

The Blue Chip  
AD  ISOR



### Are you a “Blue Chip Advisor ?

We believe that the parallels abound between blue chip companies and the best-of-the-best advisors and, with that in mind, begin to examine the traits to emulate as your advisory firm prepares for the future. Is there correlation between the defining characteristics of these mammoth organizations and our more modest sized firms? Are you the dependable resource clients turn to when financial issues are at hand? Do your clients recommend you to their friends and “pass you down” to their heirs? What else can we learn from these admired companies?

The logo features the text "The Blue Chip" in a white serif font, with "The" in a smaller size. Below this, "AD" and "ISOR" are written in a larger white serif font, separated by a gold-colored graphic consisting of three downward-pointing chevrons. The entire logo is set against a dark blue background with a geometric, low-poly pattern of lighter blue triangles.

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ADVISOR

## 9 Qualities Top Advisors Share with America's Best Companies

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With recent market volatility born of unstable and less transparent global economies, many advisors and clients will recommit to (or breathe a sigh of relief for) the predictability of U.S. blue chip stocks. While values and perhaps even earnings for these reliable large cap companies may be adversely affected by the correction underway, history shows that stock prices for their equities may be expected to recover faster and continue to yield dividends to their investors.

For that reason, blue chip investors are some of the most loyal shareholders in the market. What investment manager has not been forced to build a client portfolio around the blue chip holdings passed down from a parent or grandparent, the IBM stock that was given as a graduation gift, or the Exxon shares accumulated since childhood?



So, are you a “Blue Chip Advisor”? Is there correlation between the defining characteristics of these mammoth organizations and our more modest sized firms? Are you the dependable resource clients turn to when financial issues are at hand? Do your clients recommend you to their friends and “pass you down” to their heirs? What else can we learn from these admired companies? We believe that the parallels abound between blue chip companies and the best-of-the-best advisors and, with that in mind, begin to examine the traits to emulate as your advisory firm prepares for the future.



**Top 30 U.S. Companies  
By Weight in Dow Jones Average Index**

<b>COMPANY</b>	<b>TICKER</b>	<b>SECTOR</b>	<b>FOUNDED</b>
IBM	IBM	Computer Services	1888
Exxon	XOM	Integrated Oil and Gas	1859
Chevron	CVX	Integrated Oil and Gas	1879
Procter & Gamble	PG	Nondurable Household Products	1837
3M Co.	MMM	Diversified Industrials	1902
Johnson & Johnson	JNJ	Pharmaceuticals	1886
McDonald's	MCD	Restaurants and Bars	1955
WalMart Stores, Inc	WMT	Broadline Retailers	1962
United Technologies Corp	UTX	Aerospace	1925
CocaCola Co.	KO	Soft Drinks	1886
Boeing Co.	BA	Aerospace	1916
Caterpillar Inc	CAT	Commercial Vehicles and Trucks	1886
JPMorgan Chase & Co.	JPM	Banks	1799
HewlettPackard Co.	HPQ	Computer Hardware	1939
Verizon Communications Inc	VZ	Fixed Line Telecommunications	2000
AT&T Inc.	T	Fixed Line Telecommunications	1983
Kraft Foods Inc.	KFT	Food Products	1923
E.I. DuPont de Nemours & Co.	DD	Commodity Chemicals	1802
Merck & Co. Inc.	MRK	Pharmaceuticals	1668
Walt Disney Co.	DIS	Broadcasting and Entertainment	1923
Home Depot Inc.	HD	Home Improvement Retailers	1978
Microsoft Corp	MSFT	Software	1975
American Express Co.	AXP	Consumer Finance	1850
Bank of America Corp	BAC	Banks	1784
Pfizer Inc.	PFE	Pharmaceuticals	1849
General Electric Co.	GE	Diversified Industrials	1878
Intel Corp	INTC	Semiconductors	1968
Alcoa Inc	AA	Aluminum	1886
Citigroup Inc.	C	Banks	1812
General Motors Corp	GM	Automobiles	1908

*Source: US blue chips, Blue Chip Companies, <http://www.bluechiplist.com/blue-chip-stocks/us-blue-chips/>*

# Blue Chip Defined

Interestingly, there is no formal list of blue chip stocks with clearly defined requirements for inclusion, but they are generally thought of as being represented by the 30 stocks found in the Dow Jones Industrial Average (DJIA) - the equity shares of the highest quality companies in America. Blue chip firms are giant companies with solid reputations. In fact, Oliver Gingold of Dow Jones is credited with coining the phrase in 1923 in reference to high-priced and high-quality stocks.<sup>1</sup> Most sources attribute his use of the term as being a reference to the highest value chips used in the game of poker.

Today, the term is widely accepted to describe a **well-established, financially sound firm with a long history of stable or rising dividends**. Many of these companies have become **household names** by offering **high-quality, widely accepted products**. Their market reputations are solid, and they are typically **market leaders** - within the top 3 companies in their market sector. Blue chip companies tend to “stick around,” **weathering downturns and operating profitably in the face of adverse economic conditions, and most exhibit the potential for long-term growth**.

Because these companies are publicly-traded, statistics are widely available to support their financial history, and much has been written about the strategies that have led them into the spotlight. It is not our intent to provide a detailed profile of any one of these corporate giants but to examine the parallels that might be made between these solid firms and the privately held advisory practice of today.

Over the course of this series, we will outline steps that advisory firms can take to model these admirable characteristics and maximize their proprietary value. As our industry sector prepares for a massive shift of client wealth, we are simultaneously preparing for the transfer of advisory businesses from one generation to another. If current advisors expect to benefit from the sale of their private - and often very personal - firms, valuations may be enhanced by ensuring that the company has blue chip qualities.

Blue Chip Characteristics	
1	Well Established
2	Household Name
3	Widely Accepted Products
4	Market Leader
5	Financially Sound
6	Pays Stable Dividends
7	Weathers Downturns
8	Growth Potential
9	Less Risky

# Blue Chip Qualities

## **1. Well Established**

A quick glance at the list of blue chip companies supports the assertion that one does not achieve greatness in the short term. Any business owner with the desire to grow must have a long term focus and a plan to sustain the company through expected and unexpected changes in the operating environment. For a financial advisory firm, there is no substitute for experience which is why it is so very difficult for young advisors to get a foothold in the business or make a name for themselves in the independent channel. As stated in a 2012 Forbes article, "Some of the top blue chip stocks of yesteryear are still some of the best investments now as they have proven they can weather any economic environment and continue to pay steady dividends and grind out long-term share price returns."<sup>2</sup>

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However, there is a fine line between experience and expertise, and as we examine this defining characteristic we will outline how an advisory firm can leverage more than longevity to meet this qualification. Clients immediately notice the difference when their Blue Chip Advisor uses a comprehensive financial plan as the basis for all recommendations, rather than making promises about investment performance, alone. And educated advisors of any experience level can bring value to the plan through relationship management. **Financial planning is the solid foundation on which the clients' and the advisors' futures are established.**



## 2. Household Name

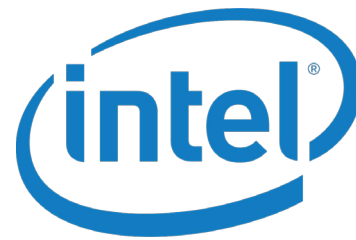
The list of blue chip companies includes names that most Americans easily recognize, and while many include some iteration of their founders' names, very few continue to operate under the moniker of an individual. The branding of their products becomes so firmly established within our collective psyche it becomes the vernacular used to describe an entire product line. However, many advisors continue to operate using only their individual identity as their brand, and their professional services or products are indistinguishable from others. The Blue Chip Advisor brands his/her firm for the long-term, avoiding the eponymous company name that is less likely to remain relevant. Our deep dive into this topic will include a profile of one SSN client who has executed this strategy and shown that **by communicating well and often with the entire client family, an advisory firm may be established as the 'Coca-Cola' of financial planning and maintain that 'brand of choice' position for generations.**



### **3. Widely Accepted Products of High Quality**

Step one: define your product. If you are selling investment products, you may be bested by a machine and in danger of extinction. Blue Chip Advisors recognize that their end product is not a basket of mutual funds; rather, these firms strive to solve clients' financial problems to provide security, safety, and prosperity in the clients' terms. Clients recommend an independent advisory firm because of how they *feel* about the totality of the experience, not because of the portfolio returns. **Independent advisors who aspire to blue chip quality must focus on the true product they manufacture - the client experience - not the individual components which can best be handled by a supplier focused on that product.**

We will take a look at how Blue Chip Advisors are re-defining their product line, evaluating opportunities to outsource certain elements of the final product or building in-house teams with diverse responsibilities...all in an effort to ensure the highest quality experience for their planning clients.



### **4. Market Leader**

Blue Chip stocks have their own very well-publicized measure built into their DJIA status, and large sales organizations typically post leaderboards and similar rankings to foster competition among their representatives. However, many independent financial advisors have no idea of their status among similar firms in their particular market, and it is difficult to lead when the pack has no identity. **So, within the independent channel, we must develop meaningful benchmarks that reach beyond personal income - and goals should include leadership in more than numbers.**

The term "thought leadership" has become the new label for innovation within our service economy, and Blue Chip Advisors tend to be those who articulate their value proposition in terms that bring refreshing clarity to the subject of comprehensive financial planning...not necessarily those who parade an unending array of "new investing opportunities" in front of their clients. With a more thorough examination, we will reveal the leadership qualities of blue chip organizations within and outside of the financial services industry.

## ***5. Financially Sound***

The Blue Chip Advisor recognizes his or her role as the CEO of a business, even if a sole proprietor. However, as mentioned previously, the metrics for success in this industry are historically associated with “production,” which is typically translated to equate to the advisor’s personal income. **Sustainable firms reinvest in the business through staffing, technology, and continuous improvement of knowledge, skills, and business practices.** To establish a sustainable firm, production must, to some degree, be divorced from personal income and metrics established for the performance of the company. In our essay regarding financial soundness we include suggested measures, as well as ideas on how to prioritize investments in staffing, technology, and other practice upgrades.



## ***6. Pays Stable Dividends***

Managing money for clients can be very rewarding when economic and market conditions cooperate, but stability can be hard to find in times of market stress. Over the entire life cycle of engagement, it is the management of client behavior that adds consistent value to the relationship. Blue Chip Advisors have mastered the art of communication based on proven psychological traits of investors – now called “behavioral finance” – to keep clients invested over the long term, which we all know is key to consistent returns. But returns are not the be-all, end-all for Blue Chip Advisors, and they know it. **These firms add value that goes far beyond asset allocation strategies, using a broad set of skills and knowledge to guide client families through all facets of their financial lives.** We may surprise you with stories of successful advisors who spell out specific tactics for helping clients control emotions and act on logical advice for their long-term benefit.



## **7. Weathers Downturns**

Blue chip companies are expected to operate profitably, even in the face of adverse economic conditions, and that most often requires a non-cyclical product line or a diverse product base and agile production capabilities. For the advisory firm, the latter is most often the key since investments are highly cyclical and dependent on uncontrollable factors. Again, the product definition comes into play as the client experience can be positive and income to the firm can continue, as long as there are a wide array of services with varying degrees of importance during the differing stages of the cycle. **When the relationship (the product) adds value through a comprehensive plan that encompasses spending, insurance, taxes, investments, and legacy issues, then economic variations are anticipated and final results are insulated from the performance of any one element of the plan.** The examples used to illustrate this characteristic will show how this planning approach protects both clients' finances and the client-advisor relationship from volatility. We believe that compensation models will emerge to make sense of the work required to develop, implement, and maintain each element of the plan.

## **8. Exceptional Potential for Long-Term Growth**

Standard industrial disclosures notwithstanding, a record of stable, reliable, and sustainable growth is most often used to evaluate blue chip stocks and their potential for continued success. Past performance is only one element of predicting future earnings, and for advisory firms dependent on the knowledge and skill of a singular advisor, it is not a very good one. Thus, the emergence of advisory teams.

**Blue Chip Advisors are building a firm that will outlive them through succession or sale.** Independent advisors who fail to address this aspect of their business are failing their clients, as well as themselves. Even if the fruits of past labor can support an individual advisor into their own retirement and they can ride their trails into the sunset with a high degree of personal comfort, their clients - without an actively updated plan - are destined to lose ground. It would be far better to transfer ownership to an advisor who is engaged in the clients' progress. But if a book of past success is all you have to offer, you can expect to be disappointed with the sales price. Our impending look at the growth prospects of differing business models will discuss the most profitable strategies for advisory firms' current revenue and those most favored in mergers and acquisitions.



## 9. Considered Less Risky

When all of the preceding factors are combined, a blue chip investment is widely accepted to carry less risk for the investor than other equities in the same sector, an important assessment when deciding on an appropriate asset allocation. However, one risk factor for clients is often overlooked - the danger of choosing an unscrupulous advisor. Even with the premium that media places on scandals like Bernie Madov and the attention that FINRA is currently bringing to their BrokerCheck system, most retail investors are unsure of how to evaluate their exposure to ill-intentioned advice – or even the threat of well-meaning but inappropriate recommendations.

Credentials can be an indication of an advisor's dedication to his or her craft, but to be frank, they are more clearly understood by other advisors than they are by clients. And a course of study rarely "teaches" character. Rather, ethics courses center on the need for honest and open communication with all parties to a transaction.

The vast majority of client complaints are born of misunderstandings, not of malicious advisor behavior so it is imperative that advisors learn to **communicate more clearly, continually educate, and reassure clients of their decisions regarding the trade-off between risk and reward.** The clearest metric for evaluating success in this arena is a clean compliance record, and The Blue Chip Advisor is able to promote their record.





## So, are you a Blue Chip Advisor?

We hope these ideas resonate with you and contribute to your strategic plans for practice growth. We will continue to delve deeper into actionable ideas for each aspect of the Blue Chip Advisor. We have some great examples within our firm and will share a few of their best strategies to encourage you on the journey.

What's more - we would like to hear from you. Do you have a Blue Chip Advisor story? We welcome your contributions to or suggestions for the subject matter with real life examples of Blue Chip Advisors. If you wish to receive the future installments, please visit [www.joinssn.com/bluechip](http://www.joinssn.com/bluechip).



<sup>1</sup> History of blue chips, Blue Chip Companies, <http://www.bluechiplist.com/history-of-blue-chips/>

<sup>2</sup> Frank Byrt, 10 Century Old Blue Chip Stocks Still Earning Their Keep, Forbes, <http://www.forbes.com/sites/the-street/2012/06/11/10centuryoldbluechipstocksstilllearningtheirkeep/>

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## About Securities Service Network, Inc.

Securities Service Network, Inc. (SSN) is an industry leading independent broker dealer, founded in 1983 and headquartered in Knoxville, Tennessee. SSN currently has more than 400 affiliated financial professionals nationwide, offering a wide array of financial products and services to the investing public. In trade publications like **Investment News**, **Investment Advisor**, **REP**, and **Financial Planning**, SSN consistently ranks as one of the nation's top independent broker dealers. The company was named to the INC. 500 Hall of Fame after many years of qualifying for the magazine's well-known award for the fastest growing companies in America. SSN is a wholly owned subsidiary of Ladenburg Thalmann Financial Services, Inc. (NYSE MKT:LTS). For more information on SSN please visit [www.joinssn.com](http://www.joinssn.com).



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