

# A number one solution

**Bill Loftus** of **LLBH** talks to *Private Asset Management* about the firm's *Virtual Family Office* model



## Bill Loftus

is a founding partner of LLBH Private Wealth Management and leads the firm's corporate executive services, lending and alternative investment operations. Bill began his career at Merrill Lynch in 1986 before spending ten years as a senior vice president at Smith Barney. He returned to Merrill Lynch in 1998 and left in 2008 to form LLBH with his three partners.

**L**BH Private Wealth Management, LLC is an independent registered investment advisor offering a full range of wealth management and family office services including financial planning, asset management, concentrated stock hedging, lending, cash management and alternative investment due diligence. Often referred to as a 'Virtual Family Office', LLBH delivers these myriad solutions to its clientele to help bring clarity and control to their financial lives. From its base in Westport, Connecticut, LLBH provides these services to wealthy families across the country including its significant west coast presence focused on the entertainment industry.

### **Private Asset Management (PAM):** What is LLBH's *Virtual Family Office* and how did the idea come about?

**Bill Loftus (BL):** The *Virtual Family Office* (VFO) is a service model that we offer to our clients which encompasses not only investment management but also a range of tax, legal, general financial planning and philanthropic services. We work with families in building out their trust and estate plan which involves coming up with the blueprint as well as advising them on the specific type of structures which they should be putting in place to realize the plan, and working with their lawyers, insurers and other family advisors to fully understand what the family is trying to accomplish. We create a legacy plan to help them grow their wealth and manage their assets in the smartest and most tax efficient manner. What the VFO does is provide a service model that allows us to provide advice and guidance to our clients in every range of their financial life.

We came up with the idea of this model when we noticed that a lot of wealthy families had a number of different advisors for different needs who weren't communicating with each other. We noticed there was a very disjointed, non-comprehensive approach to delivering financial

services and we decided that there had to be a better way to do this. The way that most wealthy families attacked this was through putting together their own single family office (SFO) which worked fine through the middle of the last decade, but after the global credit crisis in 2008 a number of these wealthy families realized that having a SFO was an extremely expensive proposition. To have an SFO you need to have about \$250m or more in assets; the cost of running a SFO just putting in place the people that you need to fill out the component parts is about \$2.5-3m, and that's before paying the investment management fees. We realized that we could fill a role where we worked with our clients' existing advisors, not replacing them, but supplementing and augmenting their activities and enhancing their relationships. We take over the responsibility for facilitating the information flow, making sure that everybody is on the same page and everyone is communicating. Our role is to speak to the family to make sure that we understand what the family wants and then articulate and disseminate the strategy to the different advisors to make sure that everybody is working together for the benefit of the family.

### **PAM:** What are the advantages for wealthy families of the VFO model over starting up a single family office?

**BL:** The primary advantage is that it is a far more effective plan because there is only one entity that owns the problem and takes responsibility for the various relationships. We will also take the time to educate the client and help them better understand what the overall plan is.

The second is that it saves money. We save people millions of dollars in taxes just by having a comprehensive tax plan in place, and in all other areas of the family office. The only way we can do this is by having a very low client to advisor ratio, which is about ten clients to one team member. The average registered investment advisor (RIA) probably has about 50 or 60 clients and the average wire house has around 275 relationships for every advisor.

We also work with the next generation, helping children become educated in the investment world. We have what we call a personal fulfillment chart, where we sit down with the family and talk about all the different component pieces and milestones they need to accomplish.

**PAM: What are clients' main concerns when it comes to controlling their finances and how does the VFO model alleviate those concerns?**

**BL:** From an investment perspective, their main concern is that they are getting good investment advice which is consistent with their risk temperament and overall goals. They also want to make sure that the managers are performing in a tax friendly manner, that they're getting a good deal and not paying too much for it. Many clients come to us not knowing how they're doing from a performance perspective. We can break everything down for our clients to show them exactly what they're paying, if it's a good or a bad deal and what the ancillary benefits are.

When it comes to trust and estate planning, the concerns are whether they have the right tax friendly structures in place, with legal/liability protections. We make sure we put structures in place that are consistent with their goals.

Philanthropy is becoming increasingly important. Every single client we talk to today is concerned about their children, making sure they appreciate the value of hard work, how difficult it can be to amass this kind of money and are good citizens of the world. So we teach children about investing and responsibility.

**PAM: What are the main components of the VFO?**

**BL:** The VFO should include:

- A registered investment advisor (RIA), like us, charged with developing an overall asset allocation strategy and the ability to allocate funds to a number of sub-advisors specializing in specific areas of investing;
- The family office division of a major accounting firm experienced in sophisticated tax matters, project management and consulting;
- A boutique investment bank skilled in analyzing existing and future private investments;
- A firm specializing in sophisticated trust and estate plan design with the ability to marshal legal, tax and insurance resources;
- A risk management firm that can provide all the insurance and specialize in liability protection;
- Specialization in philanthropy, with the ability to set up family foundations and relationships with charitable consultants, who can help them work out a philanthropic plan for the family.

**PAM: What are the biggest challenges in setting up a VFO and how are they overcome?**

**BL:** The number one challenge is ensuring that

your firm has the right set-up and the right people. You have to be built around the concept that the family/client is the most important thing. You need people with multiple skill sets and the ability for people inside your firm to work with each other for the benefit of the family.

The second challenge is making all the outside advisors aware that they are now part of a team that has to work with each other.

The third challenge is having the systems in place to be able to report back to everybody in a thoughtful, comprehensive and timely manner.

The final obstacle is making clients aware that this is available to them. That they don't have to spend enormous amounts of money building their own family office, but we can do this for them and we can do it better.

**PAM: How has LLBH evolved or refined the VFO model since its inception?**

**BL:** When we started this model we realized that the best advisors didn't all reside under one roof, so we put together what we called the 'best of breed' approach where we helped clients find the best advisors for all their needs. After the 2008 financial crisis, it became apparent to us that a lot of SFOs were shutting down and we realized that there was an opportunity for us to step in. It took a couple of years to build it out, but we finally reached critical mass with it in 2012, after finding

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the right people to work with and developing relationships with the best third-party providers. Now we're in a place where a client can come to us, explain their situation and we can mobilize a team very quickly. It's evolved from the 'best of breed' where we made referrals to third-party providers, to having these third-party referrals as virtual extensions of our firm. When you come into LLBH, you don't just get LLBH, you get an entire network that is interested and motivated to work on the behalf of the client. ■

More information about LLBH can be found at [www.LLBHPrivateWealthManagement.com](http://www.LLBHPrivateWealthManagement.com)