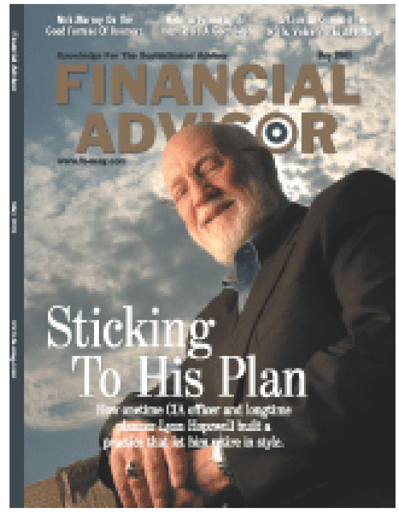
May, 2005

Sticking To His Plan

By Tracey Longo



How veteran planner Lynn Hopewell built a business that's allowed him to retire in style.

Veteran financial planner Lynn Hopewell doesn't like leaving things to chance. In a world of uncertainty that means serious planning, whether it's for his clients' retirement or his own fourth career. Not long after he went into practice in the 1980s, he announced from the podium of a National Association of Personal Financial Advisors conference that his goal was to build a firm that would allow him to retire in style—and he did just that. One question that folks in the industry ponder even today: How was Hopewell so far ahead of his time? He built and ran one of the leanest, most profitable planning shops in the industry, converted to fee-only before it was even a blip on the radar screen, introduced Monte Carlo modeling (a computer method for showing various investment outcomes) to the industry and sold his planning firm for a cool $3 million—all by the ripe old age of 62. One renowned planner, who was hired by Hopewell to conduct two separate business audits on his firm in the 1990s, says one reason he thrives is that he has never left his success to chance.

The very fact that he hired another advisor to come into his firm and turn a magnifying glass on his procedures and even personnel put him light years beyond much of the profession, says Deena Katz, president of the wealth management firm Evensky & Katz in Coral Gables, Fla. "He wanted to get things right," says Katz, who got the assignment from Hopewell. "He has a perfect background for understanding the business world, and he wanted to build a business to sell, so a lot of the problems you might find at other firms just weren't in evidence at his."

A big, charming man who resembles Burl Ives, Hopewell realized early on that creating value in his firm meant making it less independent on his own larger-than-life abilities and personality. "Lynn created a highly efficient back office that was very scalable, and he was careful to make sure he wasn't the only person clients saw at the firm," Katz says. "In fact, client contacts were highly scheduled and planned. He taught them what to expect and then he delivered it."

It was no surprise to Katz or any of the other advisors who had come to know Hopewell and his work well that he sold his firm in 1999 for $3 million. He was 62 years old at the time. "My highest objective when I began my financial planning career was to retire as soon as I could," Hopewell says.

Operating at an efficient and effective level was nothing new when Hopewell decided to enter financial planning in 1980. It was the third career for the Harvard M.B.A., who had spent his first as a communications engineer with the Central Intelligence Agency. After an eight-year stint with the CIA, which included traveling to 40 different countries by the time he was 27, Hopewell worked as an engineer and executive in the burgeoning tech corridor of Northern Virginia doing defense contracting. In addition to managing 120 scientists and engineers as operations director of Computer Sciences Corp., Hopewell worked on the team that originally developed the Internet for the Defense Advanced Research Projects Agency.

But after more than a decade of doing defense contracting, "all of a sudden I just got tired of it. I wanted something I could do myself," Hopewell says. He enrolled in law school at George Washington University in Washington, D.C., but as he sat in the parking lot his first day of class, the thought of four more years of school stopped him from ever attending a class.

"Then I saw an article in Money Magazine, which had Alex Armstrong on the cover (today she's the president of Armstrong McIntyre & Severns, a leading Washington, DC., advisory firm) and I said, 'That's for me. I can do that.'"

As luck would have it, he found a Northern Virginia financial planner who would take him on. "Don Rembert's partner had just quit on him and he needed someone. He took me on as a full partner and made this deal: All the new money that came in we'd split," Hopewell says. "The partnership lasted ten years. All my success, I lay at his feet." As Rembert remembers it, he met the would-be planner when Hopewell wanted to run for supervisor of Fairfax County, Va. "I was damned and determined that I was going to help him," says Rembert, who is today president of Rembert, Pendleton & Fox, a prominent advisory firm in Falls Church, Va. The two also banded together to help create the Greater Reston Republican Club. Hopewell lost the election, but the friendship culminated in Hopewell joining Rembert's firm in 1980. "We had a grand time. No doubt about it," Rembert says. It was the earliest days of financial planning, and the two got to fashion their business exactly as they saw fit.

Today, Rembert credits Hopewell with acquiring and designing much of the technology at the firm. Hopewell also converted the firm to a fee-only shop in just his second year in practice, an almost unheard of way of charging for investment advice back then.

At that time, financial planning was beginning to boom as the real estate limited partnership business, with its whopping commissions, flourished. Hopewell reasoned that it was possible to avoid all the conflicts of interest surrounding the commission world in the 1980s, but "you would have to have been a saint, and I knew I wasn't one."

"Lynn was determined to go fee-only back in 1982. We even went to the SEC to get approval so we could do fee-offset," Rembert says. Rembert says the two worked together in a complementary fashion. "Lynn was smart and honest and we got along fine. He liked the administrative and technical, and managed the staff. I was more client-driven and liked to be left alone with my clients. We developed together how to do a proper financial plan." What the two came to see quickly was that it was important to stress the process over the transaction when it came to building a planning firm. "When you grow you have to have a format that everyone can use to play off the same sheet of music," Rembert says.

The firm also provided rich ground for Hopewell to begin to apply risk management techniques, specifically the Monte Carlo modeling he has become known for, to real investment portfolios. The modeling is used to forecast the likelihood of investment success given a variety of scenarios, including distribution rates, stock market returns and inflation. Hopewell says that he learned the techniques at Harvard, but what is clear even today is that he was one of the first to bring the concept into mainstream financial planning. Up to this point, planners would have to acknowledge that they were "ballparking" the likelihood a client could retire comfortably for the duration of heir life, using a set of static inputs.

"To this day we are confident that there is no way to manage the market, just the risk of the market," says Rembert. "That's where Lynn's use of Monte Carlo and technology came into play. We got to see exactly what would happen and help clients plan accordingly."

Katz said she first met Hopewell more than 15 years ago and was in awe of him because of his breakthrough vision of risk management for client portfolios. "I heard him speak on retirement planning and went up to him and fawned, along with a lot of other people," Katz says. "The man is an icon."

Charlie Haines, a noted advisor who's firm today manages $400 million, got his start with Rembert and Hopewell after earning his M.B.A. at the University of Virginia. The firm, he says, was "arguably the best firm in the D.C. area at the time. "Lynn and Don were my mentors," says Haines, who is today president of Charles D. Haines LLC, in Birmingham, Ala. "They were a great team. Don loved the marketing and client relationships, and Lynn was very analytically creative. I can't think of a better place to be at that stage of my career. They let you try anything you could dream of if you showed potential."

One memorable project for Haines was the development of Monte Carlo computer simulation. "Lynn took the resources of the firm and said, 'I want you working on this.' He guided the design of the software and wrote a number of articles on the subject of how you evaluate someone's ability to retire," Haines says.

What Hopewell did, in a series of articles in the Journal of Financial Planning, was to demonstrate why planners should not operate in a static vacuum when analyzing portfolios to see if they will provide adequate cash flows throughout a client's retirement. Hopewell challenged the industry in writing, and asked if planners

couldn't do a better job modeling and communicating the likelihood of retirement planning success or failure.

Hopewell won a recent award from the Journal of Financial Planning, which said his story introducing Monte Carlo simulation and applying it to retirement planning was among the ten most influential articles of the past decade.

Ed McCarthy, a former planner and journalist, says, "What Lynn did more than anyone else is popularize Monte Carlo simulation and its application to financial planning. He started going to conferences and preaching like an old-time Southern Baptist Preacher. I think it was a turning point for the industry. He was out on the stump for three to four years and it went from something very obscure to a recognized mainstream concept, largely because of his efforts," McCarthy says.

Haines uses Monte Carlo simulation in his firm today. He also credits his mentors with teaching him how to work with wealthy clients and price his services profitably. The firm he created back in 1986 when he moved to Alabama was fee-only and remains that way today. “Lynn was great at pricing models, so I really think he helped the business side of the firm. Without the training I received, both business and technical, I don’t know if I’d have had the courage to start my firm as early as I did and know how to run it. Today 20 people work for me. I still use some of the techniques I learned there.”

Hopewell and Rembert parted ways amicably, mostly, Hopewell says, because he had a specific vision in mind of the firm he wanted to build, to manage—and to sell. Hopewell set out on his own and founded The Monitor Group in 1990. “The question for me was how do you build a business that has value and lets you retire,” says Hopewell. “You have to build a machine that hums. How did we grow to have a firm with $130 million under management, five employees and $1.2 million a year in gross revenues? I asked myself what clients needed.”

Hopewell chose early on to keep services fairly narrow, eschewing things like tax preparation and family office services. "We did tax preparation one year, and it was stressful and easy to make a mistake. I never lost a client over investment returns, but I lost one on occasion over administration, so I was determined to keep things simple.”

He narrowed services to investment advice and estate planning. “I wanted to do what we could do well and automate; 95% of our clients needed the same estate planning, so we could standardize our activities. We developed a highly articulated process that was highly routinized, and I did it purposely. The underlying objective was to build a machine that runs without you. You’re job becomes putting a little oil here, a little grease there, to make sure everything is running smoothly,” Hopewell adds.

That was critical to his vision of selling his firm. “I tried from early on to put myself in the buyer’s seat. How would they see my firm? I knew I didn’t want to see a firm where the principal is so involved the clients go away when he does.” Hopewell was also very good with communicating the investment management process to clients. He showed them the returns of a sample portfolio over ten years to impress them. Then he’d show them a portfolio where the returns seemed to be zigging and zagging all over the place. “They’d say, ‘I don’t want that one.’”

But it was the same portfolio, only reported quarterly. “We had a lot of technical skills, and we engineered portfolios of asset classes that were as uncorrelated as possible,” Hopewell says. We got consistent returns without volatility. We used institutional mutual funds, because they met our needs. We knew if we got investment decisions right, we were 90% of the way there. And we used Monte Carlo. That created a collaborative relationship with clients. We could say, ‘Your chances of running out of money are 30%. Let’s get it to 5%.’”

When he put the word out through word-of-mouth and a handful of letters that he was interested in selling in 1998, he had already had Katz do two business audits and hired an outside firm to audit his financials twice. The findings were definitely in Hopewell’s favor. His firm was grossing $1.2 million a year on its $130 million in client assets and netting $750,000 a year in free cash flow. “It was truly a lean operation that was easier to transfer to a new buyer than you could imagine,” Katz says. But it was the $750,000 in free cash flow that was the dealmaker. “That’s the only thing that matters,” both Hopewell and Glenn Kautt, who bought the firm for $3 million, agree. “I created something of high value and buyers liked what they saw,” says Hopewell. “I had a lot of interested buyers, but I wanted someone who could pay almost all cash, and that’s what Glenn did.”

The fact that both Hopewell and Kautt have Harvard M.B.A.s, scientific backgrounds and similar investment philosophies no doubt helped too, although Kautt admits he has given up managing individual securities in favor of mutual funds, thanks to Hopewell. The two have also authored a number of articles together on Monte Carlo simulation and dynamic risk analysis.

After almost a year of negotiating over price and the back end of the deal (two other buyers were also offering almost full price, but wanted to finance part of the offer, something Hopewell believed was too risky), Kautt bought the firm in April 1999. Today, he has grown The Monitor Group to $325 million under management. “I’d submit to you that Lynn’s business model was so efficient in his day and still is, we are still one of the most profitable planning firms in the country,” Kautt says. “He looked at this as a great business he could practice in, as opposed to a great practice he could play in, and that made all the different.”

Lynn stayed on one year to help transition clients over to Kautt. “Eventually, I came in and saw clients with Glenn in his office and they’d wave and I’d wave and I knew the transition was complete,” says Hopewell, who is still a board member of the firm today, after five years as chairman. “I knew he had every intention of retiring, and it's a full and active retirement," says Kautt. "He's writing books and he has two-and-a-half people working for him to help. Now, Lynn is a humble man, but he still uses his organizational skills to make the highest and best use of his time," he adds.

Hopewell maintains his fourth career—retirement—has been the best so far. He's writing four books (including one on his great-great-grandfather, who was in the Black Horse Cavalry, another on his great-great-grandmother's prominent Virginia family and one on the 1954 high school state championship football team he played on (for more, see www.hopewell.org).

He even added a wing on his Warrenton home, where he resides with his wife Leslie, so he and his researchers have room to spread out. He also writes a local column once or twice a month for the Fauquier Citizen. "It's my way of participating in the life of the community," says Hopewell, who still manages $15 million for one client. "They like me and I like them, and it keeps me in research," Hopewell laughs.

[From the May 2005 issue of *Financial Advisor* magazine.]