

The Client Who Escaped Crippling Debt

By Alex Coppola

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--A client is buried by debt and a poorly managed portfolio

--Adviser helps readjust every facet of his finances

--There are no silver bullets when it comes to helping sinking clients

Kevin Kautzmann's client wasn't just struggling when he came to see the fee-based adviser in 2001. He was dead broke.

The client owned an independent law practice, but he had a negative net worth, nearly \$100,000 in credit-card debt and a fully mortgaged home. To make matters worse, the bursting tech bubble had left him with less than \$20,000 in his retirement accounts.

Over the next three years, Kautzmann, who manages more than \$50 million in assets at EBNY Financial in New York City, managed to guide his client back into the black. After 10 years, the client's net worth topped \$1 million.

What was the key to the client's turnaround? Not a complex financial fix or a blockbuster investment. Instead, Kautzmann says, success came from the client's willingness to change his lifestyle and adjust every facet of his financial life.

His client's problems weren't a result of what his previous stockbroker had done, shifting IRA assets into risky investments in early 2000. Instead, the trouble was what the client hadn't done: Confront his own unsustainable spending habits.

Kautzmann sat his client down and presented him with a record of expenditures, debts and the bloated rates he was paying on his five maxed-out credit cards. Next, Kautzmann showed his client a series of annual reports detailing a steady accumulation of liabilities that resulted in declining net worth. Until that point, the client had had no idea of how far gone he actually was.

"Being faced with those figures can be overwhelming, but I give him a lot of credit," says Kautzmann. "He not only understood he needed to make a change, but he was prepared to take the steps necessary to make it happen."

They started by tackling the debt, first targeting the area with the highest interest rate. In just three years, the client paid down and closed out each maxed-out credit card. Next, Kautzmann targeted the host of insurance policies -- covering the home, long-term care and life insurance -- that his client had purchased over the years. Consolidating the various policies generated thousands of dollars in annual savings.

They put that savings toward rebuilding the equity in his home. "It was as simple as paying himself as if he were a monthly bill," explains Kautzmann. "That, and helping him to stop spending money he didn't have."

On the investment side, Kautzmann sold off the speculative investments that had destroyed his client's portfolio and instead aimed for stocks and bonds from established companies with solid track records. He also made sure his client took advantage of tax deductions he had missed, including setting up a 401(k) and maxing out contributions to his IRAs. He even had him build up a reserve fund of municipal bonds in a taxable account.

They then turned to the client's business. Kautzmann encouraged him to downsize from a large office in Times Square and to hire an assistant to handle the practice's administrative duties. The move actually reduced the company's overhead, increased internal profits and made the practice far more efficient.

The client is now worth about \$1.4 million, just a decade after walking into Kautzmann's office without a penny to his name. Despite all the help, Kautzmann understands his client deserves a lot of the recognition for the success. "If a client has dug themselves a hole, an adviser can't go down into it to carry them out," he says. "We can give them support and show them the tools, but ultimately they're going to have to climb out themselves."

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