registration with the SEC. Quality of service is not a criterion for referrals from associations or brokerage firms. Neither the level of personal service nor past performance of money invested is utilized in making referrals because no one has developed a standardized effective screen for these fundamentals. Also, firms and associations exclude younger and/or newer providers who have not had time to mature to the minimum criteria.

<sup>4</sup> John Guy of WP&M is a Certified Financial Planner.

## Referrals,

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Long-term success of a new professional relationship depends on understanding and rapport at the outset. Nancy and John of Wealth Planning&Management, LLC, strive to create that rapport by our “philosophy of intro-duction.” Our procedure is that Nancy or John asks prospects for three meetings. The first meeting has little structure. It is a “getting to know you” appointment, a time for listening. We describe our experiences, and the prospect speaks about his/her personal circumstances and goals. If a second meeting is agreed to, we ask the prospect to bring account statements, estate documents, tax returns and other papers that display the components of net worth. We ask questions to clarify information in the documents and to define the prospect’s specific and measurable goals, such as for retirement. If both we and the prospect continue to believe that a professional relationship is likely to work out, we ask the prospect to return for a third meeting at which we present written recom-mendations including an investment policy statement. After we refine the investment policy, the prospect-now-client signs documents. Investment management com-mences a few days later.

## PRIVATE PHILANTHROPY

**Question:** why does a professional observer, investor, newspaper columnist, or taxpayer have the right to criticize a private philanthropic event?

**Answer:** We paid half. The income tax and the estate tax that would have been paid in the absence of a charitable gift is our money. On a \$100 million gift, \$40 or \$50 million escaped the tax collector. Since we paid half the gift, we unashamedly ask:

Why did Ruth Lilly give \$100 million to a poetry magazine? Yes, she loves poetry. Yes, she has been one of Indianapolis’ finest and most effective philanthropists, having given, year in and year out, to an astounding number of local charitable/volunteer activities. She has been an asset to Indianapolis, a fine citizen who loves her home town. But, poetry?

Great poetry appears to arise from a combination of desire to express, facility with words, and understanding of human emotions and environments. In modern life, the only tool required to write poetry is a laptop computer, some available for \$500. The rest is time, talent and creativity, plus an above-average power of observation. Sooner or later, a quality poet will find a publisher, and lovers of this art can join together in someone’s home, or in a cave (i.e., “Dead Poets’ Society”), or in a classroom at no significant expense. How, then, can \$100 million improve poetry production in our fair land?

On the other hand, many fine arts will die without money. Ballet, opera and symphonies always operate on the edge of financial failure because ticket revenues do not cover costs and because the costs are huge. These fine arts need money. Poetry does not.

Mrs. Lilly may do whatever she wants with her large estate. We would not have it otherwise, nor are we willing to give up our right to question, to criticize, to seek answers. This, too, is a uniquely American right.

*Good night, Dorothy. You done good.*

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