2016 MDRT Annual Meeting e-Handout Material

Title: Unique Assets: The Hidden Half of Your Clients' Wealth

Speaker: Brad Davidson

Presentation Date: Wednesday, June 15, 2016

Presentation Time: 10:00 - 11:00 a.m.

Million Dollar Round Table
325 West Touhy Ave.
Park Ridge, IL 60068 USA

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WHAT ARE "UNIQUE ASSETS"?

Direct ownership	
Real Estate	Closely-Held Businesses
Farms & Ranches	Loans and Notes
Timber	Life Insurance
Mineral Interests	Tangible Assets & Collectibles

Indirect ownership	
Business Interests	Non-Publicly Traded Stock
Warrants/Options	General Partnership Interests
Real Estate LP Interests	Limited Partnership Interests
Oil & Gas LP Interests	Asset Holding Companies
REITs	Private Equity
Hedge Funds	Royalty Interests
Promissory Notes	Preferred Interests

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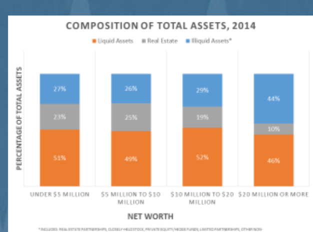
WHY CARE?



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A PARALLEL UNIVERSE

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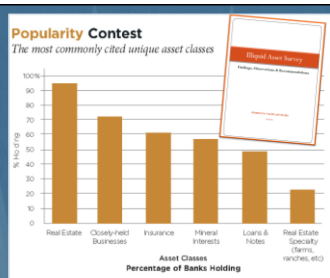

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MEET THE REAL ESTATE MOGUL

Activities:

1. provide leasing services (including collection of rents)
2. supervise contractors (i.e. lawn maintenance, asbestos removal, repairs and maintenance, etc.)
3. pay property taxes, insurance
4. inspect the property
5. handle property purchases and sales
6. make distributions
7. get appraisals

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OWNER AGES – NOW WHAT?

- Spouse unqualified (and growing old too)
- Kids incapable and/or not interested
- CPA, attorney, financial advisor unqualified
- Help!

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WHY YOU SHOULD OFFER SOLUTIONS

1. It is easy.
2. Clients need it.
3. Your competitors are not helping.
4. More assets under management.
5. Millionaire referrals.

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WHAT DO OWNERS NEED?

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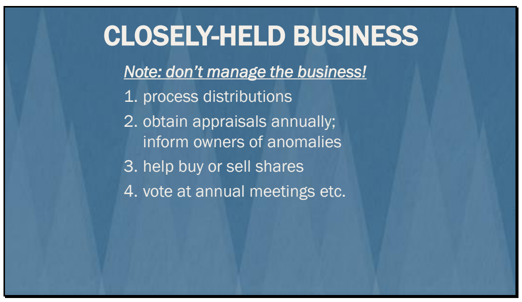
Slide 11



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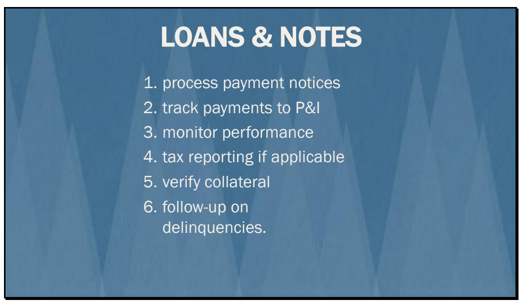

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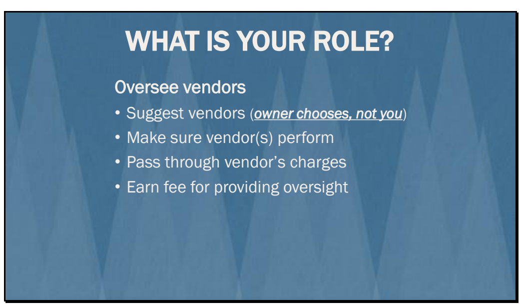

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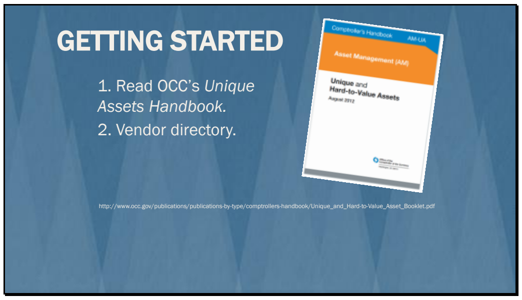

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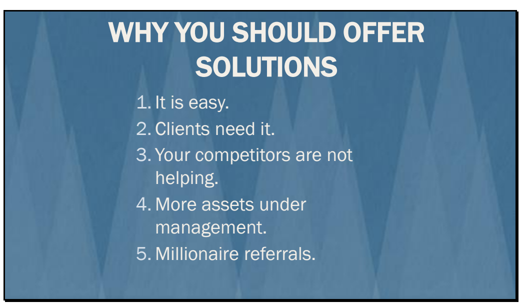

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Unique Asset Partners

Unique Assets: Hidden Half of Your Clients' Wealth

Let me start this presentation with a statement you'll likely think cannot possibly be true: most wealth advisors routinely ignore half of their affluent clients' assets. Let me say that again for emphasis: *most wealth advisors routinely ignore half of their affluent clients' assets*.

For argument's sake, agree for a moment that my assertion is correct. What are the implications? It would mean that wealth advisors are making suggestions based on imperfect information. Odds are the recommendations they are making are sub-optimal. For example how can they know how much insurance their clients should have? Or how large their estate tax bill might be?

Public speakers are taught that in a well-constructed speech, first you "tell your audience what you'll tell 'em". Next you "tell them". And at the end you "tell 'em what you told 'em". So first let me tell you what I'm going to tell you today. There is a class of assets people own that do not trade on any stock or bond exchange, that have no CUSIP number, that are not sold to investors by Fidelity, Merrill Lynch or Charles Schwab. I call this class "unique assets" and by the term mean investments that originate not on Wall Street but on Main Street – things like real estate; interests in privately-owned (usually family owned) businesses; mineral oil and gas interests; life insurance; farms and ranches; loans and notes; and collectibles.

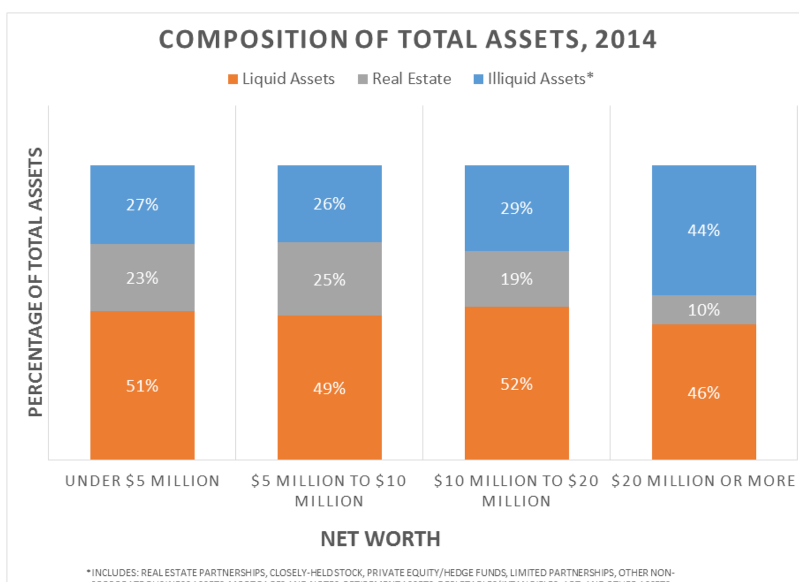
Even though you won't find unique assets much discussed on CNBC or in the Wall Street Journal, they are anything but an afterthought. In a few moments I will share with you data from the Internal Revenue Service that suggests unique assets represent roughly half of the assets of high net worth investors. 50 percent!

How many of you read Superman comics growing up? Do you remember this guy? Mr. Mxyzptlk, a character from a “parallel universe” where things were sort of like ours, but different. Well, you can think of unique assets as belonging in a parallel universe. Their owners care about them deeply -- but most advisors seem unaware they exist, let alone take it into consideration when giving financial advice. Certainly Fidelity never speaks of unique assets, or Merrill Lynch, or Schwab, or TD Ameritrade, or any of the other money management firms that advertise during the Super Bowl.

Yet to their owners, unique assets are hugely important. Moreover their owners have very predictable needs and they have those needs at predictable times in their lives. Advisors who understand this and who offer solutions (and without much effort, every one of you in this room can) will enjoy tremendous opportunities to differentiate themselves in the marketplace, attract high net worth prospects, and uncover rich opportunities to sell life insurance and other investment products.

OK, I’ve told you want I’m going to tell you. Now let's take a deeper dive into the world of unique assets.

Let me start by showing you a very important chart. The bar chart you see before you is drawn from analysis the IRS does every year of estate tax returns filed the prior year. The IRS slices and dices the data in those returns many different ways. This chart shows the assets owned by the decedents as listed on estate tax returns filed in 2014.



Q: who knows how large an estate has to be in order to have to file an estate tax return? A: slightly more than $5 million. So by definition, when we look at this chart, we are getting a peek into the investments of America's wealthiest investors. I would suggest this is a picture of how your wealthiest clients and prospects invest their money.

This chart has four columns. The left-most column shows smaller estates – those worth $5 million or less. The right-most column represents the assets owned by estates worth $20 million or more. As you move to the right you're moving up the wealth spectrum.

Each column shows the three most popular investment categories. The orange category represents the percentage of the decedents' investments invested in stocks, bonds and mutual funds. Liquid assets. Liquid assets range from 46% to 52% of the decendents' investments. When I first saw this chart, I wasn't surprised that liquid assets were the single biggest asset class; but I was surprised that liquid assets represent ONLY HALF of the portfolio of millionaires. I would have thought those kind of investments represented 80%, maybe 90%, of their investments.

What about the other half? What other kinds of assets do these decedents own? If you guess real estate, you are right. The grey category represents the percentage of the decedents' assets tied up in real estate. If you are at the lower end of the wealth spectrum -- under $5 million -- 23% of your assets are tied up in real estate. If you're a Bill Gates, that percentage drops to 10%.

That's kind of odd, too. But it makes sense if you think about it. If you're worth $1 million, what's your biggest asset? Your house. If you're Bill Gates, you may have 5-10 houses and they are worth a lot of money in absolute terms but they pale in comparison to his Microsoft stock. And that's what the data suggests: generally speaking, the wealthier one is, the less significant real estate is in the investment portfolio. (There are people like Donald Trump whose fortune is based on real estate, but they tend to be exceptions to the rule.)

The third category is shown in blue. The blue represents unique assets other than real estate: interests in privately-owned businesses; minerals oil and gas interests, cash value in life insurance, hedge funds, alternate investments, Civil War swords, loans and notes, etc. These assets represent 27% of the smaller estates up to 44% of the largest estates. Add the blue and the grey together and they equal the orange in terms of importance to their owners.

The reason why you should pay attention to unique assets is because to your best clients and prospects, they are just as important – just as valuable – as their stocks, bonds and mutual funds. Yet in my experience, most advisors focus primarily on their clients' traditional investments and ignore their unique assets.

In my view advisors who understand how important unique assets are to their owners have a tremendous opportunity to differentiate themselves in the marketplace and attract a lot of affluent prospects. The reason is because in my opinion (and you may disagree with me) most people believe investment advisors are pretty much identical. And how can you blame them? Every time they turn on the TV, there is an ad from Fidelity, or Schwab, or Merrill Lynch, or New York Life, or MassMutual – and every one of them says they are great asset managers. Laypeople have no way of telling who is telling the truth, so they conclude they're all the same.

Pretty much any investment advisor will help people invest in stocks, bonds and mutual fund, but almost none of them offer unique asset expertise. As you'll see in a minute, unique asset owners have very predictable issues at very predictable stages in their lives that keep them up at night. But how many advisors are out in the marketplace saying they can provide the help those owners need? The answer is – not many. Unlike what seems like an infinite number of firms vying to manage liquid assets, few if any are offering to provide unique asset help.

Let me make an analogy. I've lived in Annapolis Maryland, on the Chesapeake Bay, for close to 40 years; and I'm a history buff. You may have heard of the explorer John Smith, of Pocahontas fame. John Smith was one of the first Europeans to explore the Chesapeake Bay.

If you read his diary from that voyage, he talks about sailing up the Bay and seeing fish and wildlife in such abundance, he literally couldn't believe his eyes.

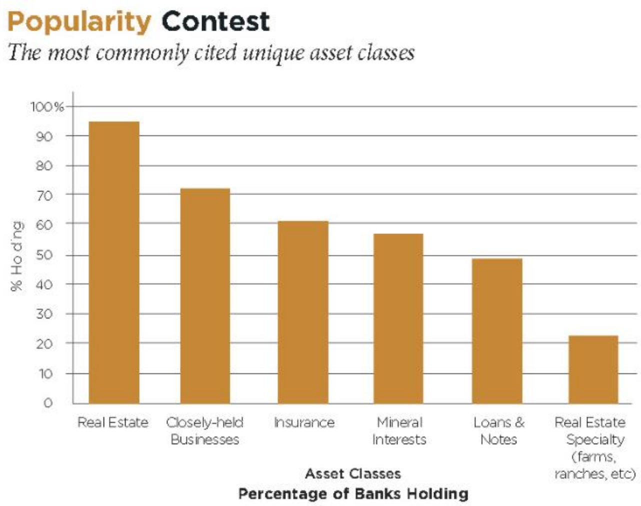
I believe advisors who become known among their clients and prospects as a source of unique asset solutions will find the field entirely to themselves, just like John Smith found the Chesapeake Bay.

So what kinds of issues do unique asset owners have, that you might be able to help them with? And how does it follow that by helping them, you can tee up opportunities to sell more life insurance and other solutions? Great questions. Let's start by spending a few minutes getting to know the eight main unique asset types; the issues their owners have, and how you can take advantage of this information.

The data I'm about to show you is taken from a survey my firm conducted in 2013. Here's the background. My firm, Spardata, is a business valuation firm. We work a lot with MDRT type insurance agents who work with business owners working on buy-sells, succession planning and so forth and who need a business valuation in order to know how much insurance the owner needs. In addition we have another side of our business that values unique assets for trust departments and other fiduciaries who need the valuations for compliance reasons, as well as to establish the value of an account for fee purposes. We call the bank side of our business the "institutional" side.

In 2012 one of the Federal bank regulators, the Office of the Comptroller of the Currency, published the *Unique and Hard-to-Value Assets Handbook*, which really shook up our institutional clients by providing pretty specific guidance about what constitutes prudent behavior vis-à-vis administering unique assets. Banks were anxious to know how their practices stacked up against their peers, and because bank examiners never share that information, Spardata decided to conduct a survey of trust institutions and share the results with the industry. We ended up conducting anonymous interviews with 47 trust institutions, focused on how they administer their clients' unique assets.

Let me share with you some of the key highlights of the Survey, because it sheds light on what unique asset owners need and find valuable.



This chart shows how widely held each unique asset type is. For example virtually 100% of the surveyed banks reported holding real estate-related unique assets; by inference you can assume virtually all of your clients own real estate too. The next most widely-owned unique asset class is closely-held business interests, followed by minerals oil and gas, etcetera. I think it is safe for us to conclude that the distribution of unique assets held by the surveyed institutions is reflective of the frequency with which these assets are held by affluent individuals in the general population. So for example, likely more than half of your wealthy clients own stock in a privately owned business.

Now let's talk about the kinds of issues unique asset owners face, and when. Perhaps the best way to explain is to tell you a story about a hypothetical unique asset owner whom I'm going to call "Mr. Unique A. Owner". Mr. Owner is a very successful business owner -- 70 years old and still very active. For this illustration, let's assume he's made his fortune developing four or five apartment complexes in his home town. He not only developed them, he's still actively involved in leasing the apartments, collecting the rents, supervising the maintenance crews, everything.

Is there anything you or I could tell Mr. Owner about how to develop and manage apartment buildings? No – he's much better at it than we are. We have nothing to offer at the moment that he would consider valuable.

But sooner or later, something's going to happen to Mr. Owner and he'll no longer be able to do what he's been doing for decades. He's going to die or get Alzheimer's or want to move to Florida where it's not so cold in the winter. The question that worries him as he's lying in bed at 2am is, who will step into his shoes and do what he's been doing to protect and grow the value of these properties once he no longer can?

By the way, don't waste your time suggesting he sell the properties and invest the proceeds in traditional investments -- that's not going to happen. Mr. Owner feels emotionally attached to these properties, and so does his family. They've proven to be fantastic investments. Furthermore he believes Wall Street is a den of thieves that he doesn't understand and really isn't interested in entrusting his financial future there. These properties are not going to be sold for a long time.

Let's put ourselves in the mind of Mr. Owner as he ponders the question "what is going to happen when I can no longer manage this stuff?" So he goes down a very short list of people he trusts who might possibly step in for him.

First possibility on the list is his spouse. Is that a viable option? Probably not. Mrs. Owner is typically not as experienced as he is at property management. And even if she is, she is just as old and isn't growing any younger.

What about the kids? Mr. Owner has four kids. Two are in medical school. One lives out of state. The fourth still lives at home, but (let's say it politely) he has "issues". None are appropriate choices to provide the skills Mr. Owner has been providing. While there are exceptions to the rule, generally speaking the kids are not qualified to, or interested in taking over when Mr. Owner steps down.

Who else could do it? What about his trusted advisors? He's been using the same attorney for 30 years and trusts her completely. But while his attorney is great at the law, how much does she know about property management? Not so much. And the same goes for his CPA, and for his financial advisor.

That constitutes the entire list of people on Mr. Owner's list of possible replacements. Unless you intervene, he's probably not going to do anything; and then after he's gone, the family will have to use the Yellow Pages to find somebody, and keep their fingers crossed they won't be ripped off.

What if instead you were to say to Mr. Owner, "You are doing a tremendous job managing those properties, and I'm sure your going to keep at it for years to come. But if the day ever comes where you can't do it any more, please know that I have a stable of approved specialists who can step in and provide those services. I would pass along their charges to your account, and add a supervisory fee of X basis points to oversee the vendors and make sure they are doing what they promised to do. Wouldn't it be nice to know that if you (or more likely, your family) ever needed them, that my people can step in and do what's necessary to preserve and grow the value of these assets?"

Would Mr. Owner be happy to know you offer this solution? Would his spouse and kids appreciate it? Absolutely.

And if you play your cards right, even though Mr. Owner doesn't require these services today, you can arrange it so that in order to have access to your unique asset offerings, he must start doing business with you today. I suggest you require clients to have a minimum level of liquid assets with you today in order to access your unique asset solutions at some point in the future.

I cannot emphasize enough how many Mr. Owners there are out there, and how frustrated they are with the status quo. They can't turn on their TVs or fire up their Internet browsers without being bombarded by ads from money managers; but not one of those advertisers wants anything to do with unique assets, just the liquid stocks, bonds and mutual funds.

Think how excited these people would be to know that not only are you a skilled life insurance advisor, you are also a gatekeeper for unique asset service providers. What a way to differentiate yourself from the competition!

Before I go any further, let me address something I know is on your mind. Right about now you are probably thinking: "Brad, are you nuts? I sell life insurance, not unique asset services. I don't manage office buildings, or perform business valuations, or help landowners negotiate leases with oil companies. Even if I agree that unique asset owners would find those services valuable, how can I say I offer such solutions? And even if I did offer those services, how would that lead towards the result I want, namely to sell more life insurance?"

These are two great questions. Let me answer them now. As to the first - how can you offer unique asset services when you don't do them yourself? Simple: build a Rolodex of good service providers who can provide the administrative services your clients need for their specific unique asset. For example if they own a strip shopping center, they may need a property management firm. If they own a mineral interest, they may need a "landman" skilled at negotiating leases with drilling companies. If they own timber, they may need the services of a forester. I will tell you that there are dozens of niche service providers operating in this space but they are hard to find -- they are typically small outfits that market using only "word of mouth".

You can do the vendor research yourself, and for extra credit take each one through a due diligence process before you refer your clients to them; but if you are interested in a less time-consuming alternative, just call Unique Asset Partners. We maintain a Rolodex of service providers we recommend. So whenever you have a client needing a specific service, contact us and we will give you the names of some firms you should contact.

And to the second question, how does all this effort lead to greater life insurance sales? In a few minutes I will address this critical question. But before doing that, let's return to Mr. Owner. What services exactly would he need, if he could no longer manage his portfolio of apartment buildings? Here are the things he has been doing for years for each of his properties.

[Slide]

Traditional real estate (residential, commercial, retail and industrial)

- Pay property taxes and insurance;
- Conduct annual inspections;
- Provide leasing services (including collection of rents);
- Supervise contractors (for example, lawn maintenance, asbestos removal, repairs and maintenance);
- Handle asset sales;
- Process distributions;
- Vote shares for annual meeting and other corporate actions; and
- Assist with valuation.

If Mr. Owner were to die or get Alzheimers or simply decide he's tired and wanted to move to Florida, he would need someone to do all of these things. And you better believe he and his family would be happy to pay a handsome price to whomever provides these services. In our example Mr. Owner owns apartment buildings; but people own all kinds of unique assets. When we did our survey of trust institutions, we asked the banks that were providing unique asset services to list those services, on the assumption that if some of their clients were willing to pay money for those services, they found them valuable (and by inference, other people who owned the same kinds of assets would too). Here are the main unique asset categories, and the services their owners are willing to pay for. If you want to win the interest and loyalty of Mr. Owner and other millionaires like him, be able to refer him to a vendor who provides these services.

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Specialty real estate (farms, ranches, timber, orchards and water rights)

- Handle crop/timber sale process;
- Negotiate farm tenant leases;
- Pay taxes, insurance and other bills;
- Oversee the tenant;
- Collect rents;
- Conduct annual inspections;
- Handle asset sales;
- Process distributions; and
- Assist with valuation

[Slide]

Minerals, oil and gas

- Process division transfer orders;
- Negotiate leases and releases:
- Record instruments, operating agreements and contracts;
- Review/approve division orders;
- Review current leases to ensure they favor landowner and not the drilling company;
- Review authorization For expenditure (AFE) requests;
- Audit royalty accounting reports; and
- Assist with valuation.

[Slide]

Closely held businesses

- Process distributions;
- Buy or sell shares:
- Vote shares:
- Assist with dispute resolution;
- Review documents;
- Conduct planning services: retirement, estate, tax and succession; and
- Assist with valuation.

[Slide]

Loans and notes

- Process payment notices;
- Track payments to principal and interest:
- Monitor performance:
- Report taxex if applicable;
- Verify collateral;
- Follow up on delinquencies; and
- Assist with valuation.

[Slide]

Life insurance

- Policy pre-acceptance reviews;
- Administer the trust, including::
    - send premium notices;
    - accept and process payments from grantor;
    - alert trustee to make premium payments;
    - send *Crummey* notices;
- Perform simple trust bookkeeping, including;
- Review trust documents;
- Determine policy suitability, including;
    - examine internal policy expenses (Uniform Prudent Investor Act (UPIA) Section 7 compliance);

    - establish the reasonableness of the rate of return expected on invested assets underlying policy cash values in relation to risk/return objectives of trust (UPIA Section 2 compliance);
- Policy remediation:
    - policy analysis
    - policy replacement review
- Assist in valuation.

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Tangible assets and collectibles

- Obtain vault to hold valuables; and
- Subcontract with specialized facilities for unusual assets.

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Alternative Investments (for example, hedge funds, private equity)

- Process distributions;
- Vote shares (for example, at annual meeting);
- Prepare annual valuation/research report;
- Provide planning services: retirement, estate, tax and succession;
- Buy or sell shares;
- Assist with dispute resolution; and
- Review documents.

Now let's turn to the question of greatest interest to MDRT members: how would positioning yourself as a unique asset problem-solver lead to increased life insurance sales? I think you already have some ideas, but let me suggest four:

1. Distinguish Yourself from Competitors. Earlier I expressed my opinion that for most people, insurance agents and investment advisors generally seem pretty much the same. You and I both know there are huge differences but unless you are in the business, it is really hard to tell who's good and who's not. To the lay person they all sound pretty much the same. And they all want to do the same thing: tell you how to invest your money – that is, your liquid assets.

None of these financial advisors ever even *mention* unique assets, let alone suggest how owners can solve the issues that keep them awake at night. So if you decide to market yourself as a unique asset solution provider and get known as such in the marketplace, the first benefit you will enjoy is a clear point of differentiation from all the other financial advisors out there. In a few minutes I will suggest three steps you should consider to establish your brand in the marketplace.

2. Meet the 1%. Who in this audience has too many millionaire clients? Nobody? Who would like more such clients? Everybody? Then you should be interested in any approach that creates opportunities for meaningful conversations with these folks. Again, since mainly millionaires own unique assets, positioning yourself as a unique asset solution provider will attract them and create plenty of chances to have conversations with them. Because none of their existing advisors have even discussed the topic (let alone offer solutions), they likely will be only too happy to share their needs with you, and implement whatever solutions you may suggest.

A corollary to this point is that millionaires tend to be friends with other millionaires. Once you start helping clients solve their unique asset issues, it won't be long until they start talking about you to their friends at the country club. Expect your phone to start ringing with prospects of exceptional quality.

3. *Identify underinsured millionaires*. One bit of advice you should always give unique asset owners is to have their unique assets properly valued. Invariably they have never had the asset properly valued (or at least haven't had it valued in the past two decades). I am a business appraiser by training, and it is my experience that owners tend to misvalue their unique assets by orders of magnitude. It may be worth $X but the owner thinks it is worth $3X, or $1/3rd X. Knowing the asset's real value is necessary in order to decide whether it (or its owner) is sufficiently insured; whether they have an estate tax issue; whether their portfolios of liquid investments may need to be rebalanced; and other similar questions. I wonder if anyone in this room can help millionaires with those matters?

4. Problem Solver, not Product Pusher. Like it or not, people tend to think of life insurance agents as "product pushers" -- that is, focused on selling the insurance, not necessarily on the client's needs. One of the benefits of positioning yourself as a unique asset problem solver is – you're not talking about life insurance! It is a highly effective way to enter into a conversation with the unique asset owning prospect in a non-threatening way. The life insurance piece will rise to the top before long, but by that time you will already have established the relationship and will have a clear picture of the owner's needs.

To recap: if you want to (i) distinguish yourself from the competition, (ii) meet the 1%, (iii) identify underinsured millionaires and (iv) be seen as a problem solver, not a product pusher; then *position yourself as a unique asset problem solver*. Here are three steps I suggest you follow to position yourself as a unique assets expert:

1. Educate yourself about unique assets, the issues they create, and what services are required to solve those issues. A good place to start is an article I wrote in the June 2015 issue of *Trusts & Estates* magazine entitled "Unique Asset Administration", a copy of which you can download for free from our website www.UniqueAssets.com. A popular resource used in the trust industry is a 200 page guide I wrote in 2014 entitled the *Unique Asset Road Map*. The *Road Map* is available for purchase at our website also.

2. Identify service providers who can provide solutions to unique asset problems. Assuming your clients' unique assets are located in your community, in many cases the service provider will need to be local (for example, a local property management firm is usually the best choice to manage a local apartment building). Certain other unique asset types can be handled by out-of-town service providers. Again, Unique Asset Partners maintains a stable of approved vendors so we can be a good resource for you.

I mentioned it before but let me repeat it for emphasis: the fee arrangement we suggest you adopt is to pass along the vendor's fee to your client; and you get a supervisory fee pegged to the asset's market value, in consideration for which you make sure the vendor is doing what the contract requires. (In other words, identical to a mutual fund manager charging a fee to manage the mutual fund, and you charge a asset management fee on top of that.)

3. Finally, let "centers of influence" know you have unique asset expertise. CPAs, estate attorneys and trust officers whose clientele include high net worth individuals will be particularly interested in hearing about what you can do to help their clients address their unique asset issues. Take them to lunch and let them know what you can do. They may have been unwilling to meet with you in the past because they thought all you did was sell insurance, but your new unique asset capabilities will help them see you in a different light.

That concludes the main part of my presentation. Now (i) I've told you what I'm going to tell you", and (ii) I've told you. So there is only one thing left for me to do, and that is (iii) to tell you what I told you! Here are the key points I hope you take away from this presentation:

1. The world of unique assets is every bit as large, every bit as valuable, as the world of stocks, bonds, mutual funds and other traditional assets. Yet 99% of investment advisors don't even discuss unique assets, let alone help their clients who own them solve their problems. This creates a golden opportunity for you to differentiate yourself from your competition.

2. Unique asset owners have very specific needs and highly predictable times in their lives. Let them know you have the solutions they require, and they will beat a path to your door. There's no more effective way for you to generate a steady stream of millionaire referrals than to get the word out that you are a unique asset solution provider.

3. Nobody in this room wants to be seen as a product pusher. A major incentive for you and your fellow MDRT members to position yourself as a unique asset solution provider is – you don't have to lead off with a life insurance discussion. Focus on solving the person's unique asset issues, and the life insurance discussion will happen, naturally and persuasively.

That concludes my presentation. Questions?

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