



# EPISODE TRANSCRIPT

## Building Enterprise Value: A Coach's Advice for Advisors and Teams

A conversation with Ray Sclafani, CEO and Founder of ClientWise.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Building Enterprise Value: A Coach's Advice for Advisors and Teams. It's a conversation with Ray Sclafani, CEO and founder of ClientWise. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

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Growth is one topic that's top of mind for most every advisor, regardless of where or how they practice. Yet, growth for growth's sake isn't a sound strategy, particularly when looking at the long term. The real focus should be upon building an enduring business designed for maximum enterprise value or exit value, as Ray Sclafani calls it. And as the CEO and founder of ClientWise, Ray built the business around helping advisors do just that.

And it was a unique vantage point that Ray first developed in his 20-year tenure at AllianceBernstein. As one of the company's top sales professionals and executive leaders, his knowledge of how to create and execute on highly successful sales plans and build long-lasting client connections was later utilized as the founder and managing director of the Advisor Institute at AllianceBernstein. In that role, he developed and directed an extensive series of programs that proved invaluable to advisors in creating improved and sustainable motivation, sales and client relationships.

It was in 2006 that Ray left AllianceBernstein to launch ClientWise to take that experience and help financial advisors and their teams drive sustainable, intentional growth to maximize the value of their enterprises, to enhance team performance and develop next gen advisors to lead the firm into the future. It's a roster of services that's catapulted ClientWise to become one of the top coaching firms to financial advisors in the industry.

So I'm super excited that Ray is joining me on the show to talk about all of that and share some of his best advice on growth, maximizing value, team building, succession, and much more with advice for both independent and employee advisors alike. There's a lot to discuss, so let's get to it.

Ray, I am incredibly grateful for your time today and excited to dig into all of this.

Ray Sclafani:

Me too, Mindy, excited to be here with you as well.

Mindy Diamond:

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A conversation with Ray Sclafani, CEO and Founder of ClientWise.

Thank you. All right, let's start at the logical beginning. So tell us a little bit about your career path, the 20 years you spent at AllianceBernstein to the launch of ClientWise.

Ray Sclafani:

I was fortunate as a young professional to get an internship program at 140 Broadway in downtown Manhattan. And Alliance Capital at the time was launching a mutual fund company. And so I was thrust into an internship as the mutual fund company began to grow. I worked my way through college and at graduation, was fortunate enough to get a full-time position where I worked as an internal wholesaler and then was sent out into the field.

Alliance, sent me back to what they thought was my natural market, which was Texas, and I wholesaled for a decade before being brought back into leadership at AllianceBernstein. Was the youngest, AVP, SVP and continued to grow within the ranks and really enjoyed working most with advisors.

As a young professional, I found helping advisors grow their businesses got me an entree into some of the best advisors in the industry. And when I got into leadership, I followed that path forward, which led to the founding of something called the Advisor Institute, which is still up and running today. So coaching and developing others has always been at the center point of what I've enjoyed most about our industry.

Mindy Diamond:

So without ever having been an advisor, what do you think was the most meaningful tools or skills you learned and where did you learn those skills from to become such a successful coach to advisors?

Ray Sclafani:

Yeah, that's a great question. I was trained in something called neurolinguistic programming and understanding belief systems, understanding communications skills, and acquired a master practitioner certification and used that communication training in order to observe, listen, learn what the best in the business were doing, and figured out how to repurpose that research into relevant and valuable content. But also the skills of coaching led me to a professional certified coach designation, and I'm working on my master certified coach designation as we speak. So I think those skills of coaching were always embedded in something I started very early in my career and to this day, continuing to educate myself in those areas.

Mindy Diamond:

I love it. All right, so tell us a little bit about what ClientWise is, your business? What is its value proposition?

Ray Sclafani:



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Yeah, so I'm the CEO and founder of a firm of more than 20 coaches and another team of probably 15, 17 folks. And we are committed to partnering with the advisors here in the US, which is our primary market, but Canada and Australia as well, who are really serious about building an enduring firm, one that has transferrable and enterprise value. And that's our primary focus, helping those advisors develop their next generation so that they can see their firm's impact for generations to come.

Mindy Diamond:

So when you say the goal is to help advisors build these enduring firms with real enterprise value that speaks toward independence, yet I know that you coach wirehouse advisors as well, correct?

Ray Sclafani:

We do, yeah. Yeah, we have a group of high performers. Typically, they're on the higher end, Mindy. The advisors who are generating \$3 to \$5 million minimum and above are typically the wirehouse firms that we are best positioned to serve. Although there are plenty between the \$1 and \$3 million who are really serious about scaling up. Their teams are relatively small, so you're right, our primary focus is really in the independent and RIA channels.

Mindy Diamond:

So when you are coaching a team that work or an advisor that works in the traditional space, meaning at a brokerage firm, a wirehouse firm, a regional firm, whatever it may be, I imagine the goal is different. I mean, we talk to wirehouse advisors about the goal of really wanting to build enterprise value, but how they build it is very different than building it as an independent business owner. How do you think about that?

Ray Sclafani:

That's a good question. I don't know how much it's real enterprise value. The enterprise value sits with the broker dealer and the advisors and employee of that broker dealer. I'm also a believer that those clients that choose to work with that advisor, they do so because of the relationship that exists between that advisor and the client.

Yet at the same time, each of these wirehouse firms has their own transition plan for succession purposes. And that air quote, "enterprise value" shows up in the form of compensation paid out over a period of time that's a multiple of their production or revenue that they generate. And the firms provide the capital for that transition to do so and it's taxed at ordinary income. So in the real definition of enterprise value, there certainly is some there, but it's a payout over time.

Teams at the wirehouse level that are wanting to maximize what that exit value is, I might call it more of an exit value than an enterprise value, the exit value gets maximized when they grow their production and their revenues. And so the more that they can continue to find net new households and more so net



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new assets, they're going to increase and improve that exit value. So that's probably the primary focus, if somebody's focused on that work.

Most of the wirehouse advisors that approach us are introduced to us via Barron's or from their broker dealer. We get a fair number of introductions from complex directors and regional directors and division managers and even the home offices of these firms. And they're really focused around teaming and how to build interdependent and successful teams. I would say that is probably the primary area where we impact our coaching work with wirehouse advisors.

Mindy Diamond:

Back to the notion, I like the term exit value or building exit value as opposed to enterprise value, because you're right, the real value for an employee-based advisor sits with the firm. But we talk with advisors a lot who are considering change in some capacity, either leaving to go independent or go from one traditional firm to another about thinking about their business as a business and the notion of where am I best positioned to maximize the value I derive from the business I built? And I imagine that's probably a lot of the work that you do with them. So if you're talking about how to build an interdependent and successful team, it's all with the final goal of building an efficient, scalable, well valued practice.

Ray Sclafani:

That's right, and developing others. Jack Welch had a great quote, we use it often here at ClientWise. He said, "The sign of a great leader is somebody who can develop somebody who can develop somebody." And so that's true regardless of what channel you're in. If you're really calling yourself a fiduciary and spelling it with a capital F, you're going to want to focus first on how you can serve the current client and have a ripple effect multi-generationally with that household. And therefore that's going to require the development of the next generation team member who can equally or better serve the family in that household for generations to come.

So there's a technical skillset that's required. There's a relational skillset that's required. There's a leadership component that's required, and there's a growth and business development component that's required. So those four pillars are key. And if you want anything to be enduring, it's got to grow.

Mindy Diamond:

Yes, absolutely. So I want to come back in a minute to the kind of work you do and how it differs for traditional teams versus independent businesses. But talk to me first a little bit about how ClientWise differs from other top coaching programs in the business. I know that there are many. We've had many of the principles of those coaching firms on, and I'm wondering what your secret sauce is.

Ray Sclafani:



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Secret sauce is great. Our secret sauce lies with our clients. Our name is ClientWise for a reason. We believe strongly that the wisdom really lies within the client, and our job is to help unlock that wisdom. We do have quite a number of coaching programs. We're one of the very few firms that have really focused on building an enterprise. Like the advisors we coach, I too am focused on building an enduring firm and developing our next gen talent and developing a roster of high quality coaches that can partner equally with the clients and the advisors we serve. So we're focused on building endurance.

We're focused on creating content through the research approach that we take and studying what the best in the business do. We are focused on building a community of advisors. And that may sound simple, but when you get thousands of advisors who are all focused on growing enduring firms, there's a lot of success and pain points.

We ask all of our clients to bring the wisdom from the failures that they've had professionally and what they've learned from those, but also what wisdom they seek from others. And we've created a beautiful online digital platform also combined with online events and in-person events that enable advisors to exchange that wisdom with one another. So community's a big, important component.

We do a fair amount of consulting work, whether it's how do I compensate my team, how do I structure my P&L, how do I drive enterprise value, all of the typical consulting work.

And then the fourth pillar, if you will, is our coaching work. And we are aligned, Mindy with the International Coach Federation, which is akin to the CFP Board of Standards. There are loads of people out there that call themselves coaches. I'm a coach, you're a coach, he's a coach. Wouldn't you want to be a coach too? And we take coaching pretty seriously as financial advisors take seriously financial planning. Anybody can call themselves a financial planner, but not everybody has the rigor of the training and development, the code of ethics, the standard of conduct.

The International Coach Federation has that for coaches. And so we only hire master certified or professional certified coaches who are operating at the highest level. So whether it's the content, the community, or the consulting, or the coaching, all of those woven together with a focus on the client is really what our firm's all about.

Mindy Diamond:

Okay, so let's go back then to the clients that you coach. So sounds like they for the most part fall into two categories, independent business owners and advisors or teams that sit in the traditional broker dealer world. How do the asks in terms of the things they want you to coach them on, how do they differ? You talked about wirehouse teams being focused on building interdependent successful teams. You talk about independent business owners wanting to build an enduring firm, but what are the individual things that they are really most focused on?

Ray Sclafani:



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There may be more commonalities than you think. The wirehouse advisors that we work best with are, we call them intrepeneurs because they're operating as employees inside an ecosystem with rules and structures and oversight that they have to adhere to. But they are unencumbered when it comes to their own creativity about how to grow the business. And they oftentimes need help thinking about how to maximize the platform.

You had Andy Sieg on not too long ago and he was really talking about the brilliance of the Merrill Lynch platform. I think if you had those at Morgan Stanley and UBS and Wells Fargo, they might say something relatively similar. I find, and our coaches find that advisors oftentimes strategically need to be thinking at the wirehouse level about how to maximize the platform, get the most out of what's been built for you in order to impact clients successfully and do that through a teaming model that has sustainable and intentional growth.

The number of net new households, the number of net new assets that the typical wirehouse, I say the typical wirehouse advisors bringing in is generally under two to three a year, which is remarkable to me. These businesses don't seem to be growing. The firms we are coaching are thinking about how do we bring in \$25 to \$50 million in net new money per advisor on the team? How do we bring in 10, 12, 15 of the ideal client type households or more per year? So growth is a big driver, team's a big driver, maximizing the platform's a big driver at the wirehouse level.

On the independent side, of course succession overlaps and all of that, we can get into that a little bit more. On the independent side, however, the complexity's around how to run a P&L, how to think about revenue growth, but also profit growth and how much of that profit needs to be redeployed back into the business to sync up with the vision and the strategic plan for the firm.

And benchmarking revenue in a way that you're investing in professional staff, which is typically 40% of revenues and 30% of revenues and operating expenses to drop 30% to the bottom line. And do that consistently enough year over year where you're growing the top and the bottom line to maximize the value while also hiring in a sequential way, the right people at the right time.

I mean, it's easy for the independents to go broke trying, and it's easy for the independent channel to get enlightened by this beautiful opportunity to set up your platform either on an aggregator's platform or sell into another platform or go at it on your own. In the end, there's loads of choices and oftentimes that myriad of choices could be suffocating, and so helping those independent and RIAs navigate all the many choices that they now have to make in building their own platform or plugging into a platform.

And by the way, those decisions change over a period of time based upon their success rate in attracting talent, developing talent, attracting new clients, and developing those relationships. And to do that all profitably, the level of complexity in the independent channel and the RIA channel is really great. So we find that we're helping firms navigate that way.

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It's interesting. Couple of things, there's a lot to unpack there. I love your list of things that independent business owners think about because I think it's the right list. And when you talk about the fact that for independent business owners, they need to navigate, I wrote it down, what can be a suffocating amount of choices, it's right. I mean, I think that's probably one of the biggest concerns of a potential breakaway advisor is how do I narrow down the choices?

What occurred to me when you were talking was that in that regard, the mind of the wirehouse advisor whose goal is to maximize the platform, that's what you said, and the goal of the independent business owner to navigate a suffocating amount of choices, it's still about navigating platform. It's about taking platform or products or solutions that are available to you, whether it be provided by your firm or open to the whole street and bringing what's appropriate in the best way possible to clients. So you're right, there probably is more similarity than difference.

It's funny you referenced the Andy Sieg episode because we obviously got a lot of feedback about it. And one of the questions to me that I thought was most telling, and I'd love to get your opinion on it, I asked him about what he thought wirehouse advisors, so Merrill advisors valued most? And he said, "Growth and productivity. It's my job to make sure that we maximize the platform for our advisors so that they can grow."

So my followup question was, do you believe then that growth and productivity are synonymous with contentment? Meaning is every advisor who's growing happy, and I think they're definitely not necessarily, but I'm not sure he agreed. What do you think about that?

Ray Sclafani:

I would agree with you. When I was listening to the podcast, I thought Andy's in an influential position in a leadership role with a great company, and that's his job is to grow productivity. And I also was reflecting upon some of the numbers that he shared around the herd of 20,000 and the number of new households, I think he put it at 8,500 that they brought in and that growth is really happening at the firm.

I don't know that advisors are just content with growth and productivity. I think advisors, when I think about what they're looking for is they're looking for the freedom with which to choose how they go about serving their client. And the best in the business are thinking about who they want to serve, how they want to serve those clients and help those clients achieve what they want to achieve. They're not thinking about the products and the services and the platform.

But if you're going to build a big business, I think Andy's right, you want to grow it and you want to grow it in an operationally efficient way. So productivity matters. So one of the things that Merrill has always done very well, I think Morgan Stanley's done this well, I think UBS has done this well, Wells Fargo at times, then they lost their way, I think they're finding back their way of doing this well, is removing the



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obstacles that lie in front of the advisor that wants to grow and wants to be productive, removing those obstacles and make it easy for them to do business.

I think the best of the wirehouse leaders are facilitators of what their best advisors want, and the root word of facilitation is facil, which means to make easy. And so any of the wirehouse leaders listening to this podcast, keep finding ways to make it easy for advisors to serve their client. And the more roadblocks and obstacles and bureaucracy that you put in the way of those advisors achieving, the more you will mitigate productivity, the more you will mitigate the growth and the more unhappy the advisor will be. So for me, that's how I see it.

Mindy Diamond:

So I couldn't agree with you more, and I am vigorously nodding my head and smiling because that's the number one conversation that we have with advisors, that what they want more than anything is freedom, flexibility, and control. And by the way, that's a major mindset shift than what we would talk with advisors about two decades ago.

Two decades ago, everybody always wanted more freedom and control, but if you were a top advisor and you practiced at Merrill Lynch, the only option was to go to Morgan Stanley or UBS or what was Smith Barney or Wells Fargo, and you knew you were going to get more of the same. So you didn't bother to think about it because there was nowhere to get it.

But today, in an environment, in an industry landscape where it's possible to get access to platform and services and technology that's as good or better than what you have at a Merrill or a Morgan and UBS, but in a wrapper that gives you more freedom and control, that's powerful.

And so I agree with you that wirehouse leaders need to know that what's most important to advisors is yes, a great platform, but also with freedom and control, and I don't know they've entirely gotten that right.

Ray Sclafani:

Well, they have to wake up to this notion quickly because the technology and the platforms available at the custodial level has increased so fast. And I remember running the RIA channel at AllianceBernstein 20 years ago, and it wasn't quite as easy then. But today, a whole custodial team will land on your doorstep and help a wirehouse advisor lift out really easy. And oh, by the way, you also have the aggregators and you have the Dynastys of the world.

There are so many choices, but I think it also, not only is the platform and the technology and all of that far more flexible and available today and much easier to install and integrate, there's another notion and that is the economics behind this.

Why more and more advisors are paying attention is yes, the freedom and the flexibility and the control, I get all that, but there's also a financial implication that I hear from wirehouse advisors who have

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broken away that many of their best clients are entrepreneurs too, and fully align with this notion of being an entrepreneur, experience capital gains, or even thinking about the ownership structure and the transferrable value and the rising multiples on these independent advising businesses where you didn't used to have bankers paying attention to the subscription revenue, which is the fee on AUM. And years ago, bankers didn't count that revenue as an asset.

I mean, if you think about what an independent has on their balance sheet, there aren't any assets really. There's no plant, there's no equipment. Now there might be some goodwill and maybe some intellectual property, but at the end of the day, the recurring revenue is really the asset and the more of that revenue in a subscription economy looks like a subscription revenue, bankers pay close attention.

These wealth management businesses are really strong and durable, so they're investible. So I think the advisors that are thinking about their future and how to serve clients, if there's a parity in terms of technology and platform and an ease of serving clients, then oh by the way, what's the best economic structure?

So Andy may be right, productivity and growth matters, but I also think that freedom and that flexibility, that control and the financial implication on exit value versus enterprise value is something that everybody should be paying attention to because it's a big trend in our industry.

Mindy Diamond:

So we agree a hundred percent, but one of the things we talk about a lot is the notion that advisors in the last decade or more, no matter where they practice, have really begun to think about their business as a business. Obviously an independent business owner is running a business and thinking about things like succession and maximizing margins and accelerating growth, and how do you protect profit growth and what do you reinvest? But wirehouse advisors or traditional advisors are thinking the same thing today, especially the bigger teams and they should be.

And a lot of what's been driving growth is thinking about the business as a business, thinking about protecting what I would call enterprise value. I like what you call exit value. And even though Merrill Lynch or Morgan Stanley gives me the ability to do what I need to do to serve clients well, and even with enough control, is it maximum control? No, but is it good enough? Sure. But when they think about really maximizing value, that's where a lot of big teams are beginning to more and more, as we know, migrate away from the big firms toward independence.

So let me use that as a jumping off point to talk about, so from your view, having the privilege of coaching so many top teams, no matter where they sit, W-2 or independent, what do you think the best teams do?

Ray Sclafani:



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The best teams focus first on client needs. And maybe it sounds a little cheeky, but it really does all begin and end with the client. So understanding who they're built to serve, understanding the kinds of skill and experience they need to be in the best position to attract and retain and grow with a household, with a family, with a client, and then to multi-generationally impact that family and that household and that client for generations to come.

I would say Mindy, at the very top of the list is an intense focus on that client experience, on that client engagement and really marshaling all of the resources to really up the game. The clients are becoming more demanding. We have not seen, and our partners at Barron's have not seen a great pressure on that fee compression. We've seen more of that compression at the margin with expenses in the business sizing, whether it's E&O insurance and all the like, human capital and talent and technology and all the like.

So the client-first piece, I would say at the top of the list has got to be paramount. The second would be their people, that this focus, this intense focus on developing talent on these teams to be in the best service for the client is absolutely the top of the list.

So the talent conversation has really changed a lot in the last five years. There's not an article that I read from Harvard Business Review that doesn't begin and end with some focus on people and the development of talent. And so much more personal relational connections and one-on-ones and small group meetings and team meetings and communication and development.

There are so many accidental owners that wake up and realize now they have a lot of mouths to feed, and yet if they look at that as an asset and not a liability, they end up waking up and thinking about how their impact can be greater if they pour themselves into developing others. So I would say number two would be people.

The third thing I would say is this intense focus on what does it take to lead and grow a firm in a profitable way. This is a different set of skills than the technical skills related to the capital markets or the understanding of the tax law and the estate and trust and building a durable financial plan.

All of those technical skills still reside, but I think there's been a major shift of advisors from sales and product to advising with strong technical skills to this leadership component and understanding what it takes to build and grow and then transition a durable wealth advising business.

So the best leaders in financial services seem to be beginning with the client, orienting their entire firm and strategy around serving clients profitably and building out the team to do that effectively while developing and honing their own skills around leadership and running of the business.

Mindy Diamond:

I love that list. Through this podcast, I've had the privilege of talking with many, many top advisors and it's interesting, I would agree with you that focusing on those three things in an intense way is exactly



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what their agenda is. What I noticed you didn't mention, you talk about focusing on productivity, intense focus on client needs, and an intense focus on growing and building their team, but it's not a focus on productivity, it's not a focus on bringing in new assets.

They want to do that, but their focus is more, they know that if they do the right things by client and they build the right team and they build the firm the right way, that the productivity and the growth and assets and client referrals will come.

Ray Sclafani:

There's no doubt about that. In fact, when I founded ClientWise 17 years ago, the very first program that I researched and then wrote was something called the Building of Loyal Client Advocates. And what we learned was that the best in the business had stopped asking for referrals. I mean, sure they came in, but there's a passive approach to referral generation.

What we learned and it's still true to this day, in fact, it was amplified during the pandemic over the last three years, but what the best teams are doing is orienting their focus around building advocates and building not only client advocates, but building professional advocates.

And building advocates, going deep with a select group of clients and professionals who understand what it is that their firm stands for, who understand the value of being in relationship with them, these advocates who understand how to make an introduction, not a referral, and who understand what partnership really means.

These teams and these ensembles that are building true advocacy create sustainable growth and impact and have turned what was an old sales structure, what was an old transactional reactive referral, I ask you, you either feel uncomfortable or you give me one, that old structure is sort of dead.

What we see among the best in the business is that they're finding those others who have an intense respect for what they're all about and who see the value of being in relationship and who are activated through a sense of partnership around making a formal introduction.

And not everybody's equipped for that, so identifying that select thread of those clients and building the client engagement experience such that it's more advocacy in its orientation, you end up generating a sustainable and unlimited number of introductions because you've got great partners in the process. And so productivity comes, especially for the next gen.

And this is one thing that I've learned maybe one of the most important things I've learned in the last five years is this notion that if you're developing the next generation to build something enduring, that next generation is not going to hunt the way the founder or current controlling owners hunted.

They're not going to develop clients through cold calling and cold walking and mass mailing and seminars. I mean, it's just not the same game and social media's tricky. There's a lot of rules and structures in our highly regulated industry. There's still a lot of question marks about that inbound



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marketing strategy and whether paying Facebook thousands of dollars a month really generates the kind of quality lead you're looking for.

So what I notice is the best in the business have recognized that if they can take their next generation talent and connect them deeply to the clients that they're currently serving, to further build and extend that relationship, it's a winning proposition to create a great bank of advocates. And that generally is our focus around productivity.

Mindy Diamond:

I love that. And that's actually a good pivot point because over the years I've read a lot of your ClientWise blogs and they're great. And for our listeners, I'd encourage you to read them because there's a lot of really good stuff in them, but they cover a lot of different relevant topics. I want to ask you about a couple of them. So you wrote a piece, what are the top X number of ways to increase productivity? Can you just quickly run through what you think those ways are?

Ray Sclafani:

Sure. So I don't remember that particular blog article. I've written so many, but I think productivity is what comes to mind as I'm speaking to here is all about thinking about the systems and the processes of what the team is building and that productivity is all about understanding the capacity of the team.

Most teams that are really thinking about growing tend to tap out in terms of capacity. And so their productivity declines because they spend so much time focused on serving existing clients, they don't have a whole lot of time to hunt and look for new business and to follow up on the introductions they're receiving from their advocates, and so this part of the business wanes.

This is a very simple, actionable step, but I would encourage every advisor who's listening to this podcast, just do an audit of your calendar over the last 90 days, over the last six months and recognize which are the appointments that other members of your team could be in. Is there somebody else on your team who should be sitting second chair, not just taking notes and observing, but who are leaning in and beginning to establish themselves as advisors and members of your team?

And when you start thinking about what's happening, especially, Mindy, in the independent and RIA channel, it shows up as what's called a lead advisor. The more that the senior leads, the controlling owners and founders are paying attention to adding to staff by not adding support and operations professionals and marketing professionals, but really thinking about how to develop their lead advisors who are coming into the firm, three magical things happen.

When you expand the right way, number one, you free up capacity because that lead advisor who's being mentored, being trained and developed, who's sitting second chair at some point will become first chair. That lead advisor can also take a whole bunch of those client appointments that the senior advisor's been on that maybe they don't need to be on off their plate.



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And so number one is you get great capacity, which allows the senior member of the firm to do what they do best. I mean, they've got no better experience than their current period right now. They've got a bigger Rolodex and network than they've ever had, but they lack the capacity and the time to go actually investigate who else they need to be thinking about serving and bringing back to their firm.

So capacity's number one. Number two, all of a sudden you start generating additional revenue as a result, and that lead advisor can also be building relationships and looking for new revenue opportunities. And the third is you're developing your future buyers, which also drives enterprise value of your firm.

So there's multitude of ways. We think about productivity, not just in terms of net new households and net new assets, but we think about productivity in a way that's sustainable. So hopefully that answers your question adequately.

Mindy Diamond:

I love it and it's such a refreshing way to think about it. I mean, back to the traditional advisor at a brokerage firm, they have little opportunity to have agency over how they increase productivity. They increase productivity one way through organic growth, and the firm essentially dictates you need to bring in X number of new households and they give them guardrails in terms of how they can go about soliciting those clients. What you're talking about, the freedom to build sustainable productivity and develop your future buyers and all of that comes with much more freedom as you step away from the traditional space.

Ray Sclafani:

No doubt, the more the wirehouses have limited the expansion of team, the faster we saw the decline of net new assets and net new households. So if you're in a wirehouse, you have one thing to focus on, you're building a boutique and you only have, from a capacity perspective, so many seats on the bus.

So with every seat, the only way to increase your productivity is to increase the revenue per client, which means somebody's got to come off the bus because you only have so much capacity to serve a block of client relationships because you're limited in terms of expansion of team. Somebody told me recently that in New York City, one of the wirehouses has a minimum of \$2.5 million in production to get one fully paid support person.

Mindy Diamond:

That is right.

Ray Sclafani:

And that really caught my attention. So the reality is if you are thinking about an ever expanding and sustainable business, you've got to think about ways with which to add advisors to teams and create



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these partnering structures so that the senior leader who's got, again, repeat, the best Rolodex and network of ever and the most experience they've ever had, that's a match and a recipe for productivity. Why would you ever put a lot of goals in the way of that senior relationship manager and advisor from finding new business?

We think of it like a large law firm or a large accountancy, what's the job of the senior partner? It's to bring new business back to the firm, not to sit and write a bunch of briefs. And that senior partner has got to develop that next generation so that they can be great rainmakers. And inside a good ecosystem, inside a good firm, if we do that effectively, productivity becomes sustainable.

Mindy Diamond:

I love it. And I think that that's exactly right. If you're talking now to the already independent business owner and you're talking a lot about the goal being to build sustainable productivity and an enduring enterprise, what are some of the most creative ways you would tell an independent business owner to do that?

Ray Sclafani:

Around productivity specifically?

Mindy Diamond:

No, to build this sustainable and enduring enterprise.

Ray Sclafani:

Got it. So focus first on people. If you're going to build anything enduring, and I've learned this here at ClientWise, you've got to invest in your people. And that means learning, training, development, culture. It means a lot of effort and time invested to make sure you're hiring for enterprise value.

So there's a notion that the employees of today want more feedback, and we see that to be really true. So having a good scheduled cadence of professional development conversations, which are about the future and the ways with which the team can be more valuable to their team members and to themselves, but also to the clients. Developing skills and experiences, the more skills they can acquire and hone, the more experiences they can have, the better.

That's number one, connecting your people to a career path where they're excited about the journey, you're excited about investing in the journey, not knowing maybe exactly where it ends up, but really thinking about honing the career trajectory so that there's a real passage of learning and development, gives a lot of optionality to those employees, those team members. And emerging out of that are budding leaders. Seeking performative opportunities for every team member to contribute to the growth of the firm, the leadership of the firm, the leadership of clients, all of that people investing is paramount.



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I would say, for the independent advisor building three things. One, building a brand that the firm is focused on, that transformation in a community, that impact work they're doing with their communities, really thinking about building a brand, something they're known for is really smart.

My friend Mark Tibergien, I've heard him speak for decades now, talks a lot about this notion of your client, your ideal client, really being clear about who your firm is built to serve. Build a brand, become an expert in a particular way. I would say that's number one.

Number two, think about how to institutionalize the way you serve clients, automate it to improve that automation. Find ways to upgrade your client onboarding process and the way you serve clients. And I should be able to walk into any independent advisor firm and irrespective of the advisor who's serving the client, that client review should look pretty similar.

The planning process, the investment process, the way that other products and services, whether it's insurance or lending, planning process, all of that should be standardized in a way that the team's excited about going to market and seeking feedback from clients in Net Promoter Scores and the advisory groups about how they're serving their clients. That intense focus on that institutionalization of client engagement is second.

And then the third would be institutionalizing growth. I said it earlier, the building of the advocacy program internally within these businesses and finding ways to continue to sustainably grow the business will create a lot more excited buyers of the business.

If your people focus is strong, if your brand is strong, if your client engagement and acquisition strategies are institutionalized, you'll have a lot of buyers show up excited to want to invest in a firm like that.

Mindy Diamond:

And that's what I was going to say. It all sort of works hand in glove. The more you focus on those three things you just mentioned, building a brand and something you're really known for, institutionalizing your client engagement process and your growth process, absolutely will transfer to not only more buyers, but greater value.

So I want to pivot now to this incredibly competitive recruiting environment and get your perspective on it. Let's say you're in traffic with any one of these, let's talk about an advisor now who is sitting at a traditional brokerage firm as a W-2 employee and considering change.

They say to you, "Look, you're helping me to really maximize my ability to leverage the systems and platform that's in place. We're talking a lot about unique ways or creative ways to increase clients, et cetera, but I'm beginning to get frustrated. I'm beginning to crave more freedom and control, et cetera." What is your advice to them? How would you tell them to go about beginning the process to think about stay versus go and assessing this incredibly large waterfall of possibilities these days?



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Ray Sclafani:

Well, Mindy, let me say upfront, going independent, if you're in the wirehouse, it is not for everybody. It is a lot of work. It is a tremendous amount of effort. It is not only a lot of effort upfront in a transition, but it is a long-term game. You now assume all of the risk. You assume all of the responsibility. You've got payroll to make. Not everybody's cut out to make payroll.

And in fact, it's one of the reasons I shifted from being an employee for 20 years at one of the largest asset management firms in the world, and to exit a role as an executive leader at the highest levels in the firm to go independent and set up my own firm. That was 17 years ago. I will tell you, I thought I knew what it meant to make payroll, but until you make payroll, you've not made payroll, and I know you've experienced that as well.

So I think the first thing I would say to anybody considering that is hit the pause button for a moment. Make sure that you're clear about what you feel strongly about and voice that concern to the leaders at your company. Give them an opportunity to have a voice and to remove the obstacles and to provide you some of the support.

And look, at the end of the day, if it's not going to change, there's a big decision to make. Do you play through, transition clients? Are they being cared for the way you want to be? If you truly want to make a change, then investigating what it really takes begins with research. And there are plenty of platforms and services. This podcast is an excellent podcast to learn from others, and there's a myriad of sources that can help advisors think about the challenges.

I know the custodial firms and the independent broker dealers and the aggregators and the Dynastys and HighTowers of the world all do a great job at communicating the value proposition and can help advisors get set up.

But the switch from intreprenuer to entrepreneur is more than just changing platforms and moving clients to a new platform. It's the carving out a new journey of vision, building a strategy, knowing how to execute on the strategy, and then adjusting when things don't go just right, understanding the kind of risks you're taking, and then ask yourself the one final question, which is, is the juice worth the squeeze?

Not everybody does it for the money. Not everybody does it for the platform. Not everybody does it for the freedom or the control, but the advisor has to be clear what they want because at the end of the day, if they squeeze hard and they don't get the juice they're looking for, it's a terrible experience to wake up five years later and go, "Wow, what a mistake did I make."

So I think there's a beautiful opportunity for advisors if they want to take that journey. That's a really serious and different kind of commitment. I think a lot of the fears about whether clients move with you or don't move with you, I just don't see that as an issue. I've heard corporate executives say, "When Joey left or Joanne left, we retained 80% of their assets." And then I go talk to Joey and Joanne, they're like, "Yeah, 90% of my business moved." I think the clients' loyalty lies with the relationship with the advisor.

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

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Mindy Diamond:

If you've been a good advisor, I agree with you a hundred percent. And we always laugh about that, you ask the firms, and many of the firm leaders actually I've had on this podcast talk about the fact that, oh, they only moved 20% of their clients and you know that that's not true because a lot of it has to do with when you measure and when you ask, right?

Ray Sclafani:

Well, it's the propaganda machine. I mean-

Mindy Diamond:

Of course.

Ray Sclafani:

... if word got out that clients were satisfied with their advisor and the relationship was strong and they'd be happy to make a move. There was an advisor years ago, I remember going through the '08 crisis, and I remember this advisor. He was a client of ours in Houston, Texas, and he had asked me if I would come down and be in his client meeting. And the firm he was affiliated with at the time was going through, like all of them, a tremendous turmoil, and they didn't know what the future of the company would look like.

And I remember this advisor standing up and the language he gave was brilliant. He said to a ballroom filled with 300 clients, he said, "Today we've chosen that this is the platform with which we're affiliating. If something changes, I will let you know and we will move to a different platform." And the audience erupted in applause. And it was at that moment in my mind, it solidified, Mindy, these relationships sit with the advisor.

Mindy Diamond:

I agree with that a hundred percent. And we tell people all the time, counseling just like you do, moving is a giant hassle. Anyone who tells you it isn't is lying or-

Ray Sclafani:

Absolutely.

Mindy Diamond:

... not in touch with reality. And you should only do it, whether it be to go independent or to jump from one traditional firm to another or whatever it may be if the juice is worth the squeeze, if the upside is there, if you believe that you can more than marginally move the needle. And so I always say that, we talk more people into staying put than we do moving. So we really are aligned in terms of how we think about it.



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Let me flip the script here and ask, so let's say you are talking or counseling the principal of say, a \$500 million independent firm.

Ray Sclafani:

Ooh.

Mindy Diamond:

And they are thinking about selling equity.

Ray Sclafani:

Ah.

Mindy Diamond:

They're wondering if now is the right time to either take some chips off the table, to take on a capital provider, to be able to add inorganic growth, to be able to recruit or acquire, to begin to think about succession planning, whatever it may be. What would be your advice to an independent business owner about how to think about the questions to ask themselves about the how and the when of taking on capital?

Ray Sclafani:

Yeah, that's good. Well, there's a few questions in that question, Mindy. Is it to take on capital? Is it to sell equity to the next gen? To de-risk some? Wow, that's a big question.

So \$500 million's an interesting spot because I think I heard a speaker at Schwab years ago called the \$500 million to billion dollar advisor, which by the way, the industry calls the enterprise ensemble, which might be multiple member owned or an enterprise of some kind, if it's solely owned, different kind of conversation. But I remember this executive at Schwab calling this space the Valley of Doom, and I think that's right.

It's a period of time where scaling up is really hard to do, that getting to the \$500 million mark, presumably around \$5 million in revenue at 1% on assets, you get to that spot and it's like, we've made it and our business just continues to click along and grow.

And at that \$500 million to billion, to get to a billion and beyond, it really does require a reinvention of many of those systems and processes and a restacking of client relationships and a resegmentation, and looking again at the revenue per client and how the advisors are choosing to serve those households.

So there's almost a makeover that happens at \$500 million in assets on your way to a billion because what an advisor is doing at \$500 million won't quite all work the same at the billion dollar plus kind of business. The professional management and the layers that are required to bring on board, whether



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that's a chief people officer or a chief operating officer or a chief financial officer, or chief technology officer, all of a sudden now to continue to support the business.

If the advisors built it right and they hit \$500 million in assets, they're on a trajectory where that CAGR at 10, 12, 15% or more is going to continue to compound problems if they don't think about how to scale up. And that is a whole new game to play. And in fact, in our Business Builders Academy, we've got this dedicated sets of groups in the enterprise ensemble space.

And so the decision to sell equity is a really good one. You can only do three things with your equity as an independent advisor. You can sell it at fair market value, you can discount it or you can gift it. And some advisors feel strongly that they've got team members that have been with them for 10 or 15 years and they hit this \$500 million mark and this is a really good time to maybe gift some equity or discount some equity and allow others to buy in.

The good news is that Live Oak Bank was really the first to provide some favorable financing in looking at this fee on assets as a recurring revenue stream. So they're lending money. It's not all seller financed these days, and there are plenty of banks that have gotten into the game.

But the bigger firms in the private equity space have begun to invest pretty heavily in the marketplace. And so the \$500 million advisor has lots of options, maybe a sale internally, maybe taking on a capital partner, maybe merging with another firm and rolling up or tucking under. So there's loads of options.

The advice, so I'll put my consultant hat on and take my coach hat off because the coaching questions would explore what the advisor's aim is with the business. The minute an advisor begins to want to build an enduring firm, they've made a decision to be a custodian for that business, and therefore they've got to think about the transferable nature of the business.

So the coaching hat would explore that, but the consultant in me would say, dilution of your equity position is good so long as you choose partners wisely. And that is to say that if you're going to dilute your position, those with whom you dilute your position to, will they help you grow the shares you retain faster than if you were to go it on your own?

And that's really important because once you have equity, some advisors hang on too long, and then there are no buyers because they've got a book of business, not a business. Those that dilute along the way, but choose buyers and investors wisely will find that their businesses will scale and grow more quickly if they choose wisely. That's the consultant answer in me.

Mindy Diamond:

Yeah. So it's funny, last week I had the privilege of interviewing Michael Nathanson. So Michael Nathanson is the CEO of the Colony Group. And the Colony Group sold equity to Focus Financial many years ago, I forget how many. I mean, that firm went from \$3 billion in assets to \$20 billion in assets.



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And he said all over the place how taking on Focus Financial as partners has enabled them to do a million things they never could have done on their own.

And one of the examples he talks about is how before partnering with Focus, they had attempted to acquire another firm in town and couldn't get it done, and then it happened a second time. And inability to get deals done was one of the main reasons for motivation. So actually we counsel people the same thing. There isn't a blanket answer about, yes you should, and no, you shouldn't take on a capital provider, but it's more important to think about who the capital provider is and how much value they can add.

Ray Sclafani:

That's exactly right, what impact will they have? By the way, so if I could just add to that, because I think that's a great example that if an advisor's not clear about what they want to achieve, all the options start looking really good. And so there are plenty that can create great value and bring great value and impact in a great way if they choose to go that route, but they've got to be clear what they want to do with the business first.

Mindy Diamond:

Yeah, clarity of purpose is the key, I'm with you a hundred percent. Okay, two more very quick questions. One is we're talking about the notion of building an enduring business, an enduring practice and enduring firm. And we're talking about the fact that doing so allows you to maximize its enterprise value or exit value depending upon where you sit.

So when we talk with traditional advisors, meaning those advisors sitting in the traditional space, W-2 employees who are contemplating their next move and when and where that next move might be independent, one of the things that's important to them is building a firm with the end in mind and hoping that there will be the right buyers with the right multiples available when they're ready to sell it.

So in your opinion, we know that this M&A market today is quite frothy. Do you think that today's breakaways, meaning people that break away today, tomorrow, a year from now, will they enjoy the same number of buyers, potential buyers and exciting multiples like there's available now?

Ray Sclafani:

Ooh, that's a really great question. So it's interesting, I sit on a number of boards of large RIA firms and some of the multiples, and each of the firms have capital partners investing in them, these multiples are in excess of 15, 18 times EBITDA and buying businesses at 5 to 7, 8 or 9 times EBITDA. And so the question is, will there be a sustainability of these multiples on into the future?

Well, I don't have a crystal ball and don't know what that looks like, but I do believe we're only in the third inning of a nine inning ballgame that can go extra innings. The number of capital partners and



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investors coming into this profession is just really beginning. And I think this is early days for the financial services industry in what I view to be an interesting transformation.

So I started in financial services in 1986, and there was a Mr. Dean and a Mr. Witter, Mr. Pierce, Mr. Fenner, Mr. Smith, Mr. Merrill. There was Mr. Smith and a Mr. Barney, Mr. Paine, and Mr. Webber, a Kidder and a Peabody. You get the picture.

Bankers came in and it was interesting, there was a flood of mergers and acquisitions that occurred in the '70s and on into the '80s and even on into the early '90s, and I remember the consolidation in the industry. And is there an RBC and an RJA and a Janney Montgomery? Yeah, there's all those firms still, Stifel Nicolaus, the others, but there's basically the big four of the wire channel in that captive kind of space. We saw major consolidation occur and this is where we ended up.

What I'm noticing today is almost very interesting. Probably in the last 15 years, you've seen some of the breakaways and you've seen what Shirl Penney's done with Dynasty is pretty brilliant. And I think HighTower, they've done pretty brilliant work and Marty Bicknell over at Mariner, and Rick Kent at Merit and Creative Planning and Lido, and you're starting to look at these firms. What's really going on is this reinvention of what fiduciary and financial advising looks like.

And I think there's going to be more exits and more consolidation, and this is just the early days of what it looks like. I think this movement of reinvention and merger and acquisition that's happening here, again in financial service is being fueled by advisors' desire to want to serve clients differently is really where it's about.

Clients today want a more holistic, integrated experience. They don't want just an investment manager. They want somebody to facilitate, make it easy for them, all of the financial planning and the banking, the investments, tax, the estate, the trust. And I think the more that you can create a platform where it's really easy to integrate all of that together, these independents are thinking about reimagining financial planning in new and different ways that's pretty remarkable.

So I think a breakaway today who's really serious about wanting to serve in a really different way and who's thinking about partnering with those families multi-generationally and having a ripple effect is going to enjoy an experience in not only being able to serve the clients the way they want to serve them, but will also enjoy the juice being worth the squeeze, that there will indeed be a sustainability of some of these multiples at these 5, 7, 8, 9, even 10 times.

The firms that are able to scale it up, will they enjoy 18, 20? Goodness, that sounds frothy to me, so I'm not sure about that. But I think there will be buyers internally that will be able to acquire and run these firms and I think there'll be capital partners in the future that will show up.

Again, these businesses, these wealth advising businesses, we live in the greatest country on this earth, we've got some of the best entrepreneurial spirit in the United States of America. We've got a growing affluence in our country that is exponential compared to many other nations. And we've got the biggest



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Gen Z and Gen Y groups. They keep getting bigger. So the need for financial services is getting greater and the number of advisors is not expanding at the same rate.

So barring Apple or some ROBO, and Amazon getting into the business, which is a threat for sure, I think there's never been more excited about wealth advising and the value of these businesses and their subscription revenues. So yeah, I think that's where you'll see this ongoing rotation of mergers and acquisitions and multiples and capital coming into the marketplace. So it's a good time to be in financial services.

Mindy Diamond:

Well said. I agree with you a hundred percent and I love your explanation of it because I think it's spot on. One more rapid fire question and then I'm going to let you go.

Ray Sclafani:

Yeah.

Mindy Diamond:

That question is I want to know what your favorite business books are, and aside from the one you wrote, which is called You've Been Framed.

Ray Sclafani:

And I am working on my second book.

Mindy Diamond:

Oh, I love it.

Ray Sclafani:

The working title is The Ripple Effect, but more about that later. I would say, so the best business book I've read during the pandemic, I read a lot, by the way, Adam Grant, Think Again: The Power of Knowing What You Don't Know. That's probably my favorite. I've probably read it five times. That would be at the top of my list.

I would also recommend Captain David Marquet's book Turn the Ship Around!, which is a true story about turning followers into leaders. I think it's a must-read for any team. And what I'm also currently reading right now is From Strength to Strength by Arthur Brooks, which is about finding success and happiness and deep purpose in the second half of life.

I'm a big Blinkist reader. Blinkist.com is an app. I read a book a day, 15 to 17 minutes. They're little Blinkist summaries and if I really get excited about the Blinkist summary, I will go out and pick up the book. So those would be my favorites. I'll throw in one more if I may.



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Mindy Diamond:

Please.

Ray Sclafani:

It's unrelated to business, but it's one of the best books I read very, very early in my career by an absolute genius, a gentleman by the name of Robert Dilts, D-I-L-T-S. And my favorite of all of his books is From Coach to Awakener.

Mindy Diamond:

Okay. We really appreciate all of that. I'm going to check the ones I haven't read out as well. So thank you. Ray, this has been delightful and insightful. I'm grateful for how graciously you've shared your insights and I can't wait to talk again soon.

Ray Sclafani:

Thanks, Mindy. I've enjoyed this

Mindy Diamond:

Pleasure.

Ray shared some valuable, actionable advice for advisors at all levels, but it's his perspective on the future and how independent firms are reimagining the space, which I think is most profound. As advisors continually look for new, unique ways to serve clients, the impact will ripple across the industry and drive greater change even at the biggest firms.

I thank you for listening, and I encourage you to visit our website, [diamond-consultants.com](http://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. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full on exploration requires.

You can feel free to email or call me if you have specific questions. I can be reached at 973-476-8578, which is my cell or my email [mdiamond@diamond-consultants.com](mailto:mdiamond@diamond-consultants.com). 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.

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