Better Together or Apart: A Breakaway Advisor Shares Why He and His Team Chose Separate Paths

A conversation with Dan Johnson, President & CEO, Birchcreek Wealth Management

Mindy Diamond:

Welcome to the latest episode of our podcast Series for Financial Advisors. Today's episode is better together or apart. A breakaway advisor shares why he and his team chose separate paths. It's a conversation with Dan Johnson, President and CEO of Birch Creek Wealth Management. I'm Mindy Diamond and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

For Apple Podcast users, I'd be grateful if you'd give the show a review. Your input helps us to make the series better and alerts other advisors like you who may find the content to be relevant. And while you're at it, if you know others who are considering change or simply looking to learn more about the industry landscape, please feel free to share this episode or series widely.

Mindy Diamond:

There's real value to building teams in wealth management firms. For clients and the business overall, there's strength in numbers where the merging of talent offers the potential of greater operational efficiencies and growth. Plus teams provide a built-in succession plan, keeping the business in-house should any of the advisors or the team desire to retire.

Mindy Diamond:

Yet many of these teams were formed not by the intentional coming together of like-minded players, but instead more at the encouragement of the firm to join forces. A retention strategy of sorts, because being part of a team makes it more difficult to leave the firm. Yet it doesn't always work out that way.

Mindy Diamond:

While these team members may have developed efficient and amicable practices together, the individuals never fully realize the synergies typical of a successful ensemble. That is, as my guest on this episode put it, they operate more like a bowling team than a basketball team. Dan Johnson saw a real value in being part of a multi-generational team at Merrill.

Mindy Diamond:

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As the youngest member of the group, he credits each of his partners for the knowledge he gained over his eight year tenure, and he felt a real comradery existed, but there was still something missing. Yet there was one thing they were all aligned upon, their frustrations over changes at Merrill.

Mindy Diamond:

So as a group, they decided to explore their options. And it was through due diligence that it became apparent they each had different visions goals and timelines, which ultimately led them each to consider different options. That is while Dan's interests were leaning towards independence, his partners were looking at other employee models.

Mindy Diamond:

It's a common story we're hearing from advisors in recent years. Team members coming to a fork in the road where they need to honestly answer the threshold question, are we better together or apart? And in this case, the team decided to go their separate ways with Dan choosing independence, three of his partners opting to go to Morgan Stanley and one signing onto Merrill sunset program, CTP.

Mindy Diamond:

So in August of 2019, Dan launched RIA firm Birch Creek Wealth Management based in Dayton, Ohio. In this episode, Dan speaks candidly about that decision-making process and why he felt independence was the best path for his business and his goals. He talks about thinking through the pros and cons of each option they considered, particularly what it meant to give up moving with his team, but also the upfront cash that was a part of it.

Mindy Diamond:

He shares his thoughts on CTP and why he didn't choose to stay with his partner and become the inheritor of his book, and why he ultimately made the leap to independence on his own, leaving some assets behind with a strategic intent to shrink to grow and where his business is at today. So let's to it. Dan, welcome to the show. I am so grateful you're here.

Dan Johnson:

Well, thank you for having me.

Mindy Diamond:

Pleasure. So I want to dive in and hear a little bit about your path to Merrill Lynch, but yours is an unusual story or a good story to highlight because it's about a team that you joined that you eventually split from because you and the partners had different visions for the future. So I want to get to that, but let's first start with your background and the path that led you to Merrill.

Dan Johnson:

Sure, happy to share and thank you so much for having me. So I graduated from the University of Florida with a degree in business finance, which led me to taking a role at T. Rowe Price, a large no load mutual fund family at a Tampa, Florida office. And that role was an inbound sales role in the call center, and that was 2007.

Dan Johnson:

So flash forward, I didn't want to be taking service requests all day. So I studied in the evenings for my Series 7 and 66. And again, went to a sales role there in taking inbound phone calls from 401k participants. And this led to the, obviously the great recession 2008, 2009. So what I felt would be an inside sales role turned into being a psychologist of sorts, right?

Dan Johnson:

Walking people back from the ledge while they're watching their retirement savings that they've scrimped and saved for all their lives evaporate before them. Here I am fresh out of college giving these folks financial advice.

Dan Johnson:

And it was really being thrown to the wolves on the job training for what's ultimately been a foundational approach to my career, which is managing risk on the downside for folks.

Mindy Diamond:

Yeah. So you were with Merrill for eight years and part of a five-person team. So first and foremost, what went into the decision to join a team as opposed to working as a solo advisor when you joined?

Dan Johnson:

Sure. So I moved back to the Dayton Ohio area with my high school sweetheart and took the position with Merrill. I had actually interned for Merrill while I was at the University of Florida. So I was familiar with the company, had a lot of respects, really viewed them as some of the guarantees of the investment advice world.

Dan Johnson:

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And I joined an existing team with two other senior partners, one of which was my father-in-law in a fully business development role. And cold called businesses during the day and called homes in the evenings and went out to every networking event, hosted seminars just to try to start building a book of business.

Dan Johnson:

And a few years in actually had the opportunity to help transition the most senior partner into retirement. And the five person team that was formed eventually at Merrill Lynch was really the combination of that team and another team at the Merrill office at the time.

Dan Johnson:

Just really people that we felt we had a lot in common, a lot of idea sharing between the team, operational efficiencies when we joined forces, practice management initiatives like workflows and whatnot, very horizontal at that point.

Dan Johnson:

So five partners plus five support staff, but really, at that point was still operating as more of a bowling team that a basketball team, I would say would be a good analogy for it. And I think that's somewhat common still in that structure to find pretty siloed advisors within teams. So that would describe us.

Mindy Diamond:

So let's talk about you for one second as the youngest member of that team. So at that point faced with either the opportunity to build a solo business or join a team, why was joining a team better for you?

Dan Johnson:

Yeah, that's a great question. And this was within my team as well as across advisors and various offices at Merrill Lynch found that I just gleaned a lot of knowledge and insight from having mentors around me, surrounding myself with people smarter than me to help me develop and help me serve clients better.

Dan Johnson:

So between that and going back to, again, the idea sharing, the operational efficiencies, I just saw a lot of value in being on a team at that point in my career.

Mindy Diamond:

And what role did each member of the team play?

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Dan Johnson:

So again, the bowling team versus basketball team, I think we were pretty siloed. We were really focused on managing the relationships that we had under our care. And I think we're working towards more of an ensemble approach, more of having specializations within the team environment, but really did not get there by the time 2019 rolled around just when I transitioned away from Merrill.

Mindy Diamond:

So up until 2019 or before that, when you decided as a team to explore options, up until that point, would you say it was a fully functioning good team, solid team?

Dan Johnson:

I trusted my partners. We collaborated very well. We got along very well. I think in the end we just had different goals and timelines that came into play and my transitioning away from the team approach.

Mindy Diamond:

And do you think that had you not decided to explore as a group that you'd still be together today? In other words, if you had stayed at Merrill, would you still be together as a group?

Dan Johnson:

Yes. In fact, it was sad at the end to have the team break apart. There was just so much comradery and it was a fun environment within the team. So, absolutely.

Mindy Diamond:

Yeah, so tell me what was going on at Merrill at the time that led the team to explore other options. Was everyone on board that everyone wanted to explore? Was everyone in the same place? How did that work?

Dan Johnson:

Yeah, I don't want to put words in the mouths of my former partners, but the general sentiment was we felt there was that death by a thousand cuts, so to speak, but the conflicts within the structure of the wirehouse. The sense at least that I was getting that a lot of the steps on the compliance side were to protect the firm versus protect the client or me as the advisor.

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The compensation plan changes. And just the sheer fact that compensation plan can be dozens of pages long and complicated when really what I felt we should be focusing on is delivering excellent service and advice to our clients.

Mindy Diamond:

As a team, what options were on the docket? As a team, what were the options you were considering? And I want to just be clear, when you began to explore, when you began the due diligence process, it wasn't going into it saying we're going to split. It was we're looking at options where we can all go together, correct?

Dan Johnson:

That was ideal. That was our ideal was going as a team. The team, again, were working towards this better foot running on all cylinders approach, team approach and had scale in terms of assets and client base, which provided some security. But we did go into it knowing that we had different ideas and ultimately we could going separate ways.

Dan Johnson:

And I think we were fine with that as long as we knew that we had vetted all options. And as you and your firm are well aware Mindy, we certainly did vet all options. We went up and down the spectrum from anywhere from wirehouse to clearly do it yourself, build it from the ground up RIA.

Mindy Diamond:

So let's talk about those options for a second. What were your feelings about the options you considered? You obviously ultimately wound up as a fee-only RIA. Your partners did not. And your partners wound up at Morgan Stanley. So two completely opposite ends of the spectrum.

Mindy Diamond:

And I guess the question that I'm asking is, we see this a lot where whether it be two teams coming together that are not now partners but think that they want to work together and they begin to look at options and then can't come to an agreement. So one of three things happen, either they stay put because they can come to an agreement, or they split as you did, or they go to a middle ground solution.

Mindy Diamond:

And a lot of times firms like let's say, Raymond James, that allows you to join as part of the private client group, but probably a less bureaucratic organization than a Morgan or a Merrill, and eventually slide into independence ,can feel like a middle ground.

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Mindy Diamond:

So tell us a little bit about the options you considered as a team and if considering middle ground flexible options to potentially stay together, if that was part of the conversation.

Dan Johnson:

It was. We were very close to making a compromise, but I think in the end felt that we were each just compromising too much. We had different definitions, different priorities of those elements of change, that calm with a transition away from your distinct firm.

Dan Johnson:

Again, not to put words in their mouth, but the partners that went to another wirehouse, I think they felt that their clients would be more comfortable within a similar structure. For me, maybe that would have been better, but it wasn't better enough.

Dan Johnson:

And this really ties back, but at least on my end, to going down a rabbit hole for a bout six to nine months on the front end of our due diligence period, to where I just could not get enough information about what this thing is out there. That is a fee-only RIA. I fell in love with the space and made attempts and passes to convey that to my former partners.

Dan Johnson:

But again, different timelines, different goals, different priorities when it came to what we felt was best for clients.

Mindy Diamond:

Do you think that age had anything to do with it? You as young with a long runway, them a little closer to perhaps the back nine of their careers and certainly a move to Morgan Stanley allows them to be much more short-term focused to monetize more in the short term.

Dan Johnson:

That's a really good question. I don't know. Well, first off, a lot of content that would come across would pose the question for example, well, why not go to a similar structure now and take some chips off the table or monetize, and then transition to independence later, if you have a long enough runway?

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And when I took a step back, first off, I wanted to always have the lens of how is this new structure or this move better for clients? And at the end of the day, is making two moves in my mind. I couldn't answer that question affirmatively, that it would be better for clients to do that.

Dan Johnson:

The other is, I think honestly, fee-only RIA or this similar fiduciary, 100% fiduciary structure, is where the industry is going. I felt I was going where the puck was going, so to speak.

Mindy Diamond:

But yet there was a lot you stood to lose by separating from the team. In fact, one of your partners actually chose to stay with Merrill, sign-on to CTP, Merrill's retire in place program. And that actually meant you losing out on the ability to inherit his or her book of business. So how did you reconcile that? How did that feel?

Dan Johnson:

Well, a lot of the decisions around my moving from Merrill to RIA were through a very long-term lens. One component of going to a similar structure and signing on to a transition package is you often sign away the next nine to 10 years of your career. And there are costs associated with that.

Dan Johnson:

There is no free lunch if it sounds too good to be true, it's probably just too good to be cheap. And I looked out in this independent space and said, if I'm running the PNL and the clients are better served, I can make a very good living better than I am doing now. And it negates that enticement, so to speak, of taking on what's really a forgivable well.

Dan Johnson:

So the longer the runway and the more control I had, I just saw the compounding effect of being a business owner. And now and not just disregarding the fact that I forewent six figures worth of deferred compensation and the potential to receive a seven figure transition bonus. However, again, in the long run, it was going to be better to invest in myself and the structure.

Mindy Diamond:

Let's talk about that for a second. I think that term compounding effect is an important one. So one of the trends we've written about a lot and spoken about and seeing is that younger advisors are coming to independence much sooner than they might have.

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Mindy Diamond:

That one school of thought is you've got such a long runway. Monetize now, jump from one traditional firm to another, take some significant chips off the table. And then nine or 10 years from now, you're still young enough to go independent. That really is what we saw for a very long time.

Mindy Diamond:

But lately for advisors that are confident in their growth and really all about the fiduciary model of being able to really definitively say, I'm doing what's in the best interest of clients, they are going to independent sooner and looking at this compounding effect of being a business owner over time.

Mindy Diamond:

And what it means is as you say to forego what would have been six figure deferred comp and seven figure transition bonus. So talk to me about that. That has to come with some anxiety. Some, was there any crisis of faith about the growth and did I make a bad decision and some sense of boy what that seven figure transition package could mean for me.

Dan Johnson:

If you had asked me that two years ago, sure. There was some moments of, am I doing the right thing? Am I a moron by passing up this potentially once in a lifetime opportunity? But since the transition, Mindy, not for a moment, not for a second.

Dan Johnson:

First off, the growth that we've experienced in our close to first two years of business, plus what I see as the potential going forward will eclipse that moment in time, point in time windfall. But this kind of ties into the advice that we give clients.

Dan Johnson:

There is an element of, hey, if you reduce your expenses and broaden the gap between what you're bringing into your household, that increased savings rate, you can hit that work optional lifestyle sooner, that compounding effect that you make sacrifices today for what is going to help you achieve your potential goal.

Dan Johnson:

And the other element I would actually add on to that Mindy is risk management. In the structure in the wirehouse, I always felt that if one guy or girl above me, didn't like the way that I approached them or

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interacted with them or did business or interact with clients that was risky my career. And I think we're seeing examples of that.

Dan Johnson:

Now as an independent, as a true owner of my book of business, I'd have to have 85 client families fire me for me to lose my job.

Mindy Diamond:

Well, what you're talking about is an increasing sense of vulnerability amongst wirehouse advisors. You've got a zero tolerance compliance policy and things that might have just been a warning or a slap on the wrist in the past has now become grounds for termination.

Mindy Diamond:

And so you're watching a lot of people actually forced to the independent space and thrilled that they got there, but forced there because they were forced from their firms. So I think you're not wrong for what you saw, but let me ask you another question.

Mindy Diamond:

So having represented you, I know that you were the ultimate DIY or the ultimate do it yourselfer about building this firm and in an industry landscape that's expanded where there's been this whole ecosystem born to support the breakaway advisor, not the least of which are platform firms that offer anywhere from say 40 to 100% of trailing 12 months revenue. Yet you still decided the DIY. So what jazzed you about building your own firm from the ground up?

Dan Johnson:

I can honestly say I did not realize how much of an entrepreneurial spirit I have until that due diligence period in 2019. I just, as you put it, got jazzed about every component, every facet, every element of building a business from the ground up.

Dan Johnson:

I wasn't intimidated by the prospect of having to run payroll or put printer ink in the printer, turn the lights on in the morning, but the legal aspect of it in terms of business structure, the compliance. What I wanted to do was get in to every aspect of building the firm so that I could learn as much as possible and part of that is learning, what I wanted to then outsource.

Dan Johnson:

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I think there's this misconception inside of the wirehouse space about RIA and that you're out there on your own alone. But if you're DIY, it means you're on an island. That's not the case. There are very well-versed, very exceptional companies out there that'll help you do pretty much every aspect, and as you mentioned, that'll help you do every aspect of going independent.

Dan Johnson:

So, I wasn't afraid to get in there, do it all, learn what I wanted to keep in-house, learn what I wanted to outsource and so forth.

Mindy Diamond:

So tell us a little bit, if you would, what are some of the components of the business you've built? I know Fidelity is custodian, so went into that decision. And how about some of the other FinTech that you've pulled together as well?

Dan Johnson:

It has been so eyeopening to get out into the RIA space and realize how high the caliber is of offerings. No decision was taken lightly. And again, it took about six to nine months on the front end of due diligence to really kind of put each block together. The custodian with Fidelity, they've just been a fantastic partner for us.

Dan Johnson:

And what we were looking for, what I was looking for is a company that had the size and scale to offer this sense of stability and safety that clients look for. And Fidelity is I believe approaching $8 trillion of assets in their administration. And they're by far the largest retirement plan provider in the country, they're a household name.

Dan Johnson:

So you have that brand recognition and it's a high integrity, high caliber reputation. Many of the clients I interacted with were familiar with Fidelity and even had some experience with Fidelity, oftentimes again on that workplace retirement plan side, but they're one of the largest custody providers for RIAs like our firm and had that size and scale and to have the safety and stability.

Dan Johnson:

The other component of that was they're privately held. So Fidelity is not, and this is one thing I would convey to clients at the transition, is not beholden to that quarterly public shareholder report that says, what have you done for me lately?

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Dan Johnson:

Are you eating out a couple extra pennies from every client? And that's how they can turn around and reinvest profits into things like, in my opinion, better technology, a very high level of cybersecurity capabilities both online and so forth.

Mindy Diamond:

And how about some of the FinTech you've pulled together?

Dan Johnson:

Yeah, the technology again, one of the biggest positives I've seen in the RA space is just how high the caliber of technology is, but I want to be candid. But one thing that I haven't found in the space is just a one-step solution. So when you say FinTech, I'm thinking portfolio accounting, financial planning, CRM, risk assessment, right?

Dan Johnson:

All of those different elements that go into building out what I would call our dashboard or our workspace at Birch Creek. And so from a portfolio accounting standpoint, we went with a relatively young up and comer in the space advice on, but it's really just been a fantastic relationship for us.

Dan Johnson:

And that's where we would run for example, client reports that report their performance and in allocation and holdings and realized gains and so forth for client reviews. Financial planning, E-money is often held as the gold standard in the industry, and we have found that it's just so robust in terms of how deep we can go with the planning elements.

Dan Johnson:

The risk assessment, Riskalyze, is just really helpful in terms of proposals and comparing existing portfolios maybe at another institution to how we would run money for clients in terms of how much risk they're taking. And then obviously it'll tie back into their financial plan. So these are technologies that have just leveled up how we work with clients.

Mindy Diamond:

And is the fact that it's not all in one system that what you've just described as four different systems, and then plus the custodian, is that problematic?

Dan Johnson:

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I would not call it problematic. I would say it is, for lack of a better term, a downside. It's both a pro and a con, right? So anything can be bolted on to the technology suite, the tech stack as we call it, which is fantastic. However, it's all bolted on.

Dan Johnson:

And I think what we're seeing in the RIA space and the next evolution is more again of that dashboard approach. It's the one step approach, but there's a cost to that in terms of the autonomy of which of these systems you want to use.

Mindy Diamond:

Yeah. Well, the beauty of bolt-on is that you can fire one or bolt off something that's not working and replace it with something better, but it isn't quite as seamless. So you mentioned that ultimately you wanted to learn everything from the ground up so that ultimately you could decide what you were going to outsource. So what aspects do you eventually think you'll outsource?

Dan Johnson:

Well, it's interesting you asked that because I have outsourced and we did out the gate using a compliance consultant, a lot of the compliance around the firm. But I actually about a year in, had a former contact from Merrill Lynch approach me about potentially coming in and helping with compliance and operations of the firm.

Dan Johnson:

So I had the opportunity to hire a fantastic former administrative manager, so a compliance manager from Merrill Lynch to the firm, who's now our CCO COO running compliance and operations. And that was probably two to three years ahead of my originally intended schedule.

Dan Johnson:

But when you have someone approach you that you know is going to look at other opportunities, if you don't jump on it, sometimes you have to jump on it. And he has been a great addition, added a ton of capacity for me in terms of running the business.

Dan Johnson:

And so that is not necessarily outsourcing, which was your question, but really delegating the compliance component, our relationship with the SEC.

Mindy Diamond:

I think that's great. And look, a lot of times the best opportunities come not at the exact right time and you grab them and it sounds like you did, and that's great. I want to pivot to the break from Merrill, but tell us a little bit about the size of the business you were running when you left Merrill and what it looks like now two years later. So how much in assets, what do the client base look like, and how about now?

Dan Johnson:

When I was with Merrill I was managing around 150 million for clients. And about six months in to the transition, I was at 120 million. And so someone may say, well, you only took 80%. Well, it really was a very intentional process of who I invited and pursued to join as a client. I felt by the time I was in the wirehouse, I was managing too many relationships.

Dan Johnson:

I think service can suffer really when you get above that 100, 125 number of client, family households. So I was able to right size my practice at the time of the move and granted, but kind of back to the economics, not that this is the most important aspect, but they were all there.

Dan Johnson:

It wasn't a financial hit in terms of assets, maybe about 80%, but in terms of revenue, maybe 95 and since then it's grown. So we were at about 120 million. I was the only advisor going into March of 2020.

Dan Johnson:

Through a number of referrals both, and we can get into the details there, but from existing clients, but also a lot of estate planning, attorneys and CPAs that we work with as well as bringing in a five-year RIA owner as a tuck-in to Birch Creek, who was very, very deep on the technology and planning side, we're up to about 184 million today.

Mindy Diamond:

Got it. All right, well, I do want to talk about that, the tuck-in, the acquisition of the five-year-old RIA. But let me first ask you, what do you think it is about Birch Creek that made these new referrals come to you as opposed to having come to you at Merrill? Or do you think that they would have?

Dan Johnson:

In most cases they would not have. And this goes back to going to where I feel the pocket is going in the industry. I believe consumers are beginning to learn what a fee-only fiduciary advisor really means. The professional contacts seem to already know it. One in five prospective clients understands really what a fiduciary in fee-only advisor is.

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Dan Johnson:

I bet four and five professional contacts know. And so what I've found is contacts that might send me a referral here and there, or during my years at Merrill, were now sending the majority of their referrals our way.

Dan Johnson:

Not because I was utilizing commissionable or revenue sharing type of products in the past, but they know just based on the structure of Birch Creek, that that client will never get into something that would be a necessarily a liquid or high cost.

Mindy Diamond:

And to that end, what are the kinds of things you're able to do for clients now that you couldn't do at Merrill?

Dan Johnson:

I'd like to turn that question around just a little bit and say, is there anything that we can't do? Which the answer would be no. I think, again, back to the misconception of the RIA space, it's always, well, I'd have to give up my securities based lending or I'd have to give up the banking features, or I'd have to give up this.

Dan Johnson:

It's all out here in the RIA space and available and in a lot of cases, more competitive. So I didn't feel that I was giving anything up. What we can do is really put transparency around the relationship, and I'd like to go into that a little bit. So in the wirehouse structure, I was always using this multiple hats analogy.

Dan Johnson:

Well, on your IRA, Mr. Client, I'm wearing my fiduciary hat, but on your brokerage account, I'm wearing my suitability hat. And we don't have any prietary investment products, but oh, your daughter needs a mortgage for a first time home purchase, well, I've got to show you this proprietary mortgage.

Dan Johnson:

All of that is out the window. We have arms length between us and our custodian, our primary custodian, I should say. And we're not beholden to utilizing that custodian. We can go to any custodian really, and the same with product base, the same with the research that we tap into. And so really, again, lists these restrictions off of what we can bring to clients in terms of advice.

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Mindy Diamond:

So we talked about referrals, how did your clients respond to your message I'm leaving Merrill Lynch and forming my own firm?

Dan Johnson:

Overwhelmingly positive. In fact, there were some surprises, some relationships that maybe I didn't feel I had a tight relationship with that were say on my maybe list instead of my yes list, right? That you always make before you make a move like this, is they fully embraced the move because in a lot of cases, they were business owners themselves.

Dan Johnson:

And I think that investment in myself, investment in confidence in myself it resonated with those business owner clients.

Mindy Diamond:

Yeah, one of the things we hear sometimes is that it takes about 300 million in assets to begin to really get scale where the economies of scale kick in and it makes sense to be a business firm owner. And you were at half of that and actually less than half that six months out. Would you agree with that comment?

Mindy Diamond:

What's your feeling about what it takes? How much under management, because if you're speaking to others like you, long advisers that want the compounding effect, young advisors want the compounding effect of having a long runway. I wonder what you'd say to them.

Dan Johnson:

I think that is 100% a misconception. I was speaking to a consultant at one point in the due diligence process that we were talking about the expenses that go into running a firm. I'm trying to obviously back out, okay, what's the net income?

Dan Johnson:

What's the "payout ratio"? And they said to me, well, Dan, you can run this with a 98% payout rate if you do it in your basement with your dog as your assistant. And I found that really interesting. There are RIAs that start from scratch calling from day one for client one.

Dan Johnson:

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And I don't think that you have the capabilities and expertise having an established base of clients to get you off the ground. But I don't think that there's necessarily a minimum. Obviously you're a business owner, you're running the PNL for better or worse. You have to manage your expenses relative to your revenue.

Dan Johnson:

However, I would encourage advisors to invest in themselves. And honestly, if there were a Birch Creek that I felt was a perfect fit for me when I was looking at transitioning, I would have highly considered a tuck-in. I don't think I'm the average advisor who doesn't mind getting down in the dirt and building this thing from the ground up.

Dan Johnson:

I think most advisors just want to get into a better structural and a lot of cases and serve their clients, to be client facing. So I think if there were a Birch Creek available to me to tap into at the time I left, I would have strongly considered it.

Dan Johnson:

But in my due diligence, it just wasn't the high scale national service providers that I was finding as an option. Long-winded answer, but I hope that addressed your question.

Mindy Diamond:

Totally. And was your team with you? Actually two questions. One was, did the team see it the same way about going fully independent? And how did your team decide whether to go to team Morgan Stanley or team Birch Creek?

Dan Johnson:

It's a great question. I think it goes back to the different priorities and different perspective on the risks, feeling that your client would be more comfortable in a similar structure. And it was a change. I think I realized that this was a change for the better for my clients and the other advisors didn't see it that way.

Dan Johnson:

And I think that there were a lot of good that came from the scale, but we're also a small firm currently relative and very nimble and able to grow in the right way and really focus on fit, building out an ensemble team out the gate as opposed to working towards that.

Mindy Diamond:

Better Together or Apart: A Breakaway Advisor Shares Why He and His Team Chose Separate Paths

A conversation with Dan Johnson, President & CEO, Birchcreek Wealth Management

Got it. And how scary was it to leave the familiarity and comfort of mother Merrill? As much as things were changing and it was feeling more bureaucratic and you were more entrepreneurial than you thought you were, it had to feel a little bit scary to separate from your team and leave what had been familiar for so long.

Dan Johnson:

There was an element of that, but by the time the day arrived that I resigned Mindy, it was an overwhelming sense of relief. And although I've worked very hard in my career, but I've never worked as hard as those following weeks from resigning and beginning to call and invite clients to come.

Dan Johnson:

A lot of work goes into it, but it was also a lot of fun and it was reaffirming, back to having transition portion of my book from a retiring advisor, I always wondered if there was just the, in the back of my mind, if there was this inertia keeping those clients on the books, or if they were really finding a ton of value in the advice that they were provided, which is probably just me being a little over-sensitive.

Dan Johnson:

But now having transitioned and again, right-sizing, I know that these clients have made a huge vote of confidence in me and the advice that they're being provided. That I think was the basis of that sense of relief at transition.

Mindy Diamond:

Yeah. So what's your vision for the firm? In other words, $184 million today, where do you think it gets to? Tell us about what you think the growth trajectory is and how you'll get there.

Dan Johnson:

The unplanned opportunity for growth, and there really wasn't considering at the time of transition, because I was just so focused on getting my clients over and situated, was growth through acquisitions of potentially retiring advisors within the independent space or otherwise, and then tucking in those next teammates to build out the Birch Creek team.

Dan Johnson:

So I just am so excited, and one reason I'm doing this podcast with you, this conversation with you today, Mindy is just if there's another Dan or Daniel Johnson out there who is hemming and hawing and certainly understandably concerned about, well, what's my next step? Should I have a next step?

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Dan Johnson:

I want them to know that this space is, in my opinion, the best structure for clients. And I think once that story is told, advisors will come, Birch Creek will scale. That scale, to bring it to the second point, I think can offer clients an unparalleled experience in terms of really almost a family office type of approach for our typical client, which is really the millionaire next door, right?

Dan Johnson:

The unassuming couple that saved a couple of million dollars and now they're transitioning to retirement. They're looking to replace that paycheck. Scale in an RIA firm can bring in-house tax service, estate planning. Might have a mentor in Chicago, firms a little bit bigger. They have a associate just focused on Medicare and social security planning for their clients.

Dan Johnson:

These are some really cool things that we can get into with clients as we scale. So you asked about the future plans for Birch Creek, and I do see growing, I shortly after my transition, took a step back and said, what do I want to do here? Do I want to sit back on my hunches and coasts and just give clients a great experience?

Dan Johnson:

How will I feel about that 10 years down the road looking back? Or do I want to really pursue growing and scaling this firm and making Birch Creek something really special? And I chose the latter direction.

Mindy Diamond:

As you think about the future and the end game, and I realize that's a long time away because you're young. But as you think about the future, what do you imagine? Do you imagine selling to a private equity firm, to a larger RIA? Do you imagine selling it internally? Do you imagine never selling it? What do you think that looks like?

Dan Johnson:

It's a great question. I'll start by saying when I was in the wirehouse structure, I spent probably more time than I showed up doing my own family's financial planning in terms of when is that day going to calm that I have a work optional lifestyle and I can transition to my next chapter.

Dan Johnson:

Now that I am in the independent fee-only RIA space, that is such a distant thought for me. I am so excited about the next three decades of my career of seeing clients through their retirement plan, seeing the transition of their wealth onto the next generation that I really don't put a lot of thought into stuff.

Dan Johnson:

It's more fun. It's enjoyable. I get to continue to nerve out on all those financial planning topics that I love to dive into. And I have three young daughters. Hopefully one day they have one or maybe all three of them have interest in coming into the business.

Dan Johnson:

But even more so than that in terms of legacy, I would love to be able to sell the firm to the employees of the firm down the road. And whether it's an ESOP structure or something similar, the enterprise value of Birch Creek is not the revenue generated by my clients that I'm premier advisor on or the other advisors here.

Dan Johnson:

The enterprise value is the team, it's the processes, it's the brand. Those are what builds, and that value building is attributable to all the employees, not just Dan Johnson.

Mindy Diamond:

Dan, I'm excited for you and I am so in such admiration of your sense of entrepreneurial spirit, your belief in yourself, your courageous decision to separate from your team and leave Merrill and build it all yourself. So if you were to share one word of advice with your ex wirehouse colleagues about exploration, about life beyond Merrill or the wirehouse world, about being independent, about anything, what would you say it would be?

Dan Johnson:

Early in my due diligence process, a friend who had left Merrill and gone independent about a year earlier said, "Dan, you really need to take a look at this fee-only structure." And at the time I said, "There's no way a 20% of my revenue is transactional.

Dan Johnson:

I just can't imagine putting my Series 7 in the closet and having it go away after how hard I worked all those nights at T. Rowe Price, you get it, so many years ago." But at the end of the day, it's really just opened so many doors. And there was not a situation when I really took a step back and looked hard for a client who had been engaging on a transactional basis to transition to fee-only.

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Dan Johnson:

Now you can charge them a flat rate rather than markup on bonds or commissions on stocks and have it eliminate a major conflict of interest in the relationship, whether you're directly or not influenced by that conflict of interest. I think the fee-only space is a little understood by advisors on the other end of the spectrum and deserves a really good hard look.

Mindy Diamond:

Yeah, I think that's really good advice. And you're right, when you live in the traditional brokerage world, it doesn't really... You could be 99% fee base, but it doesn't hurt you to have 1% transactional business in the just-in-case or accommodative stance.

Mindy Diamond:

But what you're talking about is when you go independent, there's a real benefit even if it means losing some relationships or losing some revenue to going fee-only.

Dan Johnson:

And I think what was surprising is how little impact it had. Again, I think we found ways to transition transactional relationships in a win-win situation for each of those clients.

Mindy Diamond:

Got it. Well, Dan, you've built something special. I think it's exciting two years out. We wish you nothing but all the best and can't wait to hear more and watch you grow. And I'm hoping you'll come back again.

Dan Johnson:

Thank you so much Mindy. I would love to do it.

Mindy Diamond:

Pleasure. While it meant each member of his team choosing a different path, Dan shared those paths were the right ones for each of them and their clients. Yet it was his realization about independence that really resonated that ultimately, as he put it, the growth potential will eclipse the moment in time windfall of taking a recruitment deal.

Mindy Diamond:

I thank you for listening and I encourage you to visit our website diamond-consultants.com and click on the tools and resources link for valuable content. You'll also find a link to subscribe for regular updates to the series. And if you're not a recipient of our weekly email, Perspectives for Advisors, click on the articles link to browse recent topics.

Mindy Diamond:

These written pieces are an ideal way to stay informed about what's going on in the wealth management space without expanding the energy that full-on exploration requires. Feel free to email or call me if you have specific questions. I can be reached by cell at (973) 476-8578 or by email at mdiamond@diamond-consultants.com.

Mindy Diamond:

Please note that all requests are handled with complete discretion and confidentiality, and keep in mind that our services are available without cost to the advisor. Please see our website for more information. And again, if you enjoyed this episode, feel free to share it with a colleague who might benefit from its content.

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