Barron’s Top Advisor and Industry Visionary Steve Lockshin: Lessons from the Life of a Serial Entrepreneur

A conversation with Steve Lockshin – Entrepreneur and Founder of Vanilla and AdvicePeriod.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Barron's top advisor and industry visionary, Steve Lockshin. It's lessons from the life of a serial entrepreneur and a conversation with entrepreneur and founder of AdvicePeriod and Vanilla. I'm Mindy Diamond, and this is Mindy Diamond on Independence. This podcast is designed for advisors like you who are interested in learning more about the evolving wealth management industry through candid dialogue with breakaway advisors, those from the C-suite and industry thought leaders. It's available on our website, diamond-consultants.com, as well as Apple Podcasts and other major podcasts platforms. So be sure to subscribe and share it with your colleagues.

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It's hard to imagine that Steve Lockshin's career started as an unpaid college intern at Legg Mason, but that's where his love of the wealth management business emerged, and it's that passion that's driven him since, moving from broker to advisor to entrepreneur to visionary, Steve founded some of the largest independent wealth management firms in the industry, including Convergent Wealth Advisors, a company he founded in 1994 and eventually sold to City National Bank. The consolidated performance reporting platform, Fortigent, which he later sold to LPL and more recently, wealth management firm AdvicePeriod. His accolades demonstrate his stature in the advisory space listing several times in Barron's top advisors and even landing the number one spot in the country. Yet it's Steve's prescient, that's the real story here. He seems to have the natural ability to see and create the next big thing in wealth management. For example, he developed AdvicePeriod from the ground up to focus on action, accountability and simplicity, and which later attracted the attention of Marty Bicknell and Mariner Wealth.

In the summer of 2021, the blockbuster deal merged the $5 billion plus AdvicePeriod with the $48 billion plus Mariner. But it's his latest endeavor, Vanilla, that takes yet another look at how to make advisors look great. A mantra Steve shares that's guiding them to build a platform that simplifies and standardizes the estate planning process so advisors can be more proactive partners with their clients, Steve sees gaps before others do and strives to not just fill them but also develop greater opportunity in the process. When he's not creating solutions, he's investing in others he believes in, like Robo-Advisor, Betterment. Plus, Steve's an author, public speaker and a champion of the fiduciary standard and consumer education in financial services.

If all that isn't enough, he's also Michael Jordan's wealth manager, which he candidly discusses in this special interview with Louis Diamond. Together, they walk through Steve's career to date, exploring the inspiration behind the businesses he developed and the power of estate planning and the fixed fee model to drive growth. Plus, they talk about where the industry is headed, the real potential of AI and more. It's an episode that has extraordinary value for advisors, business owners, and everyone in between because even if you're building your business in the wirehouses or on a traditional platform, there's plenty to learn from an industry powerhouse who has found pathways to channel his entrepreneurial spirit towards success. There's a lot to discuss, so let's get to it.

Louis Diamond:

Steve, thank you so much for joining us today. I've been excited to speak with you for some time.

Steve Lockshin:

Thank you for having me and hopefully, I won't lead you to disappointment given your excitement.

Louis Diamond:

No way. So why don't you start off and talk to us about your background and how you found your way into the industry in the first place.

Steve Lockshin:

It's an interesting story. My high school girlfriend, I bet no one started with that, my high school girlfriend's, father's doubles partner in tennis, he was the top producer of Legg Mason. When I went to college, I decided I didn't want to be a doctor. I didn't like blood, all the studying. So I called up Mr. McIntyre one day and said to Mr. McIntyre, "I wonder if you had any opportunities for a summer intern." He said, "We don't hire kids who haven't graduated college yet and we don't hire summer interns, but you can come work for me for free if you want." So I went to work for them for free and there's a whole bunch of other stories that emanate from that, but that's when I figured out I really love the business and started out on the brokerage side and then ended up quickly on the advisory side.

Louis Diamond:

It seemed like a good deal for both of you. He got free labor and it catapulted your career.

Steve Lockshin:

It was 100% that, and it extends even farther because his younger son, I mean his oldest son is four years younger than I am, ultimately, came to work for me for free as I started the business. Then after that, we started a number of businesses together in this industry and now he's also married to my wife's sister. So lots came from it.

Louis Diamond:

Very symbiotic. So you are a serial entrepreneur to the nth degree, and we'll talk a lot about the various companies you've helped create and ultimately exit from. But curious how you got into entrepreneurship in the first place. Were you always keen on being a business owner and a builder or did that just come with the territory as you went about your career?

Steve Lockshin:

I think it's more of the latter. I didn't really enjoy working for people as much as I enjoyed being in charge of my own destiny. So whether it was being a paperboy or cutting grass or selling something, and even when I worked at Legg Mason, I was selling T-shirts to the brokers to make money, Legg Mason T-shirts. So I really never worked for anyone, even when I was interning I was at my own terms. So just as I said, it became with the territory and I've never, ever really been an employee.

Louis Diamond:

Yeah, it definitely seems that way. So I would say you were early to the game in 1994 when you founded CMS Financial Services. It was later rebranded as Convergent. Can you explain what Convergent or CMS was? What was the value prop? Probably most importantly, what motivated you to start it? So you're at Legg Mason, what was the gap you saw in the market and what drove you to go out and build what became a very successful independent firm?

Steve Lockshin:

Not knowing better is probably what drove me to, so when I was at Legg Mason, I had a bunch of different jobs from the wire room. This was all while I was in college, and I ended up on the muni desk in Baltimore. While it was fun and I learned a lot, I had no interest in being a bond trader, which was the next step once I graduated college. So I left there and followed another gentleman who I'd worked with at Legg Mason to go to work with one of the top insurance agents in the country or in the world, huge producer who focused on complex estate planning and deferred comp cases. I learned a lot from him, but one of the things I learned was anybody could sell an insurance policy. They all were effectively the same from each company, but knowing how to fund it and understanding the tax implications of how you funded it was really the secret sauce. So I started doing that.

One of my clients was whining to me about having started a number of public companies and every time he did, he had money at each of the firms that did the offering and said, "I just need help organizing it. Would you help organize this stuff for me?" I started what I did not know was a family office for this individual and first started with keeping track of everything and then quickly moved to actually running money for him. I asked Marvin, Mr. McIntyre, my mentor who I worked for at Legg Mason, "How should

I structure this?" He said, "Well, structure it like Warren Buffett," which ironically, is not how Warren Buffett did structure things, but it was a hedge fund structure. I took 25% of everything over the S&P 500.

At the same time, I had another mentor, a guy named Bob Levy who's now the chairman of the Cato Institute who had started a company that was basically a predecessor, I shouldn't say predecessor, it was an early competitor to Morningstar. He taught me how to do asset allocation and they had manage a search criteria, and so I just started diversifying globally and hiring managers. Back then in the late '80s and early '90s, it was much easier to outperform, and it's just by simply diversifying, we outperform. That became the foundation of the business because about four years into it, the person I worked for said, "We could sell this to a ton of my friends. Let's start a business," and there you go.

Louis Diamond:

So it started off just helping this one very wealthy individual and then you have the spark of, "There's something here. We can take this more mainstream." So when you did that, can you talk about the success you had? I know ultimately the firm ended up being sold. So can you talk a little bit about the growth trajectory and how'd you grow it? What was the secret sauce, and what made it so successful?

Steve Lockshin:

Again, it was not knowing better. So I had come from selling large insurance policies to public companies or pro athletes or just very wealthy people. So I very quickly had decided it was easy to hear no from somebody with a very high net worth as opposed to somebody with a low net worth but focused on ultra affluent. So when I think the average person back then would've been happy getting a million dollar account, I was going for much bigger accounts. That became the place that I played. It also was very clear that the typical advisor was a broker who said, "How old are you?" "40." "Okay, well, we'll put 40% in U.S. bonds that I'll manage and 60% U.S. stocks that I'll manage, and I'll charge you commission." There was a much easier way to deliver value, which was diversifying globally and getting to a fee.

Back then it was basis points, has since changed, and hiring outside managers and believing that nobody could be great at everything, so let's find people who are best at each of the things that they did I started out 'cause I was a kid, and I had no real background other than the track record with this one individual, which had been decent, but we started doing performance audits for people. So we'd get three years of statements and manually audit those in our performance calculation system and showed them that if you'd been properly diversified, you would've done better and with less volatility. It was a very easy sale, which contributed to our success because nobody was doing it. So I was literally shooting fish in a barrel because I was going after people who were using a traditional brokerage model and giving them a much more institutional type model. It appealed quickly to people and obviously in industry form afterwards. So I was lucky to be early.

Louis Diamond:

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I saw in doing my research that at one point you were the top independent advisor in the country according to Barron's, which is an incredible accomplishment. It seems like your differentiators compared to other advisors or brokers was the way that you charged and also the fact that you focused on the upper end of the market. Is that accurate? Are there any other, you think, ingredients to what helped you as an individual advisor catapult to your success but also helped fuel conversions rise?

Steve Lockshin:

Definitely doing it differently and focusing on areas that demonstrated a difference compared to their peers. So if somebody sold their business, they might call four or five different firms in and do their dog and pony shows. I had many meetings where we'll all be sitting in the lobby and imagine that just about everybody went in and said, "I can get you a better asset allocation or put together a better asset allocation and get you into better deals or better managers than somebody else." Then the next person would come in and say the same thing and we would come in and say, "That's a bunch of hogwash." They're all fishing, again, out of the same pond. We know what they pay so I know we can get you better rates because we would read their ADVs and all the deals that they had with the managers, and we just always tried to do something different.

Because I started in the insurance business and estate planning was a big focus and tax planning was a big focus, that was something that we started bringing to the table very early, which appealed to wealthier clients, was different than everybody else and started to help us grow very quickly. But I don't know if I knew what success really was 'cause I felt like every day it was always N+1. We had to do a little bit more. Also, at times when I thought we knocked the cover off the ball, humility kicks in and you realize that you're a nobody in the industry. So we were always just striving to bring in business and grow and all while trying to do a really good job for the clients.

Louis Diamond:

I believe this is public knowledge, that's how I found it, so I don't think I'm spilling state secrets here, but I know that Michael Jordan was a client of yours, the great one. So have to ask about that experience. What was it like working with MJ, and how'd you even get him as a client?

Steve Lockshin:

He's still a client and it's on our website, so hopefully, it's easy to find. I used to give this talk called Prenuptial Prospecting because my girlfriend introduced me to Mr. McIntyre. Another girlfriend introduced me to Bob Levy, who I mentioned was my other metro that made a huge impact. Then my post-college girlfriend was best friends with Boomer Esiason's wife. So we went up to visit and I got to know Boomer and his wife. We were talking about what I did and he said, "Oh, you got to talk to a lot of the people I deal with at Proser." So I went to meet those folks and was pitching them on the things we could do for them. Right around the same time, a guy named Curtis Polk, who is Michael's business partner, took over as the head of all of their financial division.

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I'd known Curtis through Marvin, so it's often who you know not what you know. Curtis gave us a shot at doing first a audit of all of the returns for the various clients. Smith Barney used to have the business at the time, and we showed them, not only were they not performing as well as they could, but they were paying a fortune. We said we could do it cheaper, better with much more transparency, and they gave us the job. We did work for all of their clients. Then at one point David Falk and Curtis Polk spun out and took team sports and created a company called FAME. Then later, Michael and Curtis left and went and did their own thing, and I worked with them the entire time. So it's been close to 30 years of work.

Louis Diamond:

As a sports dork and a big admirer of Michael Jordan, I think his intensity and his competitiveness is probably what a lot of people know about him. Learning through osmosis from him, are there any lessons you've applied, following his career and just knowing him personally that you've applied to your businesses?

Steve Lockshin:

I'm one of the worst sports fans on the planet, which probably contributed to some of the sports folks appreciating that I wasn't as interested in who they were as doing my job. The only thing I would say, and hopefully I've gotten this from other people, is he has an unbelievable personality. He's funny. He knows how to make everybody in the room feel great, and he doesn't ignore people. He's always got a smile on his face, but when it's time to do business, he does business. I would say hopefully, I was already operating that way, but watching how he operates is a reminder if not a bit of an education on how to do it better. The funny thing is, when I watched The Last Dance, which everybody watched during COVID, I was like, "Who is this?" I'd never seen that side of him. I also realize I will never cross him, but really, he's intense on the court. Off the court, I have not met many people as nice as him.

Louis Diamond:

So can you discuss where's Convergent today? I know that this was one of the first businesses that you exited, so the firm was sold. Can you talk about who it was sold to and what was the reason behind the sale?

Steve Lockshin:

So the first sale was to a bank holding company out of Florida that had one of the first internet banks, and that became Lydian, actually. They let us do our own thing, which is great. We grew the business I think roughly eight times in about seven years. They let us do our own thing, me and my partner Andy Putterman, but I didn't enjoy not having complete control of my destiny. So I went in to reside one day and the CEO said, "Well, if we could sell the company for a decent amount and made it attractive, would you consider going with it?" So we negotiated a deal and we sold the company at that point to City National Bank. That was in 2007. We sold it May of '07. So the first time I sold was for the absolutely wrong reason. As I was watching my clients, younger folks sell their business, and I wanted to do that too.

So I coordinated that sale because I thought I wanted an exit. I didn't realize what I was giving up in terms of freedom and probably sold way too early. The City National thing was an exit from the Lydian relationship, but that was jumping out of the frying pan into the fire, and it was really tough because it was a bigger organization. As one of my teachers said, "In a large acquisition, everything goes great until there's a problem, then help arrives and it never leaves." So as I mentioned, we sold in May of '07 and 2008 happened and help arrived and it never left, and it just was not enjoyable for me. So ultimately, I chose to leave there and restart the business of AdvicePeriod.

Louis Diamond:

We'll get to that. But I know in conjunction with Convergent, a sister company was a performance reporting firm called Fortigent, which was ultimately bought by LPL, and I know is still used by LPL to this day. So can you just talk about Fortigent and what was the process like in selling it to LPL, and why sell it at all?

Steve Lockshin:

Well, I can't comment on the sale to LPL because we had divided the company. As we were building for Fortigent, it was not making money and Lydian Wealth was. So we decided that you could sell the whole thing and get a multiple of a lower number or break it up and the sum of the parts was worth more. So we broke it up and started about a year before the sale operating for Fortigent as a separate business with a separate P&L and running Lydian Wealth as a separate business with a separate P&L. The plan was to sell off one and then the other, which ultimately, is what happened. So when we sold Lydian Wealth to City National and became Convergent, right before we closed, Andy Putterman came to me and said, "I'm going to go with the Fortigent business because if I don't take this opportunity to be CEO, I'll probably regret it having not done it."

So that's one of the best partnerships, if not the best partnership I've had in my career was with Andy. So breaking up the team was a really hard thing. We worked together, but it went from being partners to, we were a client of Fortigent, and my brother-in-law, who I mentioned was CTO. He'd built the product, and so it created some strife. Ultimately, they were still owned by Lydian, and they sold the company, and I had nothing to do with it when they sold it. So really, post-sale to City National, I was out of Fortigent

Louis Diamond:

So Fortigent, it was a home-built performance reporting tool. Is that how you would describe it?

Steve Lockshin:

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Exactly. So when we started, when Jamie worked for me for free, we were using TPP, which was Advent's DOS-based performance measurement system. I hated that every report looked the same. You'd see anybody else who used it, and so we created our own performance reporting system that looked better and we crunched the data with TPP. Then ultimately, we built our own, we built one that we sold to DLJ. Then Jamie rebuilt the entire system from the ground up for Fortigent and that became the software. So it was all homegrown. We were using our own product, and it looked different, behaved different. The math was still the math, but the output was very different than our competitor.

Louis Diamond:

Very interesting. It's also such an interesting idea and probably in this industry at least a novel idea to split the company up in two and to try to get basically to sell it and unlock more value. I think it's difficult many times to do that in this industry because everything is very woven together. So it's probably a good learning for anyone listening about thinking of your business in components, and if no one's willing to pay what you want for the whole thing, is there a way to extract more value by splitting the baby, if you will?

Steve Lockshin:

Yeah, it worked out well.

Louis Diamond:

Interesting. I know that you were an early investor in Betterment, and I think everyone's familiar with Betterment and what it is. But at the time of your investment, what did you see in Betterment? I'm curious to hear about your thoughts on the Robo-Advisor movement today.

Steve Lockshin:

At the time, I saw one of two things. It was either going to be disruptive to our industry or it was going to be a massive accelerator to our industry. So I saw it as a hedge with limited downside. Now that being said, I was extremely early. I was right after, I think they did their venture round with Bessemer Ventures, so I think the valuation was like 15 million bucks at the time. I was at the same time out of runway, emotional runway working at City National, and I was looking for a way to leave and do something different without violating my agreements. So I started looking in the tech industry and things that were in financial services but didn't directly correlate to what I was doing. So I came across these guys and happened to be the same year that I was recognized by Barron.

So I just reached out to John Stein and said, "Hey, top advisor Barron's this year. I think what you're doing is interesting. I'd love to come see what you're doing." I went up to their offices and spent a few hours with them and without much more research committed to what was a very large check for me at the time and it worked out really well. As far as the robo industry today, that's the second question you asked, I'm shocked and disappointed it doesn't have so much more money because I think the computers generally do a better job than most advisors, and there's so much opportunity. But I still think this is a business where at least today, personality matters to the clients. It's still too confusing for consumers, and so they buy what they're sold as opposed to recognizing that it's math first and emotion second. At least that's what I believe is how it should be.

Louis Diamond:

So do you think there's room to run with robos, especially with the rise of AI, or do you still believe in human-directed financial advice?

Steve Lockshin:

I'm going to ask you a question in order to give you an answer, and that is over what period of time? So over a longer period of time, I think AI and the models today, they already... if you look at Google Duo and some of the other natural language models, they're almost indistinguishable from a human. Who knows when singularity will actually happen? But when that does happen, I think the need for the human advisor will quickly dissipate. Today, we're too far away from that. So there has to be an intersection between accessibility and digestibility. When that happens or when something like singularity happens, then I think the computers will do a better job than humans because they can handle an infinite number of people at the same time. They never get tired or hungry. There's no emotion. It's all math driven, and I think they will succeed if nothing else by being able to persist in a way that humans can't.

Louis Diamond:

How about things like empathy and social interaction and all those types of things? Likability?

Steve Lockshin:

It's happening already. There's already AI out there. I talked to someone the other day who invested in a stealth startup that is doing stuff in business management space, and it does detect your tone and your emotion around things and can ask the right questions to see the mood you're in. then if you think about true AI, it will constantly adapt to be able to understand the phrases, the behavior, the inflection. If you really roll it forward, most people are wearing some type of wearable today. As that data is infused into the system, your heartbeat, your sweat, your body temperature, your movement are all things that will contribute to this dataset and AI will, again, computers will be able to move much faster at adapting to your personality.

The truth is most humans aren't great at understanding, and empathy is an important word because you have to have lived something in order. You may sympathize with someone, but to empathize with someone, you have to have lived it. Well, if you haven't walked the walk, it's hard to empathize with clients. I'm grateful that early on people trusted me, at least as I've gotten old or older. I do have empathy, and I can say that, "These are the things I'm doing for my kids," or, "This is how I think about this," or, "Here's what 2008 was like for me," and talk about things from a personal perspective as opposed to a hypothetical.

Louis Diamond:

Last question on the AI side, and then we will get into the rest of the interview. So do you see a future where two-legged financial advisors still have a place, even if everything you were saying about AI comes to fruition and then some?

Steve Lockshin:

I'll say, if you've not watched the movie Her, you should, which will give you my answer, but the humans are obviously a very complex computer or whatever you want to call us, species. I think, or I believe that we are attracted to interacting with people like ourselves. We assimilate as infants and as adults. So while I think computers can do everything that we do or will be able to do everything we do, I still think there is a natural assimilation or affinity that humans will have for other humans. So I think the most successful advisors will be the ones that know how to leverage technology and maintain that human relationship with the client and not fight the tech, but leverage the tech. So I do think there will always be a place for the two-legged advisor if they know how to do things the right way and not hang onto the past, if you will.

Louis Diamond:

Whew! Thank God. Good answer, 'cause I was worried there. I was like, "Am I going to have to find a new job in 10 years?"

Steve Lockshin:

Well, I think we're more than 10 years... just look at what happened with Zoom. Our Zoom generation should have happened probably five or 10 years before it did. It's just COVID forced Zoom, and so everything changed in terms of traveling to all the meetings and efficiency. So absent a revolution like COVID, which forced it, evolution is really slow in our field. Just for RIAs to take hold took 20 years to really become solid. You got time. We got time.

Louis Diamond:

All right, good. I'll take that to heart. So let's talk about AdvicePeriod. That was, I guess, your next chapter after City National and Convergent and investing in Betterment. So in 2014 you founded the RIA AdvicePeriod. Can you talk a little bit about the value proposition of AdvicePeriod and what motivated you to found AdvicePeriod in the first place?

Steve Lockshin:

Well, I'll answer the second question first. What motivated me was, if you recall, when I invested in Betterment, I was looking for something to do that was different than my current engagement and that would not violate my agreement. So Charles Goldman and I started a business called Advisant, and the idea was for those who are old enough to remember what a good housekeeping seal of approval is, it was to create a good housekeeping seal of approval or a Relais & Châteaux type brand for advisors by truly auditing the things that people cared about and making them very measurable. So it wasn't just a personality contest when you hired someone and we'd create transparency and as I said, digestibility and accessibility.

We put a lot of effort into it, but ultimately, it required the custodians to play ball and even a bunch of the RIAs that were interested, when you really boiled it down, they only had one question in mind, which was, "How is this going to get me more business?" So I became somewhat concerned that our industry was all about greed. I wrote a white paper that turned into a book called Get Wise to Your Advisor, not knowing that was really the blueprint for AdvicePeriod. What I was suggesting that folks should do is separate fact from fiction and emotion, look at the data. You don't need someone who's going to take you to the Knicks game as opposed to someone who's going to take care of your family and focusing on the things that really made a huge difference and changing the fee model.

So for me, estate planning, since I was focused on ultra-high net worth people, was a very easy place to direct my attention because if I moved a dollar out of someone's estate, there's immediate 40% return in the form of tax savings. If you did it at a discount, it's much higher, and that is just the first year. There's many things that go on after that just increased that number and it was without any increase in risk to the portfolio. So late in my days at Convergent, two things had happened. I had switched to being almost exclusively focused if not interested on estate planning and the investment stuff was a sideshow. At the same time, I moved to almost all passive portfolios, if not all passive portfolios.

I'd switched to a fixed fee model because I believe that the AUM model created a conflict of interest. If you get paid for AUM, all you focus on is AUM. Well, people needed estate planning and tax planning, and if they didn't get paid on it, you weren't focused on it. So we changed the way we focused. So those became the underpinnings and the foundation of AdvicePeriod, which is, I was going to do the things that I cared about, focus on where I thought I added the most value, price it in a way that was very transparent. We quoted our fees in dollars, not basis points, and they weren't basis points. It was a fixed annual fee that went up by 3% and create as much transparency and accessibility and portability as possible. So to oversimplify, if we didn't do our job, it was really easy to fire us so that we had to wake up at the end of day and do our job.

Louis Diamond:

It's so interesting because there's a lot of talk and probably not as much as there should be about the, first there was commissions and then that wasn't a transparent model. So advisory fees, basis points and assets is the norm, but there are a growing number of advisors who, at least for part of their practice are toying with planning retainers and fixed fees. But I think a lot of the pushback on fixed fees is it's very hard to build a successful company, at least a profitable one. So I know you ended up selling

AdvicePeriod to Marty Bicknell's Mariner, so obviously you built something that was highly successful, got it to $5 billion in assets, and it was a top RIA in the country. I guess what a lot of people say is that you can't make money in a fixed fee model. So how did you overcome that and what would you say to the critics of the fee model?

Steve Lockshin:

Well, it's interesting. It's also interesting that you quoted our... So I wanted to not have AUM, I wanted to put 0 as AUM, really focused on total wealth for our clients 'cause today, 1/3 of our clients we don't even manage a penny for. If I had somebody that was a insider, $500 million of stock in their company and $20 million of liquid assets, they only show up as $20 million. So AUM is a very misleading way to measure advisors. It's just in the traditional model the way folks did. I cared about EBITDA and revenue, and we were a much bigger firm if you looked at it on a revenue basis, but it was not difficult to demonstrate. So I'll make it real simple.

If you're worth $100 million dollars, which today is called the entry point for most of my clients, so if you're worth $100 million and I can show you how very quickly I can move $30 million out of your estate and probably closer to 40 or 50, and if you multiply 40% times $30 million, it's $12 million bucks or 40% times $50 million, it's $20 million bucks, I could immediately pay for myself in perpetuity. So I would arrogantly often say, "I'm the best deal you'll ever make in this industry because our return is immediate, it is demonstrable and there's no increase in risk." Then all the other stuff that comes after it is simplicity, accountability, reporting.

You know where everything is and the soft stuff around how to not weaponize your wealth when it comes to your errors. There's obviously been a big movement to not create trust fund children, so we became adept at that, and I formed strong opinions about that. So clients really don't leave. In fact, wealthy people like to create complexity. And so on average, our work would go up and periodically we have to raise people's fees. But even though we quoted in hard dollars and our fees might range from a $100,000 to a million, nobody's seems to complain and it isn't hard to close business. So you can make money in this business, you just have to deliver value.

Louis Diamond:

So I guess it's not being shy about charging a large enough fixed fee that's commensurate with the value that you're providing, so you can't get trapped. If you charge everyone a $3,000 flat fee, it's going to be really hard to get that to scale. It seems like because you were targeting more affluent clients and you were providing such high value advice that you were able to find your sweet spot, whereas transparent, you felt like you were still adding enough value, but also you could run a very successful business.

Steve Lockshin:

Yes, and there was scale. If you think about it, it wasn't a huge departure from the fees, let's say, that a successful firm might be able to charge for somebody with a lot of money, maybe capped out at a certain point. But it was more digestible for the client and defensible for me and how much... If I line up the top advisors in the country, and I ask them over a 20-year period how much value they think they'll be able to deliver, on average, they say about 1%, which I actually think is high. I think most many advisors detract, but okay. So let's say you add 1% a year over 20 years. Compare that to 40% on something on year one, it's too hard to keep up. It wasn't a difficult sale, it just hasn't been. But yes, know what you're doing, add value and be proud and charge an appropriate fee.

Louis Diamond:

Very interesting. Your latest venture is, I think it's a somewhat under the radar firm, but one that seems to fill a very necessary void in the industry, it's Vanilla. Can you walk us through what Vanilla does and its value prop? Again, same question as before, what motivated you to start it in the first place?

Steve Lockshin:

Along the lines of necessity is the mother of invention, so as I mentioned, at the end of my Convergent time, I was focused on passive investments and estate planning. But in traditional portfolio reporting and performance reporting, you just showed the portfolio value. So if you had $100 million and I moved $30 million out of your estate, the bottom line was still $100 million, and so the clients really didn't pay a lot of attention to it. So I set out to design a report which illustrated a couple of things. It was first, what's your asset mix in English, how much small cap value and micro-cap and emerging markets that you have? But instead, what are my vested options versus my unvested options? My investment real estate versus my personal real estate? And things of that nature that the client could understand.

What was liquid versus illiquid? What was in your estate versus out of your estate. Then at the bottom illustrated the tax savings as of today, if you died and illustrated at 5% growth to age 95, if you did nothing else. Very quickly the conversation turned to that page and people want to know, why aren't we doing more of that? Because they saw huge numbers in tax savings. So we went from trying to make money by adding value, still trying to do that obviously by letting capital markets do their thing, but to saving money and people could focus on saving money and see it straight away. So I wanted to automate that, and that became the beginning of Vanilla because we hired some developers to do it and they started building it out.

Then I showed some of my friends, I was in a study group with Putterman, Marty Bicknell and Ron Carson and a bunch of other folks. I showed it to them, they're like, "We want that too." So I'm like, "All right, well everybody kick in some money, and I'll fund it and build it." We started showing more people and we decided let's make a company out of it and brought in professional investors. I brought in a professional full-time CEO and CTO, and the company's about 90 people right now. If I was going to oversimplify I'd say it's taking everything that I have done and do for clients around estate planning and putting it into a piece of software and then having it do more.

Barron's Top Advisor and Industry Visionary Steve Lockshin: Lessons from the Life of a Serial Entrepreneur

A conversation with Steve Lockshin – Entrepreneur and Founder of Vanilla and AdvicePeriod.

But in more pedestrian terms, the object is to provide that balance sheet that I had access to so I can see what was inside the estate, what was outside the estate, identify what to plan with. The software can look for certain patterns and suggest that you should plan with this asset versus that asset. It can create illustrations of what ifs. So it was taking what some of the financial planning software is doing in a more rudimentary fashion and doing it on a very deep estate planning fashion because today nothing really looks at what's GST exempt versus not GST exempt. Is it a grant or a trust or not a grant or a trust? So it's got those features. It will have the ability to interface with the insurance agent and then give them a beautiful report.

So the idea is it becomes a platform for everyone in your financial life to congregate and share information and becomes the one true source of information, including something called ICE, which I didn't want something called Vanilla Ice, but it's in case of emergency. So very often, like my wife says, "If you die, you've complicated our lives so much, I have no idea where anything is." Well, now she can go in, see where everything is, who to talk to, who are the trustees, what the terms are, and it's all dynamic and online and hopefully, will create a lot of ease for the less informed party in a relationship, and so that's some of it. We can go on for hours about it, but it does a lot, but it's very estate planning focused.

Louis Diamond:

We'll include the link to the website and any other literature in the page description because I think it seems like a very powerful tool that is very much needed in the industry 'cause I do hear about estate planning be a much more important topic. It's a way a lot of firms try to differentiate, but it's also, I think, complex. A lot of folks think it's just reserved for attorneys like, "I don't do that or it's too complex." So it seems like what you're trying to do is democratize estate planning and make it simpler for advisors and clients to access estate planning strategies. Is that accurate?

Steve Lockshin:

Yeah, and I would add a couple of things. The mantra is make advisors look great. So knowing that a lot of them are uncomfortable with estate planning because they're either not interested or they just don't get, it to give them things that they could give the client to talk to their attorney about, so they don't have to become attorneys or become as well versed as some of the top providers, but instead, they can generate ideas and look good for the client and remain the quarterback. So that's one thing. The other thing is I want to stop advisors from being lazy. So today, if you run a solution in financial planning software, the advisor has to run the solution. The advisor has to present the solution and the client has to accept the solution.

Whereas, our software can identify an opportunity, serve it up to the advisor to discuss with the client. But if the client doesn't log into the system, and we haven't released this yet, but right now being built, if the client doesn't log into the system, then it pushes it out to the client directly. So in other words, if an advisor gets overwhelmed, doesn't follow up, the client shouldn't suffer. So the system will notify the client, "Hey, you've got an opportunity. Use your exemption," or, "Your kid just turned 18, you should have healthcare and financial powers for them," or something along those lines. "You need to make your annuity payment for your grad." So we want to make advisors look great, but we also want to protect the client from the lazy advisor. That may just be a good sale.

Louis Diamond:

Steve, it seems like a complete no-brainer for folks to use this platform, and I wanted to thank you for being so gracious with your time today. I learned a lot about your journey, but also it's the evolution of the industry and the fact that you're able to start a number of companies have the vision to do it, and it seems like each stop along your journey built upon each other. So I'm really excited to see where Vanilla goes. It seems like it's a much needed innovation in the marketplace, but my guess is this is not your last entrepreneurial endeavor. So thank you for joining us today. We'll have to do this again soon when you have your next exciting project to talk about.

Steve Lockshin:

Awesome. Thanks for having me on board. It was great.

Mindy Diamond:

As we get closer to the final episode of 2023, we want to reiterate how grateful we are to listeners like you. As we look forward to 2024, we're excited to note that we'll be changing this podcast name to better reflect the wide range of information we share on this series for everyone, from those in the wirehouses to business owners and everyone in between. So stay tuned for the big reveal. Curious about where, why and how advisors like you are moving? Download the latest Advisor Transition Report to learn more, including intel on recruiting deals and our insight and analysis on the latest trends in the wealth management space. You'll find it at diamond-consultants.com/transitionreport, or if you'd like to talk, feel free to give us a call at 908-879-1002. This is Mindy Diamond on Independence.