



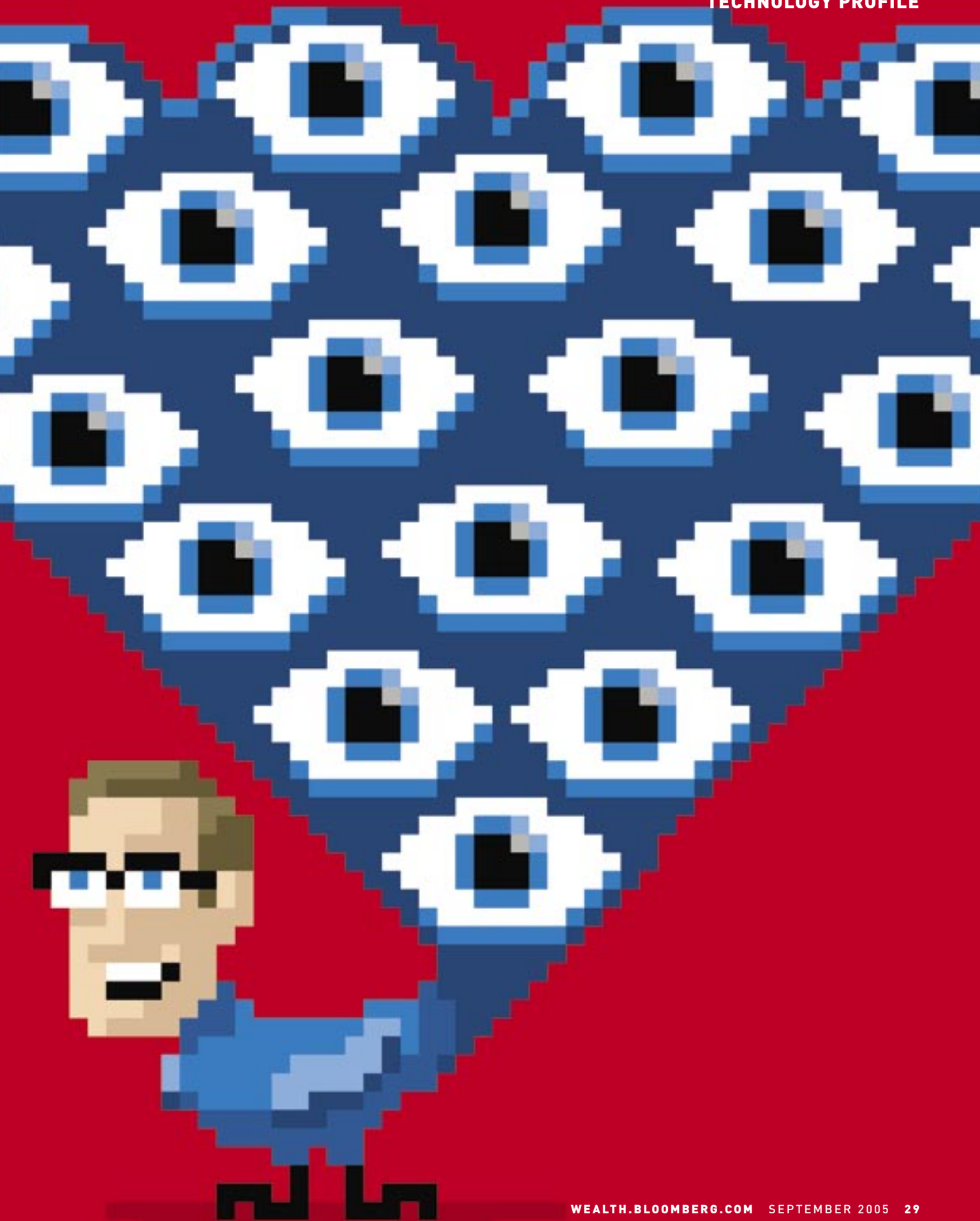
When he couldn't find multifamily-office software he liked, Keith Vernon at Bristlecone Advisors built his own

# FANNING OUT

**KEITH VERNON DIDN'T PLAN ON SETTING UP**

a high-tech multifamily office. In fact, he didn't even plan on getting into the family-office business at all before he founded Bristlecone Advisors in Seattle in 1999. Vernon had spent five years working for investment-management firms in the northwestern United States, and the work's appeal had diminished. Although he enjoyed the interaction with clients, the lack of variety in his job had begun to discourage him. "There wasn't much customization on the investment side," Vernon says. "Most clients required fairly straightforward asset allocations, and I needed more interesting challenges."

**BY ED McCARTHY**



**T**he opportunity to pursue those challenges presented itself unexpectedly when a friend of Vernon's introduced him to an entrepreneur who was looking for help in managing his personal finances. The entrepreneur hadn't been able to find the right adviser, or organization, for his needs. Vernon, who was then 28

years old, was intrigued. He pitched the idea of a family office, which he would own and which would be dedicated initially to the entrepreneur's family. Once the business was on solid footing, it would then grow to serve other clients. The prospective client agreed to the idea, and Vernon set up shop as a sole practitioner, single-family office. He worked alone for the first 15 months, spending much of his time mastering the details of the founding family's complex finances. "It was like driving down the freeway without a windshield on my car," he says. "I was doing more than I probably should have been doing. I was just trying to get my hands around everything."

Vernon's early use of technology was limited to commercial programs—Centerpiece for portfolio management and Microsoft Office for most other applications. For example, he created Excel spreadsheets to track the myriad details and tasks he oversaw, and he wrote checks manually. This approach sufficed at first. Then, a series of events caused

the presentations interesting. They sparked the question for me of how I could operate more efficiently."

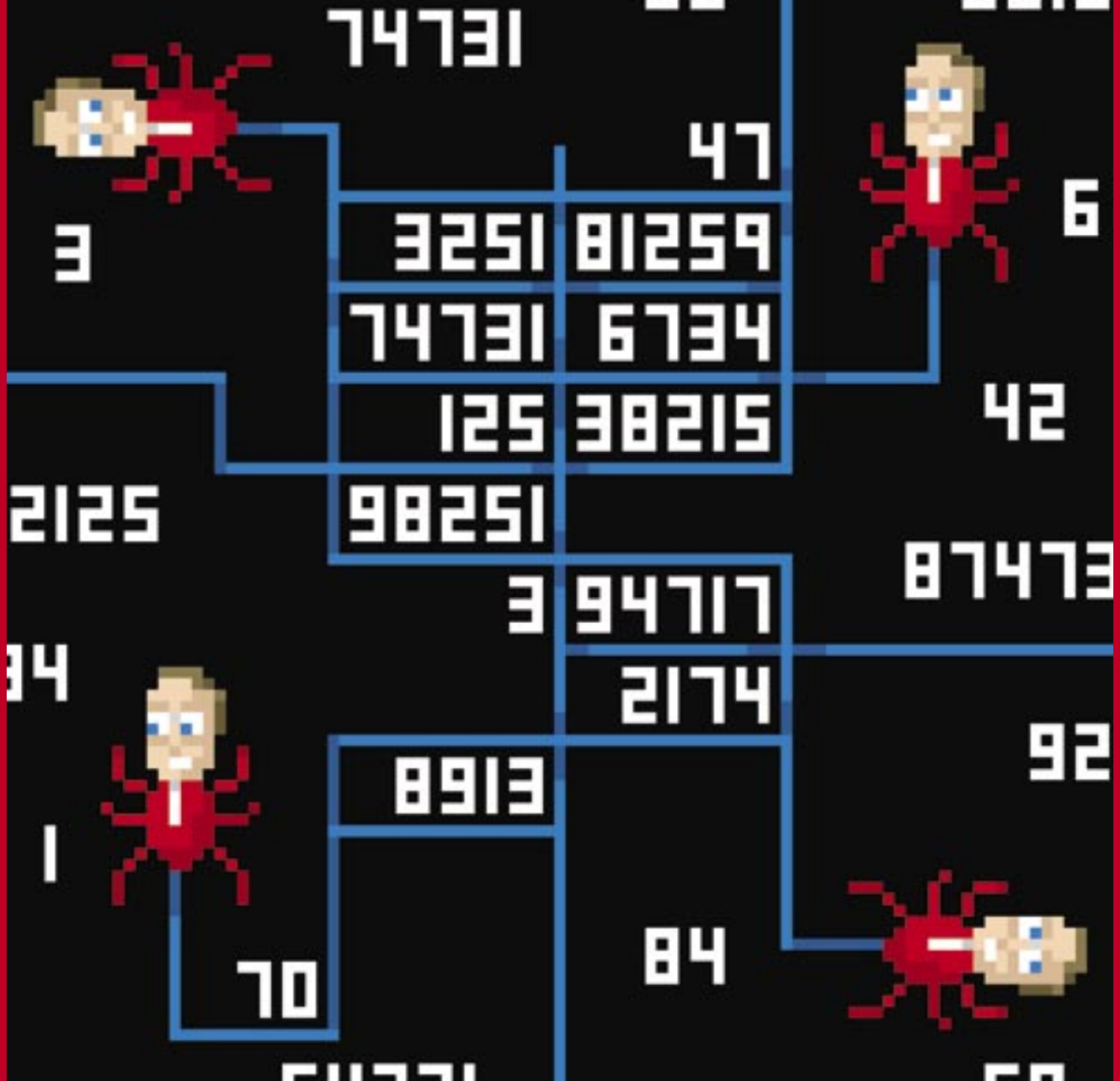
Meanwhile, Vernon was also thinking about expanding his business. In early 2000, he approached Matt Talbot, a former investment-management colleague, about the prospect of working together. Talbot agreed and soon afterward the two hired an office manager. Delegating tasks and coordinating the work forced Vernon to reconsider not only his operating style but also his technological needs. "When it was a one-on-one relationship between the client and me, I knew everything that needed to get done and communication was easy," he says. "But as I started delegating work, I wanted to make sure that things got done. There are also many tasks that reoccur—monthly, quarterly, et cetera. How do you track all these things? Clients hire family offices to think strategically about their wealth, but they also want them to take care of all the things that need to be done. On a day-to-day basis, having us simplify their financial-management process and free up their time is extremely valuable to the clients."

Once Bristlecone's client roster expanded to three families in late 2001, Vernon knew he had to change his procedures. The new clients' financial assets and structures differed from the founding family's. This meant that the firm's information-management methods needed modifications to accommodate the new clients. Vernon still hadn't found any commercial programs specifically designed for multifamily offices, so he decided to take matters into his own hands. His most pressing need was to develop a customized task-management application.

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Vernon to start thinking about the potential value of introducing more sophisticated information-management technology in his work. He attended a series of technology sessions at the Chicago-based Family Office Exchange annual conferences, starting in October 1999. He soon realized that "no one had built a successful integrated family-office platform, although they were all working on it," he says. "Although at that time I didn't have a technology infrastructure and wasn't thinking about one, I found

Now, developing customized software is generally a time-consuming, expensive process. The end users typically develop detailed specifications for the features they want in the application. The programmers then use those specifications to build an alpha version, a process that can take months or longer. Vernon took a more direct approach. He asked his friend Kris Ryden, who was a principal at Ryden Group, a software and Website development firm in Sammamish, Wash., to come up with a prototype



for a task manager for Bristlecone. He figured it was a logical request. Ryden Group specialized in developing intranets and Web-based applications for small- and mid-size businesses, and Ryden had experience building Web-based financial applications for banks.

Ryden built the task manager, and as Vernon recalls, "it worked." Although it was a small application, it showed the Bristlecone staff how they could use database technology to centralize information, and they soon started coming up with other development ideas. Vernon next asked Ryden for a program that would create meeting agendas and store each meeting's notes. "We didn't have a master plan—we certainly didn't have a vision of all the data we could eventually store and how that data could interrelate," Vernon says. "If we had ever sat down and said we want to build the technology that we now have, we never would have started it."

Even though Ryden and Vernon didn't have a master

plan, they made several key decisions early on that were to prove immensely important later. For example, they decided that the data format would follow a "category tree" that Vernon had created to categorize clients and their accounts. The top organizational level in this tree is the family. Individual clients and family members reside within the family unit. The families also have entities: trusts, foundations, partnerships, and the like. Activities such as banking or philanthropy can be linked to clients, family members, or entities within the family structure. This structure, notes Ryden, enhances data security, because the administrator can set limits on each staff member's access within the system. "Every piece of data gets tied back to the category system we have defined," he says. "That gives us tremendous security and search capabilities."

Another key early decision was to store Bristlecone's data in a Microsoft Access database on secure external



Aristata's Meetings function shown above enables users to track client meeting agendas and store notes from completed meetings.

servers managed by Hostway, a Web hosting and managed services company in Chicago. Access enables users to define their own database fields; after the fields are populated with data, the developer can retrieve the information to build a virtually unlimited number of customized queries and reports. That meant that the task manager and the meetings applications could share data seamlessly, so if a meeting led to new tasks, those tasks could be assigned directly to the responsible Bristlecone staff member and would appear on his or her task manager screen. The arrangement with Hostway also allowed Ryden to focus solely on development, since Hostway handles network security and data backups. Bristlecone's staff can access the data with Microsoft Internet Explorer over a secured intranet, which has eliminated the need for them to learn new software.

Vernon christened Bristlecone's proprietary information-management system Aristata, after *Pinus aristata*, the Latin name for bristlecone pine. Each component that has subsequently been added has followed essentially the same procedures as the first two: Vernon—and later Bristlecone's staff and clients—have identified needed information, Ryden has built a working model, and Vernon and the staff have offered suggestions for improving the application. They continue to follow the same process today, and Ryden's expertise with Web development tools such as ASP.net, Java script, and HTML has allowed him to create new integrated applications within Aristata even more quickly than before. "Keith often maps out the desired data fields and page layout in Excel as a model for me," Ryden says. "I can produce an initial 'cut' in as little as two days so the Bristlecone staff can determine if I'm going in the right direction. The goal is to get something

up and running and then get feedback."

The way Vernon sees it, Bristlecone's information-management system is uniquely suited to the needs of a multifamily office. As he explains, the difference between a traditional wealth-management firm and a multifamily office is that a wealth manager focuses primarily on investments, while a family office oversees investments and coordinates numerous other financial activities for clients. The decision about which services a family office provides—and how it provides them—is made on a case-by-case basis. Bristlecone, for example, performs some services in-house: investment management; cash flow management and bill payment; foundation and property management. For other services, such as tax-return preparation and family counseling, the firm coordinates with a client's external advisers. "Neither business model—wealth management or family office—is better than the other one, because some clients don't require family-office services," Vernon says. "But if wealth managers want to provide family-office services, the amount of information they need to track efficiently for effective service delivery grows exponentially."

Aristata is designed to facilitate the delivery of that information. Its communications tools—Tasks, Meetings, Contacts, Activity, and Search—provide centralized storage for all communications with or regarding a client. But these tools constitute only one set of the system's applications. Other modules hold data for investments, insurance, philanthropy, and taxes, among other things (for a complete list of other applications, see "Aristata Applications," page 39).

Among these other functions, the investment module is by far the largest. The firm's principals—Vernon, Talbot, and Roman Brent—all have investment-management backgrounds, and they view the firm's investment-research skills as a key component of the value provided to clients. Bristlecone does not manage clients' investments in-house—the firm selects external managers. However, Aristata is the repository for Bristlecone's in-house research reports on managers and their products. Three of the firm's 10 employees work full time on investment research, and they combine external information sources such as Morningstar's Principia and Strategic Financial Solution's Per-Trac with manager interviews and other data. The research team then generates proprietary qualitative evaluations of each manager's strategies and stores their reports in a standardized format in the system. The firm's five client managers, who serve as clients' primary contacts with Bristlecone, then select the appropriate strategies for their clients' portfolios and needs. The investments application also generates clients' portfolio reports, which are updated



the status of each piece of information.”

Clients also like the philanthropy application, which keeps track of other specialized data. Several clients have private foundations, Vernon explains, and Bristlecone initially monitored the entities’ activities with an Excel spreadsheet. Later, the firm bought a third-party grant-tracking program, but Vernon wanted to centralize the data. So he asked Ryden to develop a philanthropy module for Aristata. The resulting application tracks each foundation’s activities and the status of grant requests, schedules disbursements, and provides the details needed for required IRS reports.

Ryden designed Aristata so users could retrieve any piece of data with three to five mouse clicks. Because the data are stored in a centralized database, each application can use every data field. In the contacts tool, for instance, tabs across the top of the screen allow users to view all the documents, meetings, and activities that relate to a particular contact. Similarly, the main screen for each investment product includes tabs for portfolio data, returns, staff reviews, investors, documents, meetings, and activities. Vernon provides a good example of the system’s re-

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monthly. The system can provide summary reports and/or detailed reports, depending on the client’s preferences.

The common theme among Aristata’s other applications is that they organize and track the numerous financial details that can easily slip through the cracks with wealthy families. The tax application, for example, does not calculate tax liability or generate tax returns, but it does hold the data that constitute the clients’ returns. This is a particularly useful feature for clients who file multiple returns each year, including personal, gift tax, family partnerships, foundations, and trusts. Aristata allows the Bristlecone staff to store and monitor the status of every piece of information on each return. “We’re currently managing 30 to 40 annual returns,” Vernon says. “Aristata has cut in half the amount of time it takes us to manage the process for each return. It also makes return preparation easier for the CPAs by getting them away from tracking all the details. And clients like it because I can tell them with just a few mouse clicks what we need for their tax returns and

retrieval flexibility: If a client’s certified public accountant calls and asks about a topic she discussed with Bristlecone and the client two years ago—a detail with a family partnership, for instance—Vernon can retrieve the information in any one of several ways. He can select the partnership via the partnership application and then open the meeting notes for the date in question. Alternatively, he can start with the CPA’s contact page and go to the meetings tab, or he could run a search with the relevant terms. After locating the meeting notes, he can then e-mail them to the accountant directly from the notes page.

In addition to Aristata, Bristlecone continues to use some commercial software—namely Quicken to link with clients’ bank accounts and pay bills and Excel spreadsheets for managing client cash flow. The decision to use commercial software for these applications reflects Vernon and Ryden’s view that it’s not worth the time or money to try to replicate them. Proprietary information systems are expensive: Vernon estimates that he and his associates have spent roughly

1,500 to 2,000 hours in designing and testing Aristata. And Ryden has invested over 4,000 hours. By and large, they are very satisfied with Aristata's capabilities. During 2004, the firm began launching its first formal marketing effort. The number of family clients grew from three to 21 and assets under advisement swelled to \$400 million. Aristata handled the increase in volume without a hitch.

Vernon and Ryden do have plans for future developments, however. In particular, they are waiting for Schwab Performance Technologies to release PortfolioCenter, an SQL-based version of Centerpiece that will allow direct data transfers to Aristata. Currently, it takes a staff member one-and-a-half days to manually update clients' port-

folios each month. Although the Access database meets Bristlecone's needs, Ryden recently converted to Microsoft SQL Server 2000, which can handle a larger number of simultaneous users. He also wants to incorporate the next version of Microsoft's SharePoint Services, a team-collaboration program that enables users to work together on documents, tasks, and projects. Ryden's initial effort to install SharePoint at Bristlecone encountered problems, so he decided to wait for the next release before another attempt.

As of early July, only Bristlecone's staff could access Aristata, but, according to Ryden, online access should be available for clients and third parties by midsummer

## BRISTLECONE ADVISORS TECHNOLOGY PROFILE

### Financial-planning software

Cash flow	Internally developed MS Excel spreadsheets
Education	Internally developed MS Excel spreadsheets
Estate tax	N/A
Income tax	N/A
Retirement	Portfolio Pathfinder (PlanScan)

### Portfolio-management software

Asset allocation	Portfolio Pathfinder; PerTrac (Strategic Financial Solutions)
Custodial/trading interface	Centerpiece
Optimization	Portfolio Pathfinder; PerTrac (Strategic Financial Solutions)
Reporting	Aristata-Centerpiece
Account aggregation	Aristata-Centerpiece
Research	Aristata; Principia (Morningstar); PerTrac

### Communications hardware and software

#### Network hardware and software

In-house servers	HP ProLiant ML150
External servers	Hostway; Dell Power Edge 750

#### Paperless-office technologies

Scanners and scanning software	Xerox WorkCentre Pro 90
Filing systems	Aristata and Windows Explorer

#### Client-relationship-management software

Aristata	Aristata
Internal software (scheduling, document exchange, etc.)	Microsoft Office
Intranet/Notes/Web collaboration, etc.	Aristata

#### External hardware and software (vendors and clients)

Remote communications tools for staff (including wireless data)	Windows 2003 Terminal Services Windows XP Remote Desktop Connection
Network security (including VPNs, firewalls, etc.)	
Internal	Watchguard Firebox 1000 Firewall
External	Provided by Hostway

### Business-management software

Accounting, bookkeeping	QuickBooks (Intuit)
Human resources	N/A
Project management	MS Excel

### Outsourced technologies

Intranet stored on Hostway's servers

### Other

Aristata See "Aristata Applications," page 39

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## ARISTATA APPLICATIONS

Application	What It Does
<b>Communications</b>	
Contacts and activities	Stores contacts' information, activities, meeting records, and related documents
Meetings	Stores a record of all meeting agendas, minutes, tasks resulting from meetings, and related documents
Tasks	Tracks client tasks to ensure they are communicated, properly prioritized, and are executed in a timely manner
Search	Allows record location across the entire database
<b>Functional</b>	
Banking	Tracks client's banking activities including key terms on all credit facilities and all related activities, meeting records, and documents
Financial statements	In development
Gifting	Tracks client's non-charitable annual gifting programs including gifts of stock, cash, LLC units and all related activities, meeting records, and documents
Human resources	Tracks personnel records on client's personal staff including compensation, benefits, reviews, and all related activities, meeting records, and documents
Insurance	Tracks client's insurance policies including coverage terms and limits, premiums, claims, and policy histories and all related activities, meeting records, and documents
Investments	Tracks Bristlecone's proprietary manager research process including specific data, formal reviews of investment firms and investment strategies, and related activities, meeting records, and documents. Also aggregates information on client portfolios including investment accounts, holdings, investment policy statements, client reporting, and all activities, meeting records, and documents.
Partnerships	Tracks client investment partnerships, operating businesses, and other large assets including ownership and annual filing requirements and all related activities, meeting records, and documents
Philanthropy	Tracks client's charitable activities including grant requests, disbursements, and all related activities, meeting records, and documents
Tax	Tracks client's tax returns including tasks and documents needed to complete returns, and all related activities, meeting records, and documents
Trusts & estates	Tracks client's trusts, wills, and tax credits including the purpose and key terms for trusts and all related activities, meeting records, and documents

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of 2005. Vernon estimates that one-quarter of the clients will use online access when it becomes available, but he believes the real value will come from the enhanced ability to collaborate with clients' other advisers. In the previously cited example of the CPA seeking information about a joint client, the accountant could save herself and Bristlecone time by retrieving the data directly from Aristata. Vernon believes that online access will be a powerful marketing tool when presenting his firm's services to accountants and attorneys.

Other financial advisers have developed proprietary information-management software for their businesses and subsequently started selling the software commercially—iJunxure and ProTracker are prominent examples. But in spite of Bristlecone's substantial investment in

Aristata, the firm's partners prefer to keep the software in-house because they believe it provides a competitive advantage. Besides, they're not interested in managing a software business. However, both Vernon and Ryden would like to collaborate with noncompetitive multifamily offices to discuss how they might enhance the applications. In the meantime, they will keep developing Aristata to help Bristlecone's staff service clients more effectively. "If you go step-by-step and make incremental progress, it's amazing how far you can get," Vernon says. "Everything isn't perfect right away, but you keep chipping away and eventually you make real progress."

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