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Challenging Conventional Wisdom
By Raymond Fazzi

Roy Diliberto feels improving a client's quality of life takes precedence over investment gains.

Somewhere along the way during his 39 years in the financial services business, Roy Diliberto went through the type of change that forces him to now talk about the "old Roy" and the "new Roy."

As he puts it, he went through a metamorphosis that was perfectly exemplified by the time not too long ago when one of his clients, a 71-year-old widow, gave him a phone call because she faced a dilemma. A friend had died recently and it got her thinking. About her life. About things she'd put off for too long.

She shared with Diliberto that she finally wanted to go on her dream vacation: a trip through Europe—with all of her children and grandchildren. She figured it would cost between $50,000 and $60,000. Although her net worth was in the low seven figures, she was not exceptionally wealthy to the point where she could write out that type of check without some second thoughts. So naturally, she called Diliberto and asked, "Can I do it?"

If she had asked that question of him 30 or even 20 years ago, Diliberto says, there's a good chance he would have called the client into a meeting, crunched the numbers, analyzed the results and tried to come up with a carefully thought out answer.

But that was the "old" Roy. Today's Roy—the new one—had a different response: "When do you need the money?"

This isn't a case of an advisor getting more laid-back with his clients' accounts late in his career. It's just that when Diliberto looks back on his career, he sees himself as having shifted his gaze from his clients' portfolios to their lives, their goals and, ultimately, their dreams. It's an outlook that has made him one of the leading proponents of what's commonly referred to as "life planning" in the industry. Except Diliberto cringes when he hears that term. "I'm not a psychologist," he exclaims. Life planning, he asserts, implies an affinity with family or marriage counselors, or other professions of that ilk. That's misleading, he says. "The objective is not to go out and try to cure someone," he says. What's often misunderstood, he says, is the purpose of the multi-faceted questions that are part of the endeavor.

Diliberto, for instance, will typically delve deep into a client's childhood soon after beginning a relationship. The purpose: to get an inkling of how they grew up to understand money. He recalls one instance where a woman recounted a rags-to-riches story about how her father lost a business that was left to him by her grandfather, leaving the family bankrupt. Her husband was dumbfounded when he heard the tale. But it left a clear picture of why she'd always been reluctant to spend money on anything, he says.

"It's part of life. You can't deal with people without dealing with the psychology of the person," he says. "The purpose is to understand them."

It's probably more accurate to call him a "dream facilitator." Simply put, Diliberto sees his mission as extracting the dreams and ambitions from his clients and then hitting the ground running to make it all financially possible.

“I tell clients what I try to do is merge their money and their life, to the point where their life and their money aren’t fighting with one another,” Diliberto says. “I think the best term for it is ‘financial planning done well.’”

Show Me The Money?

Giving the almighty portfolio secondary status can be tricky business for a financial advisor. One knock is that life planning is nothing but a “touchy feely” gimmick that conveniently excuses miserable portfolio performance. Some advisors are afraid of unintentionally putting themselves in the position of pseudo-psychologists who will have to be caretakers of their clients’ psyches as well as their money.

One study even suggested that advisors are fooling themselves if they think bottom-line performance isn’t still a vital component in their relationships with clients. The survey, conducted by Fidelity Investments, found that half of affluent investors say portfolio performance is more important than the personal relationship they have with their advisors, compared with only 31% of advisors who felt that way. Even more telling, 69% of respondents say poor investment returns would make them consider switching to a new primary advisor.

Diliberto scoffs at such suggestions. Portfolio fixation, he asserts, is not something he sees with his 270 clients, some of whom have been with his firm, RTD Financial Advisors Inc. of Philadelphia, for the entire 20 years it’s been in business.

In the late ‘90s, when the diversified portfolios of Diliberto’s clients were underperforming the high-flying indexes, he asked his client advisory council what he should tell others about portfolios that were rising “only” 15% or 20% a year. They looked at his quarterly letters to clients and told him to “stop apologizing” and start focusing on the value his firm was delivering that couldn’t be calculated in terms of portfolio appreciation.

When he gets a call from a grateful client, Diliberto says, it almost never has to do with portfolio results. On the contrary, he says, it usually has little to do with money at all. He relates one instance from several years ago, when a married couple came to him. The wife made $850,000 annually in software sales, and the husband struggled to make $30,000 a year in the same type of job.

Diliberto, as he does with all clients, spent hours asking the couple about their histories, goals, fears and overall attitudes about money. What he found, and what the couple themselves discovered, is that they were depriving themselves for the sake of the other. The husband actually hated his job, but kept it because he felt pressured to keep up with his wife’s salary. An avid golfer, he denied himself a set of new golf clubs because of his low salary. The wife, who has a passion for horses, was mum on her desires to spend money on a new house or a new horse trailer to avoid showing up her husband.

From that point on, Diliberto says, it was only a matter of showing the couple what was financially possible in their lives, before even talking about asset allocation and portfolio strategy. Three days after meeting with Diliberto, the husband quit his job. Today, the husband has a new, higher-paying job as a computer programmer, which he loves, as well as a new set of golf clubs. The wife has a new horse trailer, and they recently moved into a custom-built $850,000 home.

“She called me one day and said something she said she’d never expected to tell a planner,” Diliberto says. “She said, ‘You changed our lives.’”

When George McCarthy first walked into Diliberto’s office with his wife in 1989, he was a 58-year-old radiologist looking for someone who could untangle some tax issues having to do with his medical group pension plan. Yet he later found further value in the relationship, and credits Diliberto with getting him to think about his retirement years before he would have done so on his own.

As a result, he retired in 1996, a year earlier than he feels he would have without the planning provided by Diliberto. “I felt that Roy had saved my life because, with the stress I was under as a physician, if I had to work another year I would have died. Stress is a killer. I’ve seen it before.”

Diliberto cites another reason why, survey or no survey, he feels out clients' secret aspirations. One of the first things he does with new clients is to ask three key questions, which he feels gives him a good starting point in understanding their feelings about money and their aspirations. The first is, "How would you live your life if you had all the money you needed?" The second, "Your doctor informs you you have five to seven years to live, but you won't have any warning as to when you die. How will you live those five to seven years?" The final question: "Your doctor tells you you have 24 hours to live. What are your regrets?"

"That tends to get people thinking about what's important to them," Diliberto says. "Interestingly enough, no one says that I regretted I didn't beat the S&P 500."

An Evolution

Diliberto's initial years in the financial service industry were, oddly enough, in the sales-driven insurance business. In fact, Diliberto spent 21 years with John Hancock, working his way up to a regional vice president responsible for 16 agencies in the North Atlantic region. It was, however, a job that he never felt fully comfortable in. "I'm not the type who can survive well in a corporate environment," he says. "I need my independence."

That freedom eventually came in the form of a chance to form his own financial planning practice as a general agent in 1983—something he had been eager to do since attending a workshop two years earlier at one of the agencies in his territory. "It was a time when financial planning was clearly in its infancy, but I became enamored with that," he says. "It was the idea of looking at a person's entire financial picture and then coming out with the solution that dealt specifically with their situation, as opposed to selling you this or that."

As to how he ended up where he is now, Diliberto calls it an evolution. After starting his financial planning business in Cherry Hill, N.J., he moved a few miles west to Philadelphia two years later, in 1985. Five years later, the business started incorporating asset-based fees into its business and then, in 1996, became a fee-only operation.

That changed again last year, when Diliberto and his partners decided to emphasize the planning side of their business further by moving to a flat-retainer structure. Still not implemented with all clients, the fee structure is based on an annual retainer of $6,000 and up, an amount that is renegotiated every three years.

"When you charge for assets, you are emphasizing the most important thing you do is assets," he says. "I want to make clients understand that the other things we do for them are more important than the management of assets."

It was a transition that changed the very process of how Diliberto's firm deals with clients. Unlike a typical planning firm, where relationships are usually forged by a couple of meetings followed by annual reviews, Diliberto undertakes a lengthy dialogue with clients before even talking about dollars and cents. The typical client relationship starts with four meetings, lasting an average of two hours each, stretched out over about a three-month period. It isn't until the third and fourth meetings, he says, that he starts to structure portfolios and put life goals.

Diliberto says this thinking came about gradually, through a series of changes that were influenced heavily by Diliberto's study of the works of George Kinder, founder of the Kinder Institute of Life Planning and regarded by some as the "father of life planning," and others. Along the way, Diliberto himself become a national spokesman for financial life planning, at about the same time as he served as the first president of the Financial Planning Association.

He's also brought on partners along the way. The most recent person to become a shareholder in RTD Financial is Diliberto's son, A.J. Diliberto, who is director of the firm's financial planning operations. Diliberto's two other partners were hired shortly after the firm was created. Richard J. Busillo, the firm's president, gave up a high-paying job as a regional vice president for a pension services company to join the company in 1986. He started as an independent contractor, working on a commission-only basis.

At the time, Busillo had one child with another on the way, and yet decided to walk away from a secure job that also included a company car, an expense account, and top-notch retirement and medical benefits. “I walked away from corporate America and left behind a bag full of goodies. I told my wife it was time to move on and that I wasn’t cut out for the corporate sector—I couldn’t deal with the politics and game-playing,” he says.

But his decision was also based on his relationship with Diliberto, who was one of his clients when he was with the pension services company. “I felt he was the kind of person I could take that risk with,” he says. “Whenever Roy was involved in a case, it was always the client first and foremost. His rule was, ‘We’ll make our money by doing the right things.’”

The other shareholder, senior vice president Jeff A. Weiand, was hired by the firm a year after graduating college in 1985. In his initial job search after graduation, Weiand says, he specifically was looking for a job as a financial advisor. When he answered ads, however, he often would end up talking to someone at a penny stock operation. “I remember walking into one place with champagne bottles in each cubicle, streamers hanging from the ceiling and a lot of pep talks,” he recalls. “The interview was just about how many people I knew, who were my contacts, how willing I was to work on the phones and if I could work at night.”

He found the environment at RTD Financial so much to his liking that, after being told it would be another year before he could be fit into he firm’s budget, he worked without a paycheck. “I felt it was an opportunity to be part of a vision,” he says. “The focus was 100%, without question, on the client and what their needs were. Roy preached from day one, ‘Do good things for people and good things will happen to you.’”

Good Planners, Bad Advice

These days Diliberto is a frequent speaker at industry gatherings, often appearing in tandem with Mitch Anthony, author of titles that include Your Clients for Life, The New Retirementality and, most recently, Selling With Emotional Intelligence. Diliberto and Anthony are currently co-authoring a new book, with the working title The New Meaning of Money, which will explore from an advisor’s perspective how the September 11 terrorist attacks have changed people’s attitudes.

Diliberto and Anthony aren’t bashful about exposing their innermost views when they run one of their sessions, which are typically standing-room only. At a recent TD Waterhouse conference, for example, Anthony told attendees that too many planners view clients as a “safety deposit box to which you are finding the combination and when you find it the inquiry is over.”

Diliberto, meanwhile, flatly stated that too many “good advisors are giving their clients what I would classify as bad advice.” Elaborating, he feels that many advisors are “geared around financial implications, as opposed to life implications, that it turns out to be bad advice.”

As an illustration, he recalls attending meetings with clients and estate attorneys in which the clients expressed a desire to leave a certain amount of money to people in their will. “The attorney tried to convince them to leave the money to other people just for the sake of saving taxes,” Diliberto says.

There was another instance where a wife wanted to take $400,000 from her husband’s stock option benefits and use them to pay off the couple’s mortgage. To Diliberto, it was clear that removing the mortgage debt from their lives was an important goal. Their accountant, however, advised against the move because he calculated it would cost them $35,000 in lost tax deductions.

Where the life planning comes in, Diliberto says, is using the life goals of the client—and not just number calculations—in doling out advice. “How can you give advice about something like that without asking the client, ‘How do you feel about debt?’ which to me is the most important conversation you can have with a client,” Diliberto says. “The objective is to have your client live life free of worrying and pursue their life’s dreams and goals without worrying about money on a day-to-day basis.”