EPISODE TRANSCRIPT

Edward Jones Breakaway: From Knocking on Doors (Literally) to Building a $2B Independent Enterprise

A conversation with Jim DeCota, Enso Wealth Management

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is an Edward Jones breakaway. From knocking on doors, literally, to building a $2 billion independent enterprise. It's a conversation with Jim DeCota, President and Principal of Enso Wealth Management. I'm Mindy Diamond. And this is Mindy Diamond on Independence.

Mindy Diamond:

This podcast is available on our website, diamond-consultants.com, as well as Apple Podcasts and other major podcast platforms. If you are not already a subscriber, and want to be notified of new show releases, please subscribe right on your favorite podcast platform or on the episode page on our website. For Apple Podcast users, I'd be great 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 the series widely.

Mindy Diamond:

There's much to be said for a strong culture. It typically serves as the main distinction between firms and for many advisors is credited with fostering growth, through an ethos and community that they feel well aligned with. Take Jim DeCota, for example, his journey in wealth management started after opting out of a career in accounting, an aversion Jim and I have in common, and instead joined the financial advisor training program at Ed Jones.

Mindy Diamond:

It was 2003 and he could have easily chosen one of the big wirehouse training programs, but he felt Ed Jones was a better match for his entrepreneurial nature. Jim built his business by knocking on doors, literally. Cold calling and networking within his community. And he was growing, ultimately to 85 million in assets under management at Jones. But much like independent minded advisors we speak with. He felt like he was outgrowing the model and wanted moral autonomy. At the same time, the camaraderie and culture at Jones had started to change to something that was less fraternal as it once was and more competitive. So in 2014, he left Jones to launch RIA firm DeCota Wealth Management, which would become Enso Wealth Management in 2016, a firm that today manages some two billion in assets.

Mindy Diamond:

In this episode, Jim speaks with my partner Louis Diamond about building a nascent practice at Ed Jones and how both he and the firm changed over time and his decision to break away. He shares why he built an RIA from scratch, his extraordinary organic growth path, and Enso's unique advisor recruitment model. So let's get to it.

Edward Jones Breakaway: From Knocking on Doors (Literally) to Building a $2B Independent Enterprise

A conversation with Jim DeCota, Enso Wealth Management

Louis Diamond:

Jim, thanks so much for joining us today.

Jim DeCota:

Thank you for having me.

Louis Diamond:

Very good. Jim, can you briefly walk us through your journey to becoming an advisor?

Jim DeCota:

Yeah, I would love to. I started out in this profession back in 2002, but what led me to it was my accounting degree and probably my distaste for being an accountant on a day to day basis. So, no disrespect to any accountants out there, but I think the biggest catalyst for me was in my family financial advice wasn't sought, and I found communication gaps between my parents where knowing what I know now, a financial advisor could have easily solved those communication gaps.

Jim DeCota:

So after my stint at being at an accounting firm and walking through and understanding financial statements and tax returns, I kind of always had this thing in the back of my mind that I really wanted to help people with their finances and the emotion around their finances and fast forward now, 20 years, and really I spend a lot of my time giving people permission to live their lives.

Louis Diamond:

I like that. That's a great mission. How about your time at Edward Jones? What was it like growing your practice there and why'd you stay there for 11 years?

Jim DeCota:

Yeah. Good question. Edward Jones gave me the start that I think they give a lot of people a start to, if you don't have somebody in this business or don't have somebody that you know that's in this business and you're starting from scratch, Edward Jones gives you a platform and really validates you to those clients or potential clients that you're knocking on their door.

Jim DeCota:

So my tenure there, and why I stayed there so long, my wife and I talk about this, I always talk about culture. How they bring you in. I don't know if they do trips anymore. I've been out of there for eight years, but how they bring you in, how they put together meetings. It was exactly the catapult that I needed in this industry to get started.

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Louis Diamond:

Did you consider going into the training programs of a Morgan Stanley, Merrill Lynch, UBS type firm, and how'd you pick Jones at that time?

Jim DeCota:

No, I never, ever included or thought about a big wirehouse. Being a starter myself, slash entrepreneur, the idea of being in my own office and representing myself as you're coming to Jim DeCota's office was always much more appealing to me as an entrepreneur than some of the other programs that were out there and that were available to me at the time.

Louis Diamond:

So you're starting off day one. You're legitimately in an office, just want one advisor, and that's it. Just Jim?

Jim DeCota:

Yeah. Close to that. You have to kind of earn your stripes. I started off with a mentor from head office and I think they're starting a lot of people off that way now. But very shortly thereafter, nine months or so, where I was looking for my office space and had my BOA as it's referred to, as a customer service associate, and yeah, we had our own office.

Louis Diamond:

So you were pretty successful at Jones. And you mentioned that there was some training and it was a great culture to grow the business. Can you just talk about your growth? How did you build the business?

Jim DeCota:

Yeah. So I grew the business very similar to everyone else. I was in the Kiwanis, I was in Rotary. In the very beginning for the first, probably two to three years, I was knocking on doors like every other new Edward Jones starter. But literally how I grew the business was by going door to door, introducing myself, not as a salesperson, not as a salesman, but as somebody here to educate you and I followed the protocol and the protocol worked, I still have clients today from doors that I knocked on back in 2002.

Louis Diamond:

And legitimately knocked on doors?

Jim DeCota:

I literally knocked on doors. Yes.

Louis Diamond:

The ultimate cold call.

Jim DeCota:

The ultimate cold call. Yeah, the ultimate cold call. Yeah. I have clients today who chuckle about, I literally knocked on their door and said exactly whatever Jones told me to say. I'm here to introduce myself. I'm not here to sell you anything. And then get a number and then follow up and follow up and follow up. And then eventually there's a point in time in their life where it makes sense for them to call for some advice and that's what I did.

Louis Diamond:

Wow. And when we speak with Edward Jones advisors, they definitely talk about the unique culture. So aside from the culture of how they taught you the business, the knocking on doors, what are other aspects of the culture did you really enjoy? Did you agree that it did have a one of a kind culture?

Jim DeCota:

I think it does. When you're there it definitely has a one of a kind culture. The responsibility put to the local or regional leader to bring people together, to have meetings. I think we all know, and we've definitely experienced this with the pandemic, that being in person, shaking someone's hand, talking to them about what they're doing in their business. You walk away with, as Jones would say, good gas for what to kind of take back to your office. And Edward Jones did a very, very good job of really bringing those veterans out and making those veterans in the business available to younger financial advisors. So that is a culture within itself, the willingness for people to help other people. I don't think there's another place like that out there.

Louis Diamond:

So then why did you leave Ed Jones about eight years ago and what were some of the things that began to weigh on you as you're working there? Obviously one option would've been just to stay. So can you elaborate and share with us your thinking and kind of the evolution of how you became unhappy enough to make the ultimate leap to independence?

Jim DeCota:

Yeah. It's a good question. I don't know if it's unhappy. I don't know if Edward Jones really did anything wrong, per se. I don't think they did. I just think I outgrew the business model and their business model is a very successful one, managing a trillion dollars of clients assets. What I found where I was, was I started to outgrow solutions for clients. One of the other things that I got tired of, to be frank, is as good as that culture is with getting people together they know psychologically that they need to spend time showing other people where everybody else is. And I call that the sales dot. You're a dot on this chart.

And how are you doing compared to your advisor? And it creates internal competition and I just feel like I outgrew that. I didn't want to be a dot anymore. I didn't want to have to hit a sales target, bot that there was any sales target you have to hit, but there's still that underlying tone of, "Hey, how are you doing compared to your partner and what happened?"

Jim DeCota:
And nothing really ever gets taken into account, whether or not that person has a family emergency or this, that, or the other. A lot of that has kind of mellowed out with manage your money now and reoccurring revenue. But the other thing too was where I was going and who I was attracting as a client base. I didn't want to talk to people from a commission standpoint. I truly wanted to sit across the table from them and be a fiduciary. And the big, last thing I would say that was a catalyst for me was investment offerings. And not so much that what their offerings are are not the best, but the realization that their investment offerings are also a business for them, that I couldn't back and say, "Hey. This particular thing is in the best interest of my client."

Jim DeCota:

I truly wanted to separate 12b-1 fees and pay to play fees. I didn't want to be receiving any compensation from any investment manager that I recommended. And I wanted to be able to explore more investment managers, maybe investment managers that wouldn't pay Edward Jones any money to be on their platform. And you can see it now big time. But I just thought that the industry was pivoting away from that. And I wanted to function, like I said, as a fiduciary to my client and really align my goals with their goals. When their account goes up, I make more money. When their account goes down, I make less money. And there's no purer form of working with a client than that.

Louis Diamond:

Right. You kind of figured out that there was a better, different way to do it and that's what drove you. It wasn't necessarily unhappiness with Jones. It was the pull toward something bigger than you could accomplish by the status quo. Is that accurate?

Jim DeCota:

Yeah, that's accurate. The one other thing I add, and this is what I told clients when I left is, I outgrew Edward Jones's business model, and for all the things that I just said. And I also really want to be a business owner. I want to stand shoulder to shoulder with the business owner that I'm talking to. The only way to do that is to open up your own business. And that was very, very, very appealing to me.

Louis Diamond:

Right. And we've heard some advisors, and maybe this shift wasn't in place when you left, but advisors have told us that the culture at the firm began to change a little bit. Did you see any of that or do you not agree?

Jim DeCota:

Well, I'll tell you the one thing that was very surprising to me when I left Edward Jones, with the exception of about two people, that I was in the group and I was with them and we were working together. And then when I wanted to branch out and do my own thing, I haven't heard from any of those people. I was almost excommunicated, right? The friendships that I thought were there, weren't there. So culturally, that was very difficult for me to deal with. Maybe over the first year and a half or two was the realization that as long as you're in the organization, you're in, but if you're out, you're out. What you're doing doesn't deserve communication with us.

Louis Diamond:

Mm-hmm (affirmative).

Jim DeCota:
You would've never known that unless you left. I don't know if people are talking about that, but that was one thing that was a big surprise to me. And we've also talked to Edward Jones advisors. We do talk to Edward Jones advisors. They reach out to us and I would agree that some of the stories that they're telling us are a surprise to me, put it that way.

Louis Diamond:
Understood. And just going through, I made a list of some other persistent themes when we're talking with Ed Jones teams or Ed Jones advisors. Another one would be technology. How did you rate the technology you had at Jones? And I'm not talking compared to what you have now, but at the time, was technology a limiting factor and did that motivate you to leave it all?

Jim DeCota:
No, I thought their technology was okay. I will tell you now that it's very, very difficult for a lot of the advisors I talk to. A number of accounts they have to open up, the fact that from a trading standpoint, from a threshold standpoint, there is a ton of workload with an Edward Jones advisor right now that is, as I say, compliance pushed. It just is a lot of busy paperwork. So if that's the technology hiccups they're talking about, I never experienced that eight years ago because we really only had a platform called Advisory Solutions. And that was relatively turnkey. And then we had other portfolios where we were just managing clients trust or stock accounts or whatever. And we were just trading from a commission standpoint. But now what they have would be very difficult to manage. You spend a lot of your time crossing T's and dotting I's for substance over form. You're not really adding any value to the client. You're actually taking away experience from them.

Louis Diamond:

Got it. So back when you left in 2014, independence and the breakaway movement was certainly present, but it wasn't nearly as say mainstream as it is today. So can we just walk back then. You ultimately took the really entrepreneurial route and just built your own RIA.

Jim DeCota:

Yeah.

Louis Diamond:

Especially coming from a full service firm like Jones. It's a pretty big move. Even today that'd be a big move.

Jim DeCota:

It is.

Louis Diamond:

How come you opted to launch your own RIA versus joining an independent broker dealer, bolting onto an RIA for doing something a little bit more turnkey?

Jim DeCota:

That's a great question. So many things go through my mind. Well, the first thing I did was I'm a planner. So I researched everyone and I did go around and talk to those RIAs and ask them about ownership structure and how it works. And the local RIA's in my community, because I didn't really want to go outside of Petaluma, it was very old school in terms of ownership. Older partners had been there for 25, 30 years, were looking for a younger partner to come in and profit was shared at the LLC level let's say.

Jim DeCota:

In a lot of those situations you're dealing with somebody not growing, riding out their annuity that they've created, their lifestyle business they've created. This young person comes in, they take over operations, but is in an uptick in their career, but isn't receiving any uptick in income because they're only a 10% owner of that. That was not appealing to me at all.

Jim DeCota:

The IBD world was, maybe this story is getting a little bit old, but for the IBD world, to be called 10.99, or to be able to say you get to put your name on the door and you can use our back office, I think you really need to do some research on that, whomever's looking into going independent. Because when you're separate and you have no ownership in the entity, your business valuation won't really be what it should be worth and so that's the business models of the IBD. They want to play into our egos and tell us to put our name on the door and tell us to be 10.99. And we'll help you up. You pay 20 basis points, 15 basis points, five basis points, but most, not everyone, but running a business and starting a business, as you mentioned, there are a lot of things that even if your platform is being provided that you have to do that you didn't have to do.

Jim DeCota:

So that wasn't really appealing to me because, again, I was paying money into an institution or to an organization and I was growing my business, but they're kind of an owner in that growth because they continue to scrape, not 60 basis points like a broker dealer, but they're still scraping 15 to 20 to five, depending on how big you are and you also have to run everything. So I looked around and said, "Okay, let's start our own RIA." And I say ours, because my wife is integral in this decision and helping me and supporting me and said, "Let's start an advisory firm for advisors by financial advisors."

Jim DeCota:

And that was really the catalyst for me was just doing my research on what was available out there. And I wasn't interested in really taking a forgivable loan check, but I would've loved to have somebody like us to talk to. All of our financial advisors that we've merged in as partners are thriving now. However long they've been here, a year, two, five, they're all thriving.

Louis Diamond:

Can you talk about just the workload of going and starting your own firm and separated from the work of transitioning, but building the infrastructure and the entity. Did you have any resource partners? What was the process like and how long did it really take to build the RIA?

Jim DeCota:

Yeah, this is almost laughable in the RIA space. We came over with Schwab, we got access to Salesforce. So went from Salesforce, went to Redtail, went to Advyzon, went back to Salesforce and now we're with Wealthbox, right? And I say that laughingly now, but just picture every single one of those decisions, and that's just your CRM, right? That doesn't have anything to do with anything else. That's just your CRM.

What I didn't realize is it cost hundreds of thousands of dollars, if not millions of dollars, to build out a Salesforce platform. So we moved to Redtail, but then there was huge constraints there. And then we moved to Advyzon and the problem with Advyzon was we couldn't block trade. So then we moved that part to Orion and then we moved to Wealthbox, sorry, Salesforce again. And that didn't work out. Then we just moved to Wealthbox. So I say all that really fast because those are just a couple facets of putting together an offering to have somebody be able to come and land and actually function and do business.

Jim DeCota:

If you're doing it on your own, you're responsible for that entire process to happen. It's okay and it's doable. I'm an accountant, like I mentioned in the very beginning, and there's an inflection point that we found with financial advisors in their practice and don't necessarily quote me on the dollar amount. Maybe it has to do with relationships. But it seems to be around 200 to 250 million, maybe even 150 million. And this is a crucial point for advisors because they might be operating their own office, they might have figured out HR and everything else in accounting, and have everything dialed.

Jim DeCota:

But if they're looking to grow or even if they're looking to slow down, they have to bring somebody in. Now, we're talking about the management of people, right? And the management of people, it directly affects your growth, directly affects your growth. I would argue with somebody who says it doesn't, but it directly affects your growth. And so you really need to start to look at, through the lens of when you hit that certain client level, in terms of how many households you're working for. If I bring on this million dollar client or $5 million client, who do I have to supplement in the office to take over? Okay, well, what's the real rate of return on adding that client and what is going to fall down net, net, net?

And we do a really good job as hunting as financial advisors. But from a lot of advisors I talk to, don't really do a good job of looking at the P and L and that's something that has to be paid attention to.

Louis Diamond:

Yeah, I'm definitely with you. It takes a lot to run a business and advisors have to choose how they want to spend their time.

Jim DeCota:

Correct.

Louis Diamond:

That was the reason for asking the question about going out and building your own firm, because naturally you opted to have the most amount of control possible and to probably make the most amount of money in the short term. But there are sacrifices in that. So as you were building the firm, did you feel like you did have less time to prospect and were you working way longer hours than you care to admit?

Jim DeCota:

Absolutely. Yeah. 100%. 100%. Lisa and I chuckle about we left Edward Jones and then we got two jobs. One job of building the enterprise because we always had the intention of merging in advisors. I didn't want to be alone. I loved the culture. But then the other business of managing clients and doing what I love to do, right? And that's being a financial advisor. So we've since scaled enough to be able to pass off some of those operational inefficiencies that I don't have to deal with anymore, but I still deal with quite a bit of stuff.

Louis Diamond:

Would you do it again? If you had to do it over, let's say Jim was looking to leave Edward Jones in January of 2022, and you had all these different options that were out there and Enso didn't exist, obviously, would you do it the same way?

Jim DeCota:

No, I would not do it the same way, but I'd do it again.

Louis Diamond:

Great answer. Let's talk about the transition away from Jones. Jones definitely does have a reputation for being somewhat litigious. It's not a member of the protocol for broker recruiting. And because of that, advisors do often fear legal repercussions when leaving the organization. What was your experience with this and did this weigh on your move at all?

Jim DeCota:

It absolutely weighed with me. The clients that I had at Edward Jones in Edward Jones' mind was their clients, right? They weren't mine on the relationships, the relationships with me, but the client was actually theirs. So I was absolutely scared. I actually even postponed my transition six weeks because I was scared of this. You just have to leave ethically. It's what I always tell advisors. You have to leave by integrity. I will argue that all of that information that's in Edward Jones' system is their information, right? Having invested in technology now and all that. Not that we do that with our advisors, all their business is their business, but you have to have the right legal representation. You have to follow the rules of what that legal representation tells you, which we have and we do. And you're going to be fine. It's easy for me to say now, however, you're going to be fine.

Louis Diamond:

So can you just briefly walk through what was the process when you left? Were you able to take a client list, take a spreadsheet, were you're able to reach out to clients? What was that like or did you just walk out with truly nothing? Just your wallet and your keys.

Jim DeCota:

Basically that's what I walked out with. Anything that's public knowledge, you can take a client's name and phone number if it's public. But no, I did not talk to clients before I was leaving, which some of them were disgruntled about that. And I explained to them why I couldn't and then they very quickly understood. But I literally walked out and recreated all the information.

Louis Diamond:

Wow. And when you left, were you sued and was there any threatened litigation?

Jim DeCota:

I was not sued. I'm not a lawyer. I did receive a cease and desist, which in layman's terms to me means stop doing what you're doing. I forwarded that cease and desist to my attorney. My attorney then probably already had a pre-drafted letter and responded to that instantly. And since about five days after I left, I never heard anything else.

Louis Diamond:

Which is pretty good. I think most advisors would take that as a win.

Jim DeCota:

Yeah, I did.

Louis Diamond:

Absolutely.

Jim DeCota:

I left with integrity though. I didn't print anything out. I wasn't downloading stuff anywhere. I literally left with integrity.

Louis Diamond:

I like that. It's a great way to frame it, because it is the advisors that color outside the lines and go against what legal guidance is telling them. Those are the ones that have trouble. And those are the ones that you read about, unfortunately.

Jim DeCota:

Yes.

Louis Diamond:

So when you left, how much of your book did you end up transitioning?

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Jim DeCota:

Oh, that's a good question. I go back and look all the time. I think my success rate was right around 80, 85% and 10% of it was something that I didn't want. So, I got let's say about 90% of what I wanted is what I got, is what I would say.

Louis Diamond:

Yeah. Which also, if you had to look back on it, most advisors I think would take that and run.

Jim DeCota:

Yeah.

Louis Diamond:

Not bad. 90% of what you wanted. No real legal risk when you left. That's that's pretty good.

Jim DeCota:

Yeah.

Louis Diamond:

So let's fast forward. Now you have the benefit of hindsight. You've been independent for a little over eight years. So now with hindsight bias, can we talk now about technology, investment options and planning? I know those are three areas important to you. Can you talk about either the improvements now that you're independent or maybe deficiencies between what you know now versus what you saw at Edward Jones? So technology, investment options and planning, we'll say other holistic services.

Jim DeCota:

I've already briefly talked about technology, but knowing what people are having to deal with it at Edward Jones right now, you're not able to prospect all that time. You're filling out paperwork or you're not able to go, as I say, passion market without having to fill out all that paperwork. So technology wise for us, between a CRM, between our billing and reporting and between our trading, it's there. It's streamlined. Everybody has legacy assets. You can't just blow out a trust and put it into a model or whatever. That's not what I'm talking about. I'm just talking about, as you grow, your business looks different three, four, five, six years from now. We're not dealing with the headaches of compliance driven, lawyer driven things inside of our business. So, that's not even something we have to deal with at all. What were the other two?

Louis Diamond:

Second one, investments or investment options?

Jim DeCota:

Yeah. So this is near and dear to me, investment options. I am not a chief investment officer. I'm a wealth manager. My job as investment management, plus advanced planning, plus relationship management, right? My job is investing the portfolio, planning for the client, which we'll talk about next. And then having the client be able to tap into all my relationships. I bring up relationships when it comes to investment choices because some of the things that we're doing right now for clients are based on my relationships that I've forged outside. I would never be able to invest clients in a illiquid real estate fund or a ground up development at a Southern California, or I would never be able to even have these conversations or options to talk to clients about private credit funds.

And now this is really a big deal to me. I'm not the first one to say the 60/40 portfolio is kind of over. Maybe it is, maybe it isn't, but it's a concern. If you've landed clients and had clients and they've had liquidity events and those dollar amounts get north of 10 million and north of 15 million, and you're talking to clients about how they invest their money, a standard 60/40 portfolio with interest rate increases of four potentially this year and quantitative tightening, that's not going to be a fun conversation. So I could go off on everything that's available to us on this side that isn't necessarily high risk. It just might be low liquidity and low liquidity doesn't work in a firm like Edward Jones, right?

So I could be wrong with that, but I think I'm right with that. So those opportunities and those options really allow you to present yourself to win business away from somebody else because you have these options available to you that are rooted in relationships.A firm like ours, somebody comes in, those relationships and all that have been forged, that's instantly available to them. That's a big part of what we build.

Louis Diamond:

And then how about planning and maybe other services that you're able to offer now?

Jim DeCota:

Yeah. The planning part is great. Our technology, we use a company called Orion and they purchased a company called Advisor, out there if people have heard of E-Money, it's similar to E-Money thing, where a lot of the work comes off the financial advisor and gets transferred. I don't want to say the client has to do work, but the client is uploading their statements and the client is attaching their bank account and their 401k, and they're doing everything. So as a planner you are able to sit and look at a client's complete picture. I digress a little bit, but it's one of my other main reasons why I was getting frustrated with what I was allowed to do at Edward Jones. And you're not allowed to manage people's 401ks and you can't give advice on it.

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Jim DeCota:

And a lot of my cases I had people nearing retirement that had 1,000,005 in their 401k and $500,000 in their trust account would be. And so I did what every other Edward Jones advisor does is say, "Well, I can't tell you what to do, and I'm not supposed to tell you what to do, but in order for us to meet our goals, this is what you have to do." That doesn't seem right to me, right? Like I don't want to be put in that situation. So the point of it, technology wise, is being able to actually truly see a complete picture and have an intelligent net worth cash flow conversation with a client, even if they're started investing or they're 20 years in, or they're five years from retirement, we have those tools available. Our side of the aisle, the RIA space has those tools available now. The tech industry has done a good job at providing us with that to be on an equal playing field.

Louis Diamond:

Perfect. That was extremely helpful. And then last question in this segment before we pivot to Enso's really unique business model is how about growth? How can you personally grow differently now and the Edward Jones advisors that have been recruited into your firm, or that are now your partners, what are couple different ways you can grow differently?

Jim DeCota:

I might be vague here because I feel like every advisor has kind of a different niche or I would just tell you this broadly, what ends up happening. An advisor makes a transition. They're scared to death. They make a bunch of phone calls and basically everybody that they wanted says yes. Then they go from scared to death to almost tearful because of how much these people trust them. And they're going to make a move. And then, after they get settled for three to four to five months, this is kind of dumb, but I call it like the swag factor, their shoulders go back and they have like offerings.

Jim DeCota:

And they're not worried about somebody looking over their back, if they did something right, or said something wrong. And now all of a sudden there's those people that they've always wanted to talk to, it's that person in their whatever, golf club or it's that person in their car club, or it's that person at Rotary, or that person at Kiwanis, it's that person that they're happy at Jones. They felt guilty for maybe wanting to leave, because they're making good money. But now they feel like they actually have something to offer them and their business is secure. It's their business. They're safe. Nobody's going to take it from them. And with every single advisor we've brought over, whether or not they're from Morgan Stanley, another RIA, Edward Jones, I'm telling you they grow their business.

Jim DeCota:

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For me, I personally feel like, and I might get a little West Coasty here, but I personally feel like it's because for the first time in their career they feel safe. Because that's what I tell them. Like, "You're safe. This is your business coming over. If something doesn't work out for you in a year or two, all your clients are moved to Schwab, you can start up your own RIA and you're done. You are safe. Nobody's going to come randomly fire you like you saw your buddy get fired from Jones. That's not going to happen. You're safe." And that kind of abundant mentality versus a scarcity mentality. I think of a scarcity mentality as shoulders hunched over, I think when abundant mentality of shoulders back, ready to rule the world, that's just what happens.

Louis Diamond:

That's one of the best answers I could have hoped for. And it wasn't like super specific, like we could do podcasts, which you can, we can put out social media, which you can. But I think mindset wise that's exactly right.

Jim DeCota:

Yeah.

Louis Diamond:

Thank you for sharing that.

Louis Diamond:

Okay. So let's pivot. This is probably what you've been most excited to talk about. Let's talk about the Enso business model. When you and I first met I think it was at the introduction of Schwab. I was struck at how unique I thought your business model was. So can you please just explain for our audience the business model when you onboard advisors and how you think it compares or doesn't compare to the other platforms in the marketplace?

Jim DeCota:

Sure. I just start off by saying culturally speaking, you've heard me mention basis points, we don't speak in basis points. Culturally speaking, you've heard me say ownership and you're in an uptick, right? As I mentioned IBD, right? Like we don't take ownership in the upside firm. What we do very simply is this, the one thing that financial advisors do across the board is they pay for a platform.

Jim DeCota:

So if we're just talking pure money, they pay for a platform and depends on where you are. But let's say you're at Edward Jones, you pay 60% for their platform. Well, they're also a 60% owner in the relationships you've established. So if you go from one million to one million, you still pay 600 grand on that next million, but they haven't added any value. They really haven't. They haven't helped you grow. They just continue to profit out of platform.

Jim DeCota:

When I started Enso, one of the things I said is, "I don't want the company that I'm at, my company, to have ownership in the fact that I'm going to double my business over the next five years." So what we have is a flat member due. And we believe that that flat member due, it's an annual member due, but it's paid on a quarterly basis, timed with billing. What we do with that is we say, "We believe this is the value we are providing to you right now." And so those member dues vary depending on somebody's need but it includes everything.

Jim DeCota:

So it's simple for an advisor to understand, do I have to do my K1? No. Do I have to do my own accounting? No. Do I have to do my own billing? Yeah, we're going to lean into a little bit because you know our clients a little bit better than us. But it includes the platform. It includes your office. It includes your assistant. It includes your bonus for your assistant. It includes benefits for your assistant. It includes everything that you need. We just flatten out that member due.

Jim DeCota:

So if somebody's doing a million dollars in production and it goes to 1,000,005, we don't take a VIG on that $500,000 growth. So, that's one thing culturally speaking. And the second thing we do is most financial advisors do not have access to a passive income stream because they're not an owner in the business. Even if it's your own firm and you're an S Corp and blah, blah, blah and money's dropping down to the bottom line and you take a salary and then you get distributed this profit. That's not really profit. That's just fees that came in less your expenses, right?

Jim DeCota:

Profit or passive income stream is we give advisors access to Enso Wealth Managements first dollar ever created. People ask, "Well, how do you create money?" Well, the member dues that we charge are not a cost sharing agreement. Meaning we have baked in profitability into that quote unquote platform expense. And if you help us grow Enso Wealth Management or you help in the organization in some way, shape or form, you can access that profitability of Enso. We call through strategic shares.

Jim DeCota:

Most advisors that I'm talking to, in all honesty, are really concerned with what we call pathways too. And that's the flat member due because that's something they can conceptualize and totally understand. Because what you need to do when you transition over is pay your mortgage, send your kids to school, pay your bills. It isn't until about six or nine months or a year after where people go, "Okay, wait a minute, tell me what's available to me over here? What's this profitability." And that's when we really go and it's not overly complicated. It's just Enso creates a profit and you can tap into that profit.

Jim DeCota:

What I said was it goes back to the very first conversations I had with those RIAs that wouldn't let me access their ownership. So what I said with this, what we call pathways three, Enso ownership is, "Hey, look, let's make it dilutable." So I'm the biggest owner in it right now, but if somebody else does work and brings in a financial advisors, I'm going to dilute. And the concept behind that is all boats rise with a rising tide because that person receives profitability out, there's more profit in the pool for all of us to share.

Louis Diamond:

I haven't heard of a firm that does just the flat membership dues. You said earlier, a little bit California, but I like it. It's very collegial and I think it's reasonable. That is one of the gripes that advisors have with any firm platform. It's that they're adding a lot of value. They add a lot of value in the beginning. They add a lot of value and there's kind of the fixed cost that you're willing to ascribe to what they provide.

Louis Diamond:

But do they really keep adding the same amount of value for me getting from two million to five million? And the answer is probably no. So it does sound like you addressed some of that. So let's keep going down the punch list here. You've had a lot of success in recruiting advisors. I think it's been somewhere like 10 to 12 advisors your firms recruited. Where did they come from and what were their drivers to join your firm?

Jim DeCota:

The broker dealer side advisors, whether it's Morgan Stanley or Edward Jones or talking to some people from Wells Fargo, it's really that we've already talked about some of it, the technology constraints about what they're having to do on their day to day basis, what they're allowed and not allowed to talk to their clients about. And just the realization of really how valuable their relationships are and the platform that they're at has access to it. So that's the broker deal, sorry, has access to that growth basically.

Jim DeCota:

And so they're paying a lot of money for that. And there's an infliction point where people are like, "Eh, I think this is a good value." I always say in the absence of value, cost is an issue. And so with a lot of our broker dealer advisors that's come over that's what it's been. And the absence value cost is an issue. On the IBD side or the RIA side, it's probably our cultural fit that really brought them in. How we talk about culture, how we talk about relationships. That was probably the biggest motivating factor for them and the flat member due, quite frankly, doesn't hurt.

Jim DeCota:

One thing we've done at Enso is, I've quotes in the air again, but we always say, "No partner pays for another partner's Range Rover." And I'll explain that for a second because we don't run personal expenses through the organization. And what you see a lot with some of these other people we've merged in is maybe one guy wants to run a Range Rover through.

Jim DeCota:

Well, then that affects bottom line profitability, so the other guy goes, "Okay, well, I'll go buy a range Rover if you're going to buy a Range Rover, if you're going to spend that much, I'll spend that much." And the problem with that is every single person has different tastes and every single person has a different value prop. So we keep Enso really, really, really clean in terms of financials. You will not pay for anybody else's Range Rover in your member due at all.

Louis Diamond:

I like that. So let's go back to Ed Jones. I know you've had some success in bringing over some of your ex colleagues.

Louis Diamond:

So what's your opinion on Ed Jones these day? What are you seeing as the reasons advisors are leaving and what are they finding when they come to Enso?

Jim DeCota:

Yeah. Good question. The most recent conversations we have, I alluded to earlier, without divulging too much, surprising just the lack of support that's being given. And maybe companies are struggling with the pandemic and how to work it out and all that. But I would say that's one of the biggest ones, just not being heard. So being paid lip service, but then no results showing up, right? Because if you're a W-2 employee, you get to pivot to the organization and say, "I need this," right? And if they don't deliver that assistant or they don't deliver something, but that's some of the biggest headache.

Jim DeCota:

And then the other headache is the amount of time being spent on just dealing with the day to day stuff that has to be dealt with. From a portfolio standpoint and the lack of flexibility when it comes to reasonableness inside portfolios. Like this particular stock is above 10%. You can't own that particular stock. It's at 12%, sell it. And so the advisor either has to move it out or sell it. And then the problem with that is that the firm doesn't know if that person sold a piece of real estate and is already paying capital gains or it's ordinary income or something like that. Right? They get squashed on being able to plan.

Louis Diamond:

Yeah. I'm with you. So two more questions before we wrap today, because we've been generous with your time. First one is back to the Enso strategy and value proposition. I know you're very clear on the fact that advisors take the Enso brand, which is different than many platforms, everyone has a unique brand, their own kind of unique feel on their individual businesses. So you mentioned each advisor owns their own underlying business within Enso but everyone takes your brand. So I'm curious, what was the rationale behind that? I'm sure some advisors must push back because they can't sell brand?

Jim DeCota:

They do. Yeah. So what we say is you are much more valuable as underneath the Enso brand, when I say your clients or your clients, I'll digress a little bit on this, just for a sec because people want to compartmentalize us into an ensemble practice. A bunch of revenue goes in, three partners split. It doesn't matter who does what work they just split or a solo practice or a siloed practice, right? Where you just eat what you kill and it's your business. Well, the problem with that is you're on your own and you have no brand recognition.

Jim DeCota:

So therefore your business value is lower. So if you come together, how we've put it together, we're really on silo. Where we present as a unified organization but each individual advisor gets to eat what they kill. So the important part of that is from when I talk to a lot of advisors, what they never think about, is they're always thinking about cashflow, cashflow, cashflow, cashflow. They're never thinking about their biggest asset is what their business is actually worth. And if you're alone by yourself, it ain't worth that much. But if you're with a two billion dollar, three billion dollar firm, all of a sudden your individual little silo practice in there becomes worth a lot more. Sometimes three, four, five times more.

Louis Diamond:

Yeah. Can't argue with the higher valuation, I agree. And what it comes down to is advisors have to decide what they value most. Some really value having their own brand and they believe in their own value but the folks that work for you, and you're not trying to recruit the whole universe, are people who buy into your vision. And all believe that together we can be more valuable than if we're all our individual silos.

Jim DeCota:

Yeah. Sorry to be nitpicky with a word. But when you say work for you, that's not a 100% true. Because these advisors come in as K1 partners. What I always pivot in turn to the people that I'm talking to and say is, "When you come in, this is your firm. We've just been working our butt off to get where it is now, but it's part of your firm now." The other thing that I would spend just, and this is going to be a little West Coasty too, but I would spend just a second on, that is so different than financial services right now. And I credit our former CEO, still a board member, Toussaint Bailey with this, but he talks about fulfillment, whether or not it's in business or whether or not it's in life.

Jim DeCota:

Wall Street functions from a scarcity mentality and a lot of banks do and whatnot, but at us at Enso what we talk about, just to put an exclamation point on how important culture is, in the fact that it's not you working for us, but it's your firm, is what we talk about fulfillment. And that how you prioritize that, we call it the waterfall, and you should be, whatever you're doing, seeking relationships rooted in love and trust which will waterfall into self development, self-actualization, which will waterfall into co-creation, which will then waterfall into personal gain.

Jim DeCota:

We feel that if you put your objectives in that order, whether or not you're in business or in life, personal gain will fall out. And to your point, maybe somebody's solo practice is that. Their personal gain is maybe having that solo practice. But we don't think you get penalized is what I'm saying when you're with an Enso Wealth or with Enso Wealth. We don't think you get penalized for that. You're still able to be your own person.

Louis Diamond:

Yeah. I appreciate the clarification. So last question for you. I think it's a great way to wrap it. When you and I have spoken in the past, I've heard you mention independence 3.0. It was a topic that I was really intrigued by. I love the ones that are talking about more predictions and kind of where the industry is headed. So let's wrap on this question. What do you mean by independence 3.0?

Jim DeCota:

I think the wealth management space is completely changing right now. And I think there will be a third leg to the stool and let me explain. You've got your banks and you've got that traditional model and they're going to be around. They're managing trillions of dollars. You've you've got the IBD world, you've got the quality companies like the Ray J's and the LPLs and all of those companies. People I'm talking to are disgruntled with money not being reinvested because their shareholders and, if you reinvest expense, your share price doesn't go up as much or you don't earn as much.

Jim DeCota:

But there's this third leg that literally is being developed. And it's a fiduciary RIA model that is client centric. I think you're going to see over the next five to 10 years maybe five top players that truly offer the Enso Wealth Management expense that I'm talking about. And it's going to be a totally new offering for clients to get financial advice from. The banks and the IBDs maybe they're having conversations about viewing the RIA space as competition. But they don't really view it as competition or right now, because it's so fragmented with so many RIAs out there, even though assets have grown, but I think that's coming down the pipe.

Louis Diamond:

Yeah. That ties into what your vision is for Enso going forward. So we took way too much of your time. Really appreciate this discussion, first on your experience and building your business at Jones, having the courage to go out on your own and build a company from scratch and then innovating a really special and unique business model in Enso Wealth. So thank you so much, Jim, for spending some time sharing your wisdom and perspective, and I look forward to tracking your success into the future.

Jim DeCota:

Thank you. I appreciate it.

Mindy Diamond:

As Jim shared, he really wanted to be a business owner and stand shoulder to shoulder with the business owner clients he was working with and the prospects he was speaking to. His abundance mindset guided him forward, shoulders back and ready to rule the world, and with a north star such as that, he very well may.

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 linked to browse recent topics. These written pieces are an ideal way to stay informed about what's going on in the wealth management space without expending the energy that full on exploration requires. Feel free to email or call me if you have specific questions, I c\an 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. You can 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. And if you're listening on the Apple Podcast app, I'd be grateful if you gave it a store rating and review. It will let other advisors know it's a show worth your time to listen to. This is Mindy Diamond on Independence.