EPISODE TRANSCRIPT

Michael Kitces on Advisor Wellbeing: How Autonomy Is Trumping Income When It Comes to Advisor Happiness

A conversation with Michael Kitces, Industry Thought Leader and Chief Financial Planning Nerd.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Michael Kitces on Advisor Wellbeing: How Autonomy Is Trumping Income When It Comes to Advisor Happiness. I'm Mindy Diamond. And this is the Diamond Podcast for Financial Advisors. 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 podcast platforms. So, be sure to subscribe and share it with your colleagues. At Diamond Consultants, our mission is to help advisors live their best business life. We want every elite advisor to find exactly the right place for their business and their clients to thrive, whether it's at a wirehouse, a regional, boutique, or independent firm.

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A funny thing happens when advisors leave a firm. The water cooler talk often goes right to, "Oh, they left because they got a big check." And no doubt, a great transition deal helps to soften the blow from the hassle and disruption that come with a move, but the reality is that advisors are more drawn to finding what we refer to as their best business life. In a recent survey by industry legend and thought leader, Michael Kitces, and his team proves that very concept.

It turns out that income and happiness are not equal. That is, more income doesn't make an advisor happier. So, then what does? And why does so many unhappy advisors allow inertia to guide them when they can be seeking something better for themselves and their clients? What are the most important factors that influence how they feel about their firm and the work they do? What is it that advisors actually value most?

What ultimately motivates them to consider change? And how can advisors use this data and the insights provided to improve their well-being? These are the questions Michael's research answered and our conversation expands upon. It's an insightful and revealing look into the

minds of advisors and the motivations and drivers that lead them not only to success, but to a better quality of life, that is, their best business life.

Michael needs little introduction. He's one of the most recognized names and foremost authorities in the wealth management world. And there's a lot to discuss. So, let's get to it. Michael, I am excited to welcome you back to the show and talk about a report that you recently put out.

Michael Kitces:

Appreciate the opportunity. Thank you for having me back. Congratulations on this ongoing growth of this podcast.

Mindy Diamond:

Thank you. All right. So, for probably the very few in the wealth management space not familiar with the legendary Michael Kitces, just give us a two-minute thumbnail about your professional experience and what you're up to now.

Michael Kitces:

Sure. I wear a couple of different hats. I'm 24 years in the business. I started in the insurance side. I spent a little bit of time in the independent broker dealer side. I have since landed in the RIA channel for the bulk of my career. I split my time between a advisory firm.

I'm head of planning strategy for Buckingham Wealth Partners, which is one of the, I guess you can call them the national RIA firms that both does acquisitions, has a employee option for advisors who want to work with the firm and not have to worry about all their back office, and then a TAMP platform for advisory firms that want to own their own but plug into someone else for the investment back office side of things.

I'm also co-founder of a couple of other B2B companies in the advisor landscape, XY Planning Network, which helps advisors launch firms to run subscription-fee models for particularly working with clients in their 30s, 40s, and 50s. I founded a technology company called AdvicePay, a flowcharts and checklist business for advisors called fpPathfinder, a recruiting business called New Planner Recruiting where we help hire associate planners and paraplanners for advisory firms.

And then in practice, the bulk of my time goes to an advisor education platform called Kitces.com, after me, although we have a 23-person team now that builds educational content for advisors, both advanced continuing education, all the CFPs and the CPAs, and even the IARs for all the folks that need the new IAR CE obligation, and a lot of practice management content as well, all pretty heavily focused towards the independent channels on that side.

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So, you are a busy guy. And I really-

Michael Kitces:

Yes.

Mindy Diamond:

... thank you again for making the time for me. But let's switch gears. Let's jump right into the report. The report is titled What Actually Contributes To Advisor Well-Being? So, just tell me what you mean to clarify. What do you mean by advisor well-being?

Michael Kitces:

Sure. So, well-being is a little bit of a fuzzy concept in and of itself. The idea is to assess how someone feels about their own happiness and life satisfaction, where they are on that scale of, "How do I actually feel about where I am?" And so, the way this actually gets measured or the measure that we used is what's known as the Cantril ladder from the researcher named Cantril who created it originally. This is used in actually a lot of global well-being studies.

This is the same measure that Gallup uses when they do their, I forgot what it is now, 178 country global well-being study, which just say it's a pretty well-vetted research measure around well-being. And the actual question that it builds around that we use in our study as well is this. So, imagine a ladder leaning against the wall, and the steps of the ladder are numbered from zero to 10, so zero at the bottom, 10 at the top.

So, the top of the ladder represents the best possible life for you, and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time? And we come to a number between zero and 10. So, maybe everyone who's listening can even visualize where they are on that ladder. Again, the top of the ladder is the best possible life for you.

The bottom of the ladder is the worst possible life for you. Where do you rate yourself on that 0-to-10 scale? And so, that was effectively what we did. We put a whole lot of advisors through that measurement and asked them how they felt, and then we measured it against a really wide range of other information that we gathered about advisors at the same time.

So, we asked them everything from questions about their psychographics and their mental inclination to preferences. We asked them about where they work, what they do, how they do it, who they serve, what they charge, lots and lots of different measurements and ways to segment to try to really understand who's actually happier out there or not, and what are the factors associated with the advisors who seem to have greater well-being?

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So, I love that. The question itself, the query, is very much in keeping with the way we counsel advisors, the way we talk with them about thinking about their business lives. In fact, we've coined a term, are you living your best business life? And I think that's what you're talking about.

So, one of the things I read that the study found was that income had little to no influence on advisor well-being. And the truth of the matter is we find the same thing. People need to feel like they're compensated commensurate with the value that they're adding. They can't feel underpaid. They can't feel taken advantage of. But generally speaking, beyond that, income has little to do with advisor well-being. So, talk to me about that.

Michael Kitces:

There were a couple of things we found that were notable on this end. The first yes, as a baseline, income really wasn't a driver for well-being with two caveats, those at the really low end and those at the really high end. Both of those were less happy on average. So, at the low end, not entirely surprising. Just in general, advisors at the lowest end of the income spectrum tend to be the newest advisors who are still getting going and literally don't have very many clients and revenue and income yet.

And no great surprise, we found, quite universally, everybody is miserable in the first couple of years. So, for anyone who's listening who's maybe earlier in their career stages, and you're in that first certainly three years, sometimes even five to seven, then it's still pretty bumpy. On the one hand, no, it gets better. And we'll talk more about that in a little bit. And it's awful for everyone.

It's awful for everyone. What we also found at the other end of the spectrum, though, is that the highest income advisors tended to have lower well-being as well. So, if you think of income and a well-being curve, it's an upside down U-shape. Now, for a little bit of threshold banding on this, the advisors with materially lower well-being on the lower end were generally folks with less than $50,000 of take-home income. So, that's our really early stage.

It's just awful because it's awful at the beginning. And the falling off that we saw was pretty high-income. We're generally talking about people with $1 million-plus take-home incomes, that where we started to see notable declines in well-being again because there really does come a point where if you've cranked your income up that high, either you have been really successful at scaling a business and delegating, which is a few people, or you're working a ridonculous number of hours and you've become a slave to your business, which is what we found frequently is happening at very high-income levels.

And so, their income is really good, but there are all those stereotypes we put out there of people who get a little bit too attached to their businesses and earning more and make some

sacrifices in their personal life around family or health or other things. We could very clearly see that emerging in the data as well.

Mindy Diamond:

So, let me ask you a question about that. So, to what extent could a really successful advisor control that? You've built an amazing business. You've put in whatever support system you can that works within the environment which you choose to practice. So, what are your options to impact advisor well-being if you're caught in that Catch-22?

Michael Kitces:

So, the short answer really is it's not a Catch-22. It's mostly self-inflicted. And I say that with much love for my advisor friends who work a lot of hours and have generated a lot of income. I did that for many years at stages of my career as well with some of the family sacrifices that went with that. And candidly, I still remember very clearly the point in it was late 2016. My now middle daughter, then youngest of two. We have three at this point.

My middle daughter was just over three years old. I was getting ready for a trip for work. And so, I do a good amount of travel for work. And so, I've got a standard travel routine. I pack my bag, and with the standard stuff, and I put it by the door, and then I have a get-ready routine to make sure I don't forget anything when I'm going out the door. And so, I brought the bag down the stairs. And I put it down by the front door.

And my three-year-old saw it, and tears just started coming down her face because she knew daddy was going on another trip, and she didn't want daddy to go away. So, that was, for me, a very crystallizing moment of saying, "Okay. I need to rejigger this balance." I was working a good amount of hours. I was working a lot of hours. I was enjoying what I was doing.

I didn't particularly mind it, aside from the fact that I had to do a little more travel than I liked and I was away from the kids and the family a little bit more than I would have liked, but I enjoyed the work that I was doing. I was making very good income. I said, "I need to rebalance this. I need to change it." And the answer at the end of the day was starting to build a team and learning how to delegate, which I didn't know how to do. Not really.

Everybody says delegate stuff, but there are actually ways to effectively delegate that are not necessarily natural for a lot of us that you can actually learn how to do effectively. And with practice, it gets better and easier. And I had to build a team. And what we actually find when we look at these drivers of what does lead to a greater well-being, so income isn't necessarily there. There's a challenge at the low end. There's a challenge at the high end.

For most folks in the middle, the biggest driver is not actually how much income we make at a gross level. It's whether we feel like we're getting paid what we're worth. Working a lot of hours

to make a lot of income can be fine. And working fewer hours and making less income because I've decided that trade-off is also fine. We saw advisors who are making $150,000 a year, and they work 20 hours a week, and they're very happy with that balance and lifestyle.

They live in a part of a country where that is a great income. And they can do all the things that they want to do. And they're like, "I can make twice as much money by working a full-time week. I'm not interested. I'm really happy here." But we see our advisors that are working 50-plus hours a week and making half a million dollars or more, and they seem to really like what they do, and they were really happy with it, and they were fine with it.

But what we found that the biggest disconnects came for those folks that were working a lot of hours and not making a lot of money, which essentially comes down to, in the purest sense, just take my total income for the year, divide it by how many hours I work in a year, and if that implied hourly rate of all the activity I'm doing is not good, that's when it really starts to wear on people is what we found.

So, not so much the gross income, but income relative to time spent in the business was a much bigger factor. Now, the downstream effect that we found, the other factor that shows up pretty clearly in greater advisor well-being, is having a team that you can delegate stuff to. It wasn't quite universal.

There do seem to be a subset of us that just we are lone wolves, and we like being lone wolves, and we don't want to have people we manage and payroll we're responsible for and just deal with all that stuff. And so, don't quite take this at the level of if you don't have a team, you're doing it wrong, but what we did find is the overwhelming majority of advisors, no great surprise, at the end of the day, it feels better when you can delegate the stuff that isn't really actually a great use of your time.

Mindy Diamond:

So, I would agree with that totally. And a couple of questions about that. One, I know the report indicated that autonomy, freedom, control, agency are big drivers of advisor well-being. And so, we find the same, for sure. And again, I didn't do a report on this, but just anecdotally from the advisors we counsel, I find that there has been a tremendous shift in advisor mindset in the last number of years.

And when it shifted from when I started the business 25 years ago, you talk to an advisor, and the first thing they would say, because knowing I was a recruiter, was, "What kind of deal are they paying? What's the deal that I can get to go from firm one to firm two?" And now, of course, the deal is important because people wouldn't move without them.

Of course, the economics matter because people want to feel like they're well-compensated or fairly compensated, but what drives movement more or what drives satisfaction more is so

much more about agency and control. So, talk to me about that a little bit, about what you find with respect to that.

Michael Kitces:

So, autonomy absolutely showed up as effectively number one driver of advisors actually reporting greater well-being when they scored higher on some of the autonomy factors that we measured. And we asked them about autonomy over their time and autonomy in how they serve clients and such. Advisors that scored higher on autonomy were very consistently higher in well-being. And those that were lower on autonomy were lower on well-being.

This isn't entirely original to us. There's a lot of research out there that finds that intrinsic motivation often comes from some combination of autonomy, mastery, and purpose, autonomy over what we do, mastery to get really good at it, and feeling like we have a sense of purpose in the work that we do.

So, we do find a strong autonomy factor, but I do feel a little bit of a need to asterisk this in that not everybody cares about autonomy of the same things, of the same stuff, as it comes to this business. So, for instance, some advisors, autonomy over how they build portfolios is really important. "I've got particular views around how markets work and how investments work and the best way to construct portfolios for clients. And I will not work for a firm that does not let me construct portfolios the way that I want."

Other advisors come to the table, and, "It's all commoditized. Markets are basically efficient. Just put your client in a simple straightforward model because my value is all on the financial planning end." And they could not care less about having zero autonomy on the investment side because they actually want to outsource that to a provider that just puts things into some standardized models. Their big thing is the planning philosophy approach.

"I have to be able to choose my own financial planning software. And I have to be able to deliver my plans my own way. And I'll be darned if the home office is going to have any intervention in my financial plans. I have to serve my clients my own way." Other advisors don't care about that part.

They're like, "I just want to be able to control my staff infrastructure, the part that I hate, that I have to ask a branch manager to get a fricking support staff instead of, 'I make good enough money. Can I just hire my own darn person to do the stuff I need to do?'"

And so, autonomy, we found, scored very high, but there wasn't quite a universality around what parts of autonomy actually mattered the most because, in essence, what we found is different advisors weigh parts of autonomy differently. What we effectively found is unhappiness is not being able to control the part you actually care about, but we don't all care about the same parts.

And I think that, to a large extent, is why we have so many different channels in this industry. We've got wirehouses, and regional brokerages, and independent broker dealers, and RIA platforms, and the purely independent standalone RIA. And we're doing this in banks. And we're doing this in mutual funds and discount brokerage firms.

There were so many different choices in the industry because I think they all represent different trade-offs around that autonomy scale or the different autonomy factors. And I think what we really have is an industry that, by and large, is actually pretty decent at self-sorting into the channel and the firm arrangements that actually aligned to that, but we're not perfect. Sometimes, we land in the wrong channel.

Sometimes, we land in the right place, but the firm changes. And this place isn't what it was 10, 20 years ago when I joined. Sometimes, that crops up. Sometimes, we just grow and change. And priorities change.

As I mentioned earlier for my journey, my career before young kids looked very different than it has for the past 10 years that I've had kids in the household because that was a restacking of my life priorities that then led to changes in firms and changes in platforms and changes in who I worked with and the things that I valued and weighed against one another.

There is some change in the industry as we see, and obviously, Mindy, as you live in helping advisors make those transitions, that not all of us are always in the best right place, but most of us actually seem to be pretty good at it, which I think is why, in the grand scheme of things, as much as we talk about the trend of breakaway brokers out of wirehouses, we tend to measure them in the dozens or few hundred that left every year out of just shy of 50,000 advisors between Morgan Wells, Merrill, and UBS.

And so, the industry's grand debate around the wirehouse breakaway movement still, to me, basically comes down to, so did 99% of advisors stay in their wirehouse, or did 98.5% of advisors stay in their wirehouse set up?

Almost all of us have actually managed to find an environment that we're at least reasonably comfortable with, but when we're not and whatever that firm environment is starts bristling up against our whatever that factor of autonomy or that sub-dimension of autonomy that's important to us, whether that's autonomy over time or investments or planning or fee model or staff support infrastructure or whatever it is, when the firm crosses that line, it becomes time for a change.

And to me, just that jives well with something that I've seen in the industry for the better part of because seven or eight years, I feel like that this breakaway movement has really had momentum.

And I suspect, Mindy, that you see it as well that we often talk about the economics differences across the channels because there is some financial dynamics to navigate, but virtually, everyone I talk to that makes a transition to independence, they didn't do it for the money. They did it for literally the independence, which is basically a synonymous word with autonomy.

Mindy Diamond:

So, a lot to unpack there. And I agree with so much of what you're saying. The audience can't see us, but I'm vigorously nodding my head throughout. And I'll tell you why. Because, one, I totally agree that autonomy is one of those squishy words, but it's not that everybody wants autonomy over the same thing. They want autonomy on the thing that matters to them most. So, for some, as you said, it's over the investment process.

For others, it's over hiring decisions. For others, it's how many paper clips they're allowed to buy, and 1,000 other versions in between. I think you're also really right when you say that, so there are advisors that may have chosen wrong, they land in the wrong place, but from where I sit, the majority of advisors that may not feel well-served or entirely happy are not there because they made a wrong choice when they joined.

Michael Kitces:

Right.

Mindy Diamond:

It's that either the firm or model or culture changed over time. For example, as Merrill Lynch got bought out by Bank of America, the culture changed entirely and entirely.

Michael Kitces:

The thundering herd is not the same as it was.

Mindy Diamond:

Correct. So, I'm an advisor. I've built an extraordinary practice. I've been there for 30 years. I remember the day when Merrill was the thundering herd, and culture was everything. It's changed. And I have a dilemma. Do I stay because it's easiest path of least resistance? I'm doing incredibly well. My clients are well-served enough. And it is easier to stay put. Or do I disrupt momentum and look to go elsewhere?

And from where I sit, and I know you'll agree, the best thing, the very best thing, about the industry landscape today is that it isn't one-size-fits-all. So, yes, the breakaway movement is there if someone has a desire to be maximally entrepreneurial, but it is we just published an advisor transition report which showed that the majority advisors, when they move, stay within

the same channel so that if somebody's going to leave Merrill, they are more likely to go to a UBS or a Morgan or a Wells than they are to any other channel.

And so, I think a lot of it comes down to degrees of well-being. Not everybody needs to hit a home run and shoot for maximum autonomy. So, here's my question for you. That was a long-winded way of saying what if you work for a firm where you are limited in the amount of control or autonomy you can have? There's a governor, let's say, on the amount of support staff you can hire.

So, we agree that being able to hire a team and scale and increase capacity increases well-being, but what happens if you like the channel where you are but your firm is not perfect? It's a big firm. It's imperfect, but it is more than good enough. But there are governors or limitations on the amount of autonomy you can have over the things that matter to you. What do you do?

Michael Kitces:

Well, so, I'll answer that in two ways. On the one hand, if in the middle of that set up, things aren't perfect there, but it's more than good enough for you, well, if it's more than good enough for you, it's more than good enough for you. I think you highlighted well earlier, Mindy, I'm going to put on my nerdy econ hat for a moment, changing platforms has switching costs.

That's the economic label for the impact that we occur when we go through a change or consider, whether it's switching to a new product that we're using or switching to a new platform. Switching costs are very high in our industry because, basically, repapering that nobody really likes doing and some of us really don't like doing.

So, when switching costs are very high, the only way you actually make a change is you have to have some factor that is so frustrating, aggravating, negative, constraining, governoring to you at an unacceptable level that, simply put, the amount of pain exceeds the switching costs that it takes to go through that and get to the other side. And I think that's why just in general, look, life is life.

It's not perfect and never sunshine and rainbows no matter what changes you make because it's dynamic, and it changes, and there's always niggling frustrations and trade-offs that we have to deal with. And so, most of us, as human beings, find some point where we start to satisfy at an acceptable level. It's pretty good. Everything's not perfect, but okay. And we hang out.

The two asterisks I think I would give to this discussion in the context of your question though, Mindy. So, first of all, a lot of advisors I see stay in an environment where they're not terribly happy because their assumption is this is just how it works and the only way it can be.

I'll use the label a learned helplessness of, "Yeah, I fought the battle about my support staff for so long. And I just can't get it through. And I was at another big firm previously. And they weren't

paying about my support staff as well. So, I guess this is just a thing in the wealth industry that you can't always control your support staff." It's like, well, no, that's not a thing.

That's a thing of one particular channel that tends to do that and has that as a particular lever that they don't provide as much autonomy towards. So, the challenge I find for a lot of advisors is that we have this accidental, I'll call it, failure of imagination. It's the saying of what does a fish know of water? If that's the only environment you've ever been in, you may not realize that some of the things that are frustrations for you are not the way things are done.

They're the way things are done in your particular firm or your particular channel. And that's a choice about whether you want to stay there in that firm or in that channel, which is a very long-winded way of saying if you're having some of those nagging feelings of frustration that you can't quite get things done the way that you want to get done, your firm is violating some of your autonomy principles, whatever they are, you need to look around beyond your four walls by whatever means.

Obviously, podcasts like this are one good way to do it. Mindy, you have yours. We run one called the Financial Advisor Success Podcast where we interview lots of advisors across different firms and different firm types, and what's it like in a big firm? And what's it like in a small firm? And what's it like in an independent? And what's it like affiliated?

Get out there by whatever means you want, whether it's going to conferences or listening to podcasts, and just hear and learn what other choices and options are out there. You might go out and find that the grass really doesn't seem to actually be greener on the other side, and then go back to where you were, and that's fine.

But I see a lot of advisors that satisfice into that, "Well, it's not great. It's okay. I guess it's good enough. I'm just going to hang out because the switching costs seem high for the level of uncertainty that's out there," but they're satisficing on things that they really don't actually need to satisfice on. There are other options out there to be able to do it. They just didn't know.

And not surprisingly, their firms usually don't show them all the other choices that are out there that, particularly in large firms, I remember this from starting my career as well, we get very inculcated into what it's like here, and often build some good healthy pride around the firm that we're with that we're proud to represent.

But then it can trap us sometimes into thinking, "Well, therefore, they must be the best firm in everything there is out there. And no other choice could possibly be better." And it's like it's not always the case.

And not even to say that firm is bad, but just that different firms have different levels on these autonomy scales or even just which things they crank down on and which things they're more

flexible on. And if you can find the configuration that fits your preferences, all of a sudden, you turn out to be much, much happier.

Mindy Diamond:

So, I agree. And we talked a lot about the notion of good enough and better enough. So, I think there is a big difference between somebody that says, "I'm really happy, hitting on all cylinders, business is growing the way I want to. I don't feel limited in any way. And I have the right amount of agency over and control over everything I want to. And where I may not have control, I'm very happy to give it up. I'm happy that they support me and do it for me. And that's awesome."

But what I will tell you anecdotally, there are very few advisors that actually feel that way, that are 100% happy or even 90% happy. The vast majority of advisors we talk to are somewhere in that neighborhood of it's good enough.

And from where I sit, and I don't say this as a salesperson or recruiter trying to convince everybody to move because that's the last thing I think, moving has high switching costs, and it is a pain in the neck, and it is disruptive, and you shouldn't do it unless you really believe it is worth it in the end and the pain of staying is great enough.

But what I will say is that, speaking as a 61-year-old woman in the later stages of my career with a lot of maturity and wisdom, is that hanging out because it's good enough or because of inertia seems sad. It seems sad to me or a waste because if you've built a great business, and there are so many other options, and again, this is not meant to be an advertisement on or other parts for go ahead and move, but it is to say, "Open your eyes."

It is to say that there are so many different ways to practice. And chances are good that there could be a model or firm that will allow you to do it better with more freedom and autonomy and the things that matter to you most elsewhere. And I think, actually, your report talked about that those thriving were seven times more likely-

Michael Kitces:

Oh, yeah.

Mindy Diamond:

..than those achieving their goals, but you also wrote that within the next year, 9% of those struggling are extremely likely to leave. And so, talk to me about that.

Michael Kitces:

So, as we went through our well-being work, we segmented advisors out into those who are thriving and those who are struggling. And again, this is not an economic measure of whether

they were thriving or struggling. This is a well-being measure of whether they're thriving or struggling. In essence, the thriving folks were people whose well-being scores were nine-plus.

The struggling folks were people whose well-being was five or less, which even included some literally million-dollar producers who worked a ridiculous number of hours and made really good money and did not actually like the life that they had created for themselves, and the business was an albatross around their neck.

So, what we found at the core, fitting to the discussion that we've had, the advisors that were struggling and really unhappy were significantly more likely to leave. Just in the purest sense, when you think about that, what's the opportunity on the other side versus the switching costs, there's a certain level of unhappiness where it's like, "Oh, yeah. It's worth going through those switching costs." I've...

Mindy Diamond:

It's obvious. There's no way out, right?

Michael Kitces:

Yeah. I've got to make a change. So, on the one hand, we found that when too many of those autonomy principles start getting violated, and we can't build a practice, we want the way that we want, whatever those things that we want that are important to us are getting throttled, the odds of departing the firm just skyrockets at least on a relative basis.

We go from one in 50 advisors thinking about leaving to one in 10, which, on a relative basis, is a really big difference. So, we do see these notable shifts and upticks in desire to leave when too much of that is not working the way that we want. And when we look overall, so there were three main factors we found that drove well-being overall, and then two notable add-ons that tie into this as well.

So, our big three overall, autonomy was number one as we've talked about well. Team was the second in the list, just being able to let go of the things that are not my highest and best use so that I can do the things that are, which usually is around serving clients and giving them advice and maybe getting more clients if we want.

Experience was actually the third big factor we found, just the raw time and amount of years that we have been in the business and the skills we build, the capabilities we build, the personal brand reputation we build, the income that we tend to build.

We found that more so than just raw income, pure years of experience and how many years we have been doing this career compounding thing was actually a very big factor. So, again, getting to the earlier comment, if you're in those early years, empirically, data-wise, I can tell you it really does get better the longer that you survive and last in the business.

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Mindy Diamond:

And mastery matters.

Michael Kitces:

Yes. So, we had this autonomy experience team as our big three. And then there were two others that layered on top. For a segment of advisors, the chance to be entrepreneurial and build something was a big driver. This was not universal. Just if you look at the general U.S. population, the really purebred entrepreneurs are only a single-digit percentage of the population. We're a weird type unto ourselves.

So, most people don't actually want to do the pure raw entrepreneurial build it from scratch and create this thing, but if that's how you are wired, you have to be in an environment that you can do that, or you start going nuts. And so, the entrepreneurial business builder types do find a lot of well-being when they actually get to go build their thing if that's how you're wired.

And then the last factor that showed up for us was being in a position where you get to serve clients and actually being able to get paid what you're worth. And this has started showing up in some interesting ways in the industry overall. We see advisors sometimes that are leaving because they can't serve who they want to serve. My friends are merely millionaires. And I work at a firm with a $10-million minimum.

And I have to literally turn down my millionaire friends because my firm won't let me take them as clients. We see things like that sometimes crop up. We give away all this financial planning work for free. And I want to charge for the financial plan. And my firm won't let me do separate planning fees. And sometimes, that triggers a switch or change.

I want to have a different fee schedule because I work with a unique niche clientele where the standard AUM rates just don't really apply very well. And my firm won't let me be more flexible with my fee schedule. So, the things that we sometimes have to do to make sure that our fee model is well-aligned to who we're serving and being able to serve the people we want to serve, we're now seeing start to show up as well.

It's a subset of autonomy, but we actually found this getting paid what you're worth really shows up as an independent factor unto itself. It's not just income. So, it's like it's less gross income and more dollars per hour that I'm earning. I'm going to decide how many hours I want to earn and how big I want to scale my organization.

That's what controls my gross income, but pound per pound, hour per hour, if I back my income for the year into how many hours I work, if that number is not adding up enough, that starts to become a driving factor unto itself.

Mindy Diamond:

So, agreed for sure. And I'll share a couple of things with you. I guess, one, if we agree that the majority of the advisor population doesn't live at the nine or 10 level of well-being on top of the ladder, but rather in the six to eight level. And again some, there could be an advisor that is at a five, which I would argue is not enough for me. I want to be a nine or 10.

And I'm always going to look to make my life better and figure out the things I need to do so, but there are many folks that live at a five and say, "You know what, though? I'm 65 years old. I've got two years left to work. I can make it work. It's good enough. It's not worth the hassle. I'm not going to deal with it." So, the one comment is that if the majority of folks live in that middle range, what does that mean for the industry?

And I'd argue it's a good thing because I think that if there's certainly enough, as you said, educational resources out there, ways to get educated, the industry landscape has expanded a lot, that's a great thing. Advisors have real leverage today because it's a seller's market, because of increased competition. And I'd argue that's a really good thing. I'll tell you something else. And I want to share a story with you that shocked me at first.

And the more I think about it, the less it shocks me. I interviewed Andy Sieg for this podcast, who was the head of Merrill Lynch Wealth Management, probably two months before he announced his departure to go run Citi. And one of the questions I asked him is, what do you think is the responsibility on the part of a big firm leadership, like you, to provide to advisors to make them happy?

And he talked a lot about great platform, and great technology, and great branch management, and great infrastructure. And then I went on to say, "Yet you do all of those things. Nobody's arguing Merrill's platform is not great. Nobody's arguing that your talent, your branch leadership, isn't great infrastructure, all of it, yet you've got more billion-dollar teams leaving than any big firm. Why do you think that is? To what extent," I said, "do you think that advisor well-being and happiness and autonomy and control," was the biggest thing I mentioned, "impact an advisor's assessment of how happy or content they are?"

And he actually said, I'm paraphrasing, "Essentially, not at all." Now, I was sitting. Again, it wasn't video. I had steam coming out of my ears about how incredibly tone-deaf that seemed because that's the exact opposite of everything that we find.

And in a highly competitive landscape where there were so many other ways to be an advisor, whether it be go be independent if you're uber entrepreneurial, or go to Morgan Stanley if you want to stay in channel, why would someone stay unless they're forced to? What would you say to him if you were sitting with Andy Sieg and he said that to you?

Michael Kitces:

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And so, I hear you on the frustration of that, but I actually have some sympathy for Andy and how he framed that because of what I'd said earlier around the self-sorting mechanism that a lot of advisors go through.

If you choose a major wirehouse as your firm of choice, you tend to be someone who values large firm, values big systems, values big-tech, values having the brand at the top of your business card, values that you don't have to do the rent and the HR and the payroll and the employee benefits, values that you've got a branch manager that can just solve this stuff, values that you've got a tech team that goes and figures all this stuff out for you so you don't have to go shop for your own fricking tech like those crazy independents.

If you chose that channel, you tend to value the things that Andy highlighted, and almost by definition, then those are the things that contribute to your well-being in the channel. Again, it's the mismatches that crop up. Now, I think there is a partial wildcard, I would say, with that, that frankly, we didn't even measure as deeply in our study this time. I think we're going to get into it more next time.

When I look even, not to pick on Merrill, but just it's a good case in point example here. When I talked to most of my friends who have left Merrill, the reason they have left is not any of the things that Andy sounded off on. They left over culture change, that the culture turned into just the thing that was not what they went there for originally. And it changed over time. And they actually liked the culture the way that it was. And they don't like the culture as it is.

And I do think there is almost certainly a culture factor in there as well that goes right alongside capabilities. And you can win on capabilities and lose on culture. And it just becomes another version of advisors starting to feel like they're square pegs and round holes that creates the well-being friction that ends up with the departure.

Mindy Diamond:

If someone values, if someone says, "I don't need autonomy over all of those things that Andy listed," then they're perfectly happy, but I'd argue that the vast majority, again, we're not picking on Merrill, this is true probably at any major firm, of advisors live somewhere in that five to seven happiness or well-being factors.

Michael Kitces:

So, what we found overall was the average advisor well-being score was 6.84. And notably, the general average in the U.S. is 6.89. The average advisor is as happy as the average American. No, not materially better, not materially worse. We show up like normal human beings that put on our socks in the morning and go about our days.

So, again, to me, it's why, on the one hand, I'm so fascinated that, frankly, that there aren't more changes in the industry across the channels because I think we actually are pretty good on average in our self-sorting mechanisms with, again, the big asterisks a few of us miss. Sometimes, our preferences change. And sometimes, the firm changes.

And any of those three eventually can get to the buildup point where we say, "I just can't take it anymore. My well-being is going down. The switching costs are not looking as daunting as they used to be, particularly if I've got some time horizon in front of me that says if I make this leap and do this change, I got at least seven years to rebuild on the other side and make it bigger and better than it ever was." That pulls the trigger.

One thing I would highlight, because I feel like we've talked a lot about what happens at the low end of the well-being scale, the struggling folks, and what happens with the ones in the middle, I think it's actually interesting to highlight what happens with the advisors at the upper end, those who actually are thriving and how thriving advisors showed up, because, again, as I mentioned earlier, it's not necessarily a function of income alone.

For instance, we found that the highest earning struggling advisors were million-dollar producers. The highest earning thriving advisors earned $600 grand. That's still a pretty darn good number by any traditional standard, but thriving advisors earned about half the income of struggling advisors. They also worked a third fewer hours. The typical thriving high-income advisor made $600,000 a year and works 30 hours a week.

And there's a phenomenon that we found overall that thriving advisors, by and large, were much more confident in their job. They had confidence in their experience and their capabilities. Some of that just comes with experience. They drove very good incomes relative to their hours worked. And most of them work fewer than 40 hours a week.

And they have built clients that will pay them their full worth. They have built teams that allow them to delegate and shift responsibilities. They have focused in on a clientele that allows them to earn the fees that they deserve. That whole get paid what you're worth, in part, means make sure you're working with people who can afford to pay you what you're worth.

The biggest theme we found for thriving advisors was that they had a level of intentionality around what they wanted their practice to look like and what their deal killers were, what those big autonomy factors were that mattered to them. And they went after it.

And they did whatever they needed to do, whether that was change channels, change firms, hire staff, learn new management and delegation skills, figure out how to scale, make some tough decisions about certain clients that aren't a good fit. They got clear on what matters. And they took initiative to actually get to the thing that matters, and whatever matters to them. Different things matter to different people.

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Although, by and large, we found that the thriving advisors earned good income and worked less than full weeks because they were at a career age and stage that they wanted to do some other things in their lives, and they built practices that would allow and enable that unless they happen to be hardcore entrepreneurs. And then they just built giant businesses because that's what scratches their itch.

Mindy Diamond:

So, I love this conversation, this last part of the conversation, around what do the thriving folks look like? I think if it boils down to clarity, and you said intentionality, people that are thriving are very clear about what's important to them, what their true north is. They're clear about what they're willing to do in order to get it. They're intentional about the actions that they take in order to do so.

And I think that they're courageous, meaning they look at their life and say, "If I am a six and I want to be a 10, I want to identify what that gap is. What do I need to do to get from a six to a 10? What is palatable in order for me to do it? And I go ahead and do it." And that's a good model for life in general, not just advisors. But while I still have you, I wanted to switch gears for one brief second.

And that's, so given all of this industry influx that the industry is doing a lot right, the industry that now is proliferated with more choice, what do you think the next big things are to watch for? What should be on people's radar?

Michael Kitces:

So, the thing that has me fascinated about these days, aside from the obvious AI is going to do some neat things, and bottom line, I see it as no threat to financial advisors whatsoever, but I think it's going to really winnow down our back office and leverage us in some interesting ways.

The part that fascinates me the most is that, so if you go back even just 10 years ago, and certainly 20 years ago, the big firms had all the tech, all the resources, and the independent channel was this, basically, Wild West, particularly in the RIA channel.

Independent RIAs, 15 to 20 years ago, was the American history equivalent of settlers that put everything they owned into their wagon, and just started going west, and then found a nice plot of land, and started cutting down trees to build their house with their own two hands. And it was very frontier. And we've had so much growth in the independent channel now that the technology providers for the independent channel have more users than all the wirehouses combined.

So, in the past, the wires had the best tech 30 years ago because they were the only firms that were large enough, that had a large enough base of advisors to amortize the cost of developing

technology. Well, now, MoneyGuide and eMoney and such have more users than all wirehouses combined. The tech firms have bigger bases to build technology than even large firms ever did, which is why the technology landscape is getting so good on the independent side.

Over the past five years in particular, the services infrastructure has started to crop up on the independent side. And so, more and more, there are platforms you can tie in and affiliate with to outsource and get support on everything from compliance to ops to investments to paraplanning support. Anything and everything, you can do some combination of what you hire and what you outsource, and put together the exact version that works for you.

And at the same time, I now see the RIA channel inventing things up and down the spectrum. You've got employee models that look frankly not dissimilar to wirehouses of old, including even the restrictive non-competes that existed 30 years ago. You've got affiliate-style channels, corporate RIA models that look a lot like independent broker dealers. You've got network models that support pure independence.

And to me, just the fascinating thing that's happened, it used to be you worked in one of the many different choices in the brokerage industry, from wires to regionals to independence to banks and retail brokerage, or you went to the RIA channel and brought everything you owned in your wagon and started building your own log cabin.

And now, I feel like we live more in a world where the RIA channel effectively is reinventing every single layer of the brokerage industry without the brokerage. It's all the support systems and none of the FINRA because you don't need that side when you switch over to the advisory side of the business. So, to me, there's been a really interesting shift in that way.

And a lot of that has really just come over the past five years with new influxes of investments that have made some of those platform buildings possible. So, I'm really fascinated to see how the industry continues to evolve from here because the brokerage versus RIA choice does not look the same now that it did even five years ago and certainly 10 years ago. You can provide for pretty much any level of support that you want up and down the spectrum. It's really just coming down to how important is it to you for you to keep your FINRA licenses or not.

Mindy Diamond:

I couldn't agree more. I think the bottom line of all of this is that it's an exciting time to be an advisor because more choice is a good thing. It's a good thing for advisors. It's a good thing for clients. It's a good thing for the industry overall. I am always fascinated when I talk to you. I always feel like I wish we had three hours instead of one. We won't do that to our listeners.

But I thank you. I thank you for having put together this report because, again, we started out saying it sounds like it could be a little bit of a squishy topic, but it's not squishy at all. It's

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probably the number one driver of not just happiness and well-being, but the actions advisors are willing to take and how they service clients. So, important work you are doing. I am thrilled. I love your perspective. And I'm really grateful for your time.

Michael Kitces:

My pleasure. And just for anyone who wants to dig in and check out, just kitces.com/wellbeing. And you can get a copy of the study. We make our research publicly available. There's no wall or anything.

Mindy Diamond:

We'll publish a link to it on the show notes as well so they can get access to it.

Michael Kitces:

Awesome.

Mindy Diamond:

But again, thank you a million for your time and your insights.

Michael Kitces:

My pleasure. Thank you.

Mindy Diamond:

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