The Things You Can Control Five areas advisors should focus on today.

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Financial advisors today ask a very different sort of question than they did a generation ago. Formerly, advisors focused on questions that might yield big gains, but that had only a slim chance of being answered correctly with consistency. These are the topics you still see debated on financial television. Where is the market heading? Which way are interest rates moving? Which sectors or fund managers are likely to reap the greatest gains?

Today's advisors largely ignore these questions, instead focusing on a second type of question that is of far lesser impact, but has the advantage of being answered with far greater certainty. Questions like this include how much cost do I incur with my investments, what is my clients' likely tax bracket, and what is their time horizon? In short, today's planner is not your father's stockbroker.

There's a lesson for us all in how the focus of the advice profession has shifted. If there's a mantra for today's best advisors, it's to control what you can control and to not fret about the rest, even if the things you can't control are the things clients think are the most important. None of us can answer where the market is going; all of us should know how we're planning to participate in the markets, what it will cost, and what we're aiming to achieve.

With these types of questions in mind, here are five areas of focus for today's advisor:

1 Develop clients' spending discipline. People too often forget that the real enemy of investment is consumption. It's far more pleasurable in the short term to spend than to save. We crave immediate gratification. Moreover, our society no longer frowns upon such a shortsighted focus. Thrift is a forgotten virtue. Wise planners get their clients on budgets and try to develop spending discipline early. Overconsumption remains a major problem in the Western world.

2 Get clients to become committed savers. It's not enough for clients to start to live within their means; they must commit to staying with that program and increasing the amount they save over time. Increasing savings' percentage as salary rises, limiting debt, and paying the mortgage off early are all ways to up clients' savings game over time. Good advisors work with clients to control and improve their savings patterns.

3 Use a goals-based asset allocation. Once you commit clients to saving, it's essential to make prudent investment allocations. Market forecasters center on which stock to pick or which sector to bet big on. Smart advisors ignore all of that, instead focusing on the facts they know about their clients and their goals. I recall one top advisor laughing at a seller of asset-allocation software who made the case that a 25-year-old's asset allocation needs to be a function of career choice, risk tolerance, and current market valuations. The advisor responded, "I'm telling any working 25-year-old to be 100% in stocks for their retirement, regardless of their career choice, market expectations, or risk tolerance." Asset allocation should be linked to what you can control (the client), not what you can't (the market).

4 Control the costs. After being largely ignored for years, costs have moved center stage in the investment industry. Yet one can argue that costs are still underappreciated. If investment costs were stated in dollars or expressed as a percentage of potential gains, rather than as a percentage of assets under management, they'd receive the attention they deserve. A 1% management fee doesn't sound like much, but if it's in an asset class like bonds where one might reasonably expect only a 3% return, it's a third of the potential gains given over to the provider, a party not sharing in the risk. That's steep. Smart advisors and investors have pushed cost to the center of the investment equation, as it's one of the things an investor can best control.

5 Be tax-savvy. Investors don't have complete control over taxes, but that doesn't mean they have none. Assigning assets to taxable or tax-deferred accounts, choosing between municipal- or corporate-bond funds, buying active or passively managed funds—each of these choices can influence portfolios' tax efficiency. Sadly, the United States is one of the least tax-efficient markets for fund investors, being one of the few markets in the world to force taxable distributions of internally generated capital gains in mutual funds. Fund taxes are messy, but there are ways to control them. Smart advisors pay attention to potential capital-gains exposure. They are wary of events like manager or strategy changes that may unlock gains, and may insist on smaller or even negative exposure in such cases.

None of the things above are likely to be featured on financial television, but they're the things good advisors focus on. It isn't sexy, but it's where value can be created. There's money in the mundane. M

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