EPISODE TRANSCRIPT

Michael Kitces on Everything Financial Advisors Need to Know About Growth

A conversation with the industry thought-leader, financial planner and host of the popular blog and podcast series

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Michael Kitces on everything financial advisors need to know about growth. It's a conversation with the industry thought leader, financial planner, and host of the popular blog and podcast series. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

Almost two years ago, I had the chance to interview Michael Kitces for the show. It was the perfect opportunity to pick his brain and extract nuggets of gold from his incredible bank of knowledge, and so we did, yet a lot has changed since that conversation. Even his own business life took a new turn having joined Buckingham Strategic Wealth in March of 2020, right when the pandemic shut the world down. I'm grateful that Michael took the time to join me again and catch us up on the changes he in this industry has experienced in the past year, and share key takeaways for advisors on everything around growth, from marketing, to service models and fees, and M&A. There's a lot to discuss so let's get to it.

Mindy Diamond:

Michael, I'm really grateful for your time again today.

Michael Kitces:

My pleasure, good to be back and joining you on the podcast again.

Mindy Diamond:

Okay. Let's jump in because there's always a million questions I want to ask you when we wind up running out of time. First and foremost, you were last on the show in September of 2019. So, catch me up. I know a lot's been going on in your professional life since then.

Michael Kitces:

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Oh, well, yeah. Back in the old pre-pandemic days, right? Because I feel like we're basically pre-pandemic and post pandemic at that point, it's certainly been a strange world for me because a big portion of my world was being out at advisor conferences and traveling. I was one of those road warriors, 50 plus conferences in a year, literally on the road every week, sometimes more than once a week, and now have just been home, not going anywhere or doing anything for the better part of a year now.

Michael Kitces:

It's certainly been a strange transition from that. The added slice for me, unbeknownst to what was coming, I actually made a firm change last year so I went from the Independent RIA that I had been at for nearly 17 years and made a change to Buckingham Wealth Partners, which is one of the, I guess, mega RIAs out there as it were. They have both a wealth management offering for individual clients that's now closing in on $20 billion under management, and then a very large TAMP platform called Buckingham Strategic Partners that's got nearly $30 billion.

Michael Kitces:

Some folks would know them as what was originally the Loring Ward platform, although Buckingham had a side and Loring Ward had a side and they merged in 2018. Made a shift to a firm really to have the opportunity to be at a firm that has a lot more resources. I'm someone who's actually been hugely upbeat about the opportunities these days for independent advisory firms and that you don't necessarily need the kind of size and scale that you did in the past in order to be successful. The independent advisor landscape has just amazingly flourished in recent years.

Michael Kitces:

But that being said, there are some benefits to being at firms that have some size and scale and resources when you get down to just what you can do, particularly for what we've grown with our Kitces platform now, and just wanting to take all the advice and advanced planning strategies that we write about on the blog and really get to put them into practice with clients and we get to do that with a very large client base at Buckingham.

Michael Kitces:

I made that transition as it lined up almost exactly a year ago. The day we broke the news was the day the market crashed 10% back in March.

Mindy Diamond:

Timing is everything.

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Michael Kitces:

I will probably never live down the fact that the market crashed 10% the day that I joined the firm. The only saving grace I had was, the following Monday, we wrote an article on our blog about the change and why I'd made the change, and the market dropped 12% that day. So, I'm clinging to the fact that when we wrote about it on our site, it crashed the market 20% more than all other media combined so that must still be something good.

Mindy Diamond:

Okay. Well, congratulations on that. That's a good thing.

Michael Kitces:

Thank you. Yeah. It's good to have a couple of wins to cling to. It was certainly interesting going through the transition and moving to a new firm myself and just getting to a firm that has both the size and scope resources that Buckingham does. Really, for me, just what came down to candidly to people that I wanted to spend time with. We fortunately have gotten the business to a point on our end where there were lots of people that I could have called when I was ready to make a change to go to another firm.

Michael Kitces:

It really was a conscious decision to go to Buckingham. They were the only phone call that I made when it was time to make a phone call, because for me these days, particularly when you look at larger firms that are out there, the reality is, it's almost impossible in our hyper-competitive advisory landscape to grow beyond a certain level without having outside capital to help fuel that growth. Once you go down the road of outside capital, there are family offices and private equity firms and aggregators and roll-ups and all these different ways that capital gets out there.

Michael Kitces:

Money comes with strings attached. For some firms that puts a lot of pressure on them to grow for some firms that puts pressure on them to produce certain dividends or profit margins, because that's what their investors prioritize. Buckingham has a rather unique relationship in that they work with Focus Financial, and we're one of Focus's first firms that was involved from a very early point in the Focus story. The irony is, while Focus is a publicly traded firm, and there are certain a challenge that, I think most of us have seen publicly traded firms, just in how they have to manage their world of quarterly earnings and such.

Michael Kitces:

The reality is publicly traded firms actually take a really long-term view in many ways, and they have to, because as we all learn in our investment textbooks, the value of stocks price at the end of the day is the discounted present value of future cashflow. If the market doesn't think you're doing the right thing in the long run, they will hammer your price tomorrow. It really actually keeps Focus rather long-term minded as a capital partner in a world where just I've seen a lot of other firms go through these shorter term PE cycles.

Michael Kitces:

Look, if you want to have a great five-year growth run and the opportunity to have a good exit at the end, more power to you, but I'm a long-term guy. I'm still only in my early 40s. I was making a shift to looking at a firm where I was at one for 17 years, and I'm hoping I go to the next one longer than the prior one. When I looked at from that perspective, to me, it was a large firm with a very long-term oriented capital partner with the senior leadership team, most of whom are younger than I am. Adam Birenbaum is Buckingham's CEO.

Michael Kitces:

I think I've got all of like 11 months on him, but in an industry where a lot of CEOs are in their 50s or 60s, and if I'm going to be there for 20 years, I'm going to probably be with their CEO successors successor's successor. Adam's been at his firm for almost 20 years and is still only in his 40s with 20 plus years to go. That combination for me of strong capital partner, strong firm, great culture, great people, young, long-term oriented leadership team was what drove it for me, but I will admit, having had a lot of these conversations with advisors looking to make shifts and talking to them about like, yeah, there's a lot of dollars that get tangled, but if you're going to do this for the long-run as a long-term business, people and culture and the strings attached to capital dollars, all that stuff really, really matters.

Michael Kitces:

It was certainly an interesting dynamic living that journey myself, having those conversations and making that switch myself, but I had a lot of clarity around what I wanted that to look like. For me, when I drew the Venn diagram around time horizons and culture, and all the rest of the trade-offs, again, no disrespect to a lot of other good firms that are out there and do good things in their own spaces, but Buckingham was the only call that I made and we got the deal done literally in a matter of a couple of weeks. By the time we announced, there was a giant pandemic outbreak. I have not been to the St. Louis home office, because the world shut down the day the market crashed a year ago, and that was the day I joined the firm.

Mindy Diamond:

Well, congratulations on that too.

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Michael Kitces:

Go figure.

Mindy Diamond:

Yeah. Timing is everything for sure, but I'll tell you a couple of things. One, we are well familiar with Buckingham one, because we've done business with them, and two, because I was privileged to have Adam Birenbaum on the show relatively recently, and so he talked all about the growth of Buckingham, but I need to comment that we spend most of our time talking with advisors about culture and how they can assess a firm. Yes, you have to assess long-term view and capital partners and value proposition and length of service and the other people at the firm and all of it.

Mindy Diamond:

But at the end of the day, what it really comes down to when you're assessing a firm is a gut instinct. It sounds like that's really what you're telling us, that although on paper, Buckingham checked all the boxes, at the end of the day, if the cultural fit and the people hadn't worked, it just wouldn't have worked for you.

Michael Kitces:

Well, and I had a little bit of good fortune that it didn't quite have to be straight gut-check for me, simply because the world of being out and speaking at industry conferences, for the better part of a decade, I've met and worked with a lot of the Buckingham leadership team over the years at events where we cross paths. I think at one point, I actually spoke at their national conference many years ago. They're very present in the AICPA, personal financial planning world in particular, because they do a lot of work with CPA financial planners, is one of the segments they serve in their strategic partners team.

Michael Kitces:

I had gotten a lot of opportunity over the years to spend time with both many of their advisors, because they're just a large firm, so a lot of advisors, and with their leadership teams. I had the good fortune that by the time I was looking to make a change, they were not strangers.

Mindy Diamond:

Yeah. You had many years to interview them over time, so that's a great thing.

Michael Kitces:

Yeah, it is, to me, just a broader statement of perspective around anyone that's looking to make a change or even long-term thinking about a change, that this is one of the other benefits of getting out to conferences, is a chance to meet these people, a chance to talk to them, a chance to see what they're like in a different element. Sometimes a lot of the firms that people go to these days, often their leaders are even onstage, so you can see how they speak, how they present. Obviously, that's not the best measure of what the culture of the firm is like at home, but it does start to give you a sense of what it looks like.

Michael Kitces:

I'm one of those people that I guess very much believes, or I'll just own like finds through my own experience that ... I guess the saying the apple doesn't fall far from the tree, like the culture of a firm ripples down from the top. If you want to get a sense of what the culture of the firm is like, get a sense of the CEO because they set the tone and the culture for everything, and it ripples all the way through the organization. Getting out to conferences and seeing CEOs, seeing senior leadership teams, meeting other advisors that might be at the firm and just getting to talk to them, have those hallway conversations, hey, what's it really like there? Is really invaluable to get a feel for what it's really like there.

Michael Kitces:

There were a few other firms, at least out there, that I might have considered that I knew enough advisors that were there to know that, not necessarily that was a bad culture, but it wasn't the right culture fit for me and what I was looking for. Buckingham is, I hate to over-generalize a little, but like it's a St. Louis Midwestern firm, and that kind of Midwestern culture values really shines through. That was very appealing to me for just being an a firm that has those kinds of grounded roots, very nice people, very humble people, very good at executing what they do, but a little bit more of that, I guess, laid back Midwestern style.

Michael Kitces:

That just was very appealing to me, that said, if I'm going to be hanging out with someone for the better part of 20 years, these are the people that I want to spend some time with.

Mindy Diamond:

Well, it sounds like a wonderful move. I'm really happy for you. Wonderful. But I want to pivot, and the reason that I invited you back was one, because you're a star, and always love to hear your perspective, but two, because we spend a lot of time on the podcast talking with guests about either the how to think about making a transition or talking with advisors that have actually made the move. But we did a year-end content survey, and what it really revealed was a lot of advisors had great interest in practice

management topics like service models and marketing and technology and client acquisition, scale and the like.

Mindy Diamond:

I'd love it if I can just get you to weigh in on some of those topics. Let's start off with, what are some of the best practices you see for building a firm? How do you build a firm with the end in mind?

Michael Kitces:

Gosh, there are so many different ways to answer this. Like not to sound pithy about it, but the firms that I see that do the best job of building with the end in mind are firms that actually have a clear vision of what the end is to have in mind. I still see a lot of firms where the vision at the end of the day is like, well, we'd like to be bigger than we are today with more clients and more assets and more revenue, because we'll just do more stuff. There's not a particular clarity about why, or what they're pursuing like, is that growth? Is that enterprise value? Is that profitability? Is that something else? Is that reach? Is that impact is that everyone? Is that a certain type of client?

Michael Kitces:

Even just when you get down to the most basic things, like, are you building this firm for enterprise value or are you building this firm for free cashflow profits? Something like seemingly as simple and straightforward as that, if you don't have a clear vision of what that's supposed to be, and more importantly, for a lot of firms of size, if you don't have clear alignment across all the owners, across all the leadership team about what that's supposed to be, just an issue as straightforward as that, when you don't have agreement, starts to grind all the traction away from the business, and it stops growing and stops moving forward.

Michael Kitces:

Because now someone wants to spend more money on marketing and growth because they want to see something that's got more enterprise value. The other person says like, we're already making good profits where we are. I just want to manage the cashflow. I'm enjoying the dividends that comes off this high dividend growth stock, which is kind of what advisory firms are. Someone else says like, I want to reinvest in our offering because I see us forming a deeper specialization with retirees, and someone else says like, well, then all that's going to hammer down the margins. We wanted to keep the margins up.

Michael Kitces:

Then someone's like, forget the margins, I want to grow with the marketing strategy. I'm like, no, I don't want to spend money on the marketing. I want to spend money on the retiree niche. They get so spun

up because they don't actually have alignments. The first big blocking point that I find for most firms is they just literally don't have clear vision and clear alignment of everybody about where they're going. Because those are hard conversations and often awkward conversations, and frankly sometimes can lead to the separation or breakup of partnerships, we so often avoid those conversations and don't have them, and we just ended up grinding the business to a stand still or to a trickle of growth, because there's not even alignment about what you're trying to build in the first place.

Michael Kitces:

Stephanie Bogan is adviser executive coach out there and has this fantastic saying that, when the vision is clear, the decisions get easy.

Mindy Diamond:

I like that a lot.

Michael Kitces:

It's really true. I think for so many firms, if you're having trouble figuring out like what software should we use or what platforms should we use, or who should we go after, or what's the best marketing strategy? I don't know what the best marketing strategy is. Tell me who you're going after. If you're going after young professionals, hang out on LinkedIn. If you're going after retirees, probably not a good idea to go to a job site for people who are retired and haven't worked for 10 years. You might want to look somewhere else. Tell me who you're going after I'll tell you what a good marketing strategy is to reach them.

Michael Kitces:

I see so many firms like they ask, what's the technology and not what's the technology for this clientele, they ask what's the good marketing strategy, but not what's the good marketing strategy for who or they ask, what's a normal benchmark for what you pay advisors? I'm like, well, I don't know. Are you trying to incentivize them for growth? Are you trying to incentivize them for service? Are you managing for growth? Are you managing for profit margins? Are you building enterprise value, or are you trying to have them drive enterprise value?

Michael Kitces:

If you don't get clear on what that vision looks like in the first place, it's almost impossible to build any traction towards anything in particular. Again, just most of us, I see, we tend not to spend the time trying to get clear on the vision or especially anytime it's a multi owner firm, if you're not already in

alignment on the vision, those are really, really hard conversations, frankly, are things like I would get a coach or facilitator because they can be really hard conversations, but if you don't deal with that conversation, nothing else's really moving.

Michael Kitces:

When you get clear on that conversation, it's amazing how much easier and clearer all the decisions get once the vision is clear.

Mindy Diamond:

I couldn't agree with you more. I think one of the biggest questions, and I like how you phrased it, are you building a firm for enterprise value or to drive free cashflow profits? We talked to a lot of advisors that are in it. They're perfectly happy building a practice and nothing more, and their goals will be very, very different than somebody who's looking to build a long-term enterprise and maximize enterprise value. You're 100% right that when the vision is clear, the decision gets easy. I like that a lot.

Michael Kitces:

Just the piece I would add to that as well, I think we, as advisors, often get sort of spun up and maybe a little turned and twisted on this because I started my career in the insurance world as well, and then spent a brief stint in broker dealer world before I landed in the RIA channel. It's been a number of years since I've been out of that side, but you don't forget the leaderboards on production and the top producer contests and all of the recognition that comes with being the top producer and having the top revenue and the top GDC or the top sales or the top growth.

Michael Kitces:

Obviously, if you're living in it, you live that life from day to day and year to year. The reality of those metrics and just that whole framework is those are the metrics that make the brokerage firms successful. That's why they have it. They get a percentage of your new revenue. The more revenue you make, the more revenue they make. Success is defined as who brings in the most revenue for them, oh, parentheses, I guess you made a bunch too good for you. No firm I've seen has a contest for, who had the best take-home pay?

Michael Kitces:

It's only who brought in the most gross revenue, because if you take two firms and one does 500,000 GDC and takes almost all of it home, and one does a million of GDC, but is reinvesting heavily, running inefficiently and takes home a hundred grand, the one who posts a million and takes home a hundred, gets all the recognition, the awards. The one who posts 500 and takes home the majority of it and has half the stress and double the income, gets completely ignored or crapped on because they're not a top producer at the top of the ladder.

Michael Kitces:

The whole system is built entirely around who produces the most gross revenue because it's what works for the platform, and to be fair, it's reasonably aligned to the advisor. Our payout grids and our schedules are generally decently better the more that we climb that production ladder, but for a lot of people that's just literally not their success point, not their measure of success. It can suck to be in an environment where your metrics of success is different than everyone else. So, you're a "low producer" who has very low stress and very happy lifestyle, makes a great take home pay and is viewed as the lousiest person in the branch, because your numbers are the lowest, even though your happiness is the highest.

Michael Kitces:

It's not built around building enterprise value, because frankly, you're not there to build your enterprise value. You're there to build their enterprise value, and their enterprise value comes from your new revenue, not your sustaining revenue, ongoing revenue, business efficiency, or the rest. I find a lot of advisors come out of the brokerage environment still stuck on the old brokerage metrics, which is really only one metric, which is annual revenue, or not even annual revenue. It's usually annual new revenue, annual new production, and that is generally not a very good actual business metric when you're managing your own business.

Michael Kitces:

There are more levers to push and pull. There are more ways to manage it. There are more definitions of success, just when you come down to, are you managing for time in the business, profits of the business, or enterprise value of the business? Just take those three simple levers and you can pull and mix those in lots of different ways to come up with lots of different versions of success. But again, if you don't get clear on what the vision is and what success is, at best, you're unhappily building towards someone else's definition of success.

Michael Kitces:

At worst, you have multiple partners or owners building towards different versions of success, or maybe you're even splitting your own resources because you're trying to do a little of everything at once

because you don't have clarity of which one you're doing. Those are the things that I really find that dragged down the success of businesses and enterprises, or said differently, when I look at the firms that I see that have the biggest breakout success, particularly the ones that really want to build enterprises, when you look at the people who grow firms for that size, yes, there's a lot of execution that matters along the way, but clarity of vision, I find, is usually one of the most distinguishing characteristics.

Mindy Diamond:

You said a lot and there's a lot to unpack there, but one of the things that strikes me is probably one of the biggest reasons, the biggest motivators or drivers for this breakaway movement, advisors leaving the traditional brokerage world as employees, and either going independent, or at least away from big firm and moving towards some version of it, is driven a lot by what I call an incongruence. I think you referenced it. It's really an incongruence between sort of the advisors ethos, what's important to the advisor, what the advisor believes is important to the client, and what's important to the firm.

Mindy Diamond:

The bottom line is there are many very successful advisors work for the likes of big firms and it works for them, but where an advisor is excited about building enterprise value, and where the advisor is looking to build things that are not necessarily rooted in or driven in the metrics of success as you put it, that the wirehouses the big firms use, that's where you get incongruence, and that's why a lot of folks leave.

Michael Kitces:

Yeah. I think, for a while, the independent channel tried to tell this story about, you may make the change to independence and you can generate more income and take home pay. They created all these proforma, like P&Ls of here's what your income and profits look like at your wirehouse firm, and here's your gross revenue, and here's all the stuff they'd take off the top. If you just went and did this on your own, like you could replicate this for this much and this for that much, and then here's how much you would drive to the bottom line and see, like, you can get a few more points off this, and given how much revenue you produce, that could be tens or hundreds of thousands of dollars.

Michael Kitces:

We made this financial case. It's not a bad financial case. Sometimes it works, sometimes it doesn't. But when I just, at least from my years in doing this as well, when I talk to advisors who've made the switch, or we have them out on the podcast, or I talked to the folks now, even that are switching and joining Buckingham and the like, it's almost never the dollars that actually did it. It's certainly a nice icing on the cake when the math works out that way, but it almost always comes down to incongruence pieces of some portion of, I want to serve who I want, I want to serve them the way that I want, and I want to

charge them and have the business model the way that I want, and I want to be able to harvest the value of this the way that I want.

Michael Kitces:

Just whether profits or enterprise value, or whatever it is. Even when I look at the advisors who successfully break away, the math part is better. The like, here's what the firm took off my grid, and then here's what it costs me to recreate that. What I find in practice is, the advisors where that math lines up well are the advisors who were not congruent with the business model, the broker-dealer in the first place, because what that meant in essence was the broker-dealer has a whole bunch of overheads and probably a whole bunch of services that they don't actually care about because they don't do that stuff and use that stuff.

Michael Kitces:

They use different stuff or a narrower set of stuff, because they've got a more focused business, and then they find out they can actually recreate it more profitably on the outside as well, but it's still not actually a math thing per se. It's a misalignment thing that shows up in the math economics of the business, as well as what they want to do and who they want to do it for and how they want to get paid for their services and how they want to harvest the value that they're creating.

Mindy Diamond:

Yeah, no, I think that's absolutely right. It's funny you say that because in the end, the net take home pay for an advisor who is an employee of a brokerage firm, particularly if they're producing a lot of annual revenue, and the net take home pay for an advisor, who either went out and built his own firm, or goes to work for an independent firm, there is certainly a delta, but the delta is not ever big enough to be the sole reason for somebody breaking away, because-

Michael Kitces:

It’s hella disruptive. You got-

Mindy Diamond:

That's right.

Michael Kitces:

It's pretty painful on yourself. People do it because they see the opportunity and the vision on the other end and that's what makes the transition worthwhile. But yeah, like, yeah, you got to have something you're moving towards.

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Mindy Diamond:

Yep. But the fact, I think you said it, the fact that there is a differential or a delta in the pay is cherry on top, but it's never the sole reason. But let me move into the notion of growth and ask you about a couple of different things. How about targeting centers of influence, and what are your thoughts about sort of the best ways to organically and inorganically grow a client base?

Michael Kitces:

I'm someone who come, looks at the world in terms of, how do we stand out and differentiate? Sally Hogshead is an author who has a great book out there called How to Fascinate, which is really just all about differentiation. One of her taglines that I just love is, it's better to be different than better. It's better to be different than better. Not that it's a bad thing to be better as well, but one of the most straightforward ways to market and stand out is to be so different that you're literally the only person that does what you do for the people that you serve.

Michael Kitces:

You're no longer in competition with anything except inertia. They're working with you or they're working with no one, but there's no in between. What that means in practice is, it becomes this question of who is your ideal target clientele, or as I like to put it more directly, what are you the best at? I mean, so the best that if someone typed that into Google, you would come up as the answer. When you get that good at a thing for ... You can't do that for everyone, right? Because everyone has a lot of different needs. It's pretty hard to be the best everything for everyone.

Michael Kitces:

You can't be the best everything for everyone. You can be the best at something for a few people. The amazing thing about this business is most of us can have wildly successful practices with a hundred great clients. In fact, you can usually do it with 50 great clients. Even when you get into those of us that build books of 200, 300, 400 clients over 20 and 30 year careers, like yeah, but a bunch of those are people you opened accounts for like eight years ago and you've seen one since. You probably only got live active, ongoing relationships with 75 to 100 of them, and the bulk of your profits probably only come from a subset of those.

Michael Kitces:

Even when you got 250 clients on your book, you probably only generate most of the profits ... 20% of your clients to generate 80% of your profits and you're back in a 50 great client realm. When you're shooting for 50 great clients, there's no limit to how focused you can be and still have an incredibly successful advisory firm. One of my favorites out there that we had on the Financial Advisor Success

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Podcast a couple of years ago is a guy whose niche is bass fishermen, bass fishermen, because all fishermen would be too broad, just bass fishermen. It sounds like a crazy thing, but he grew up on a Lake with a bass fishing tournament.

Michael Kitces:

His father was a bass fishing pro, that was his original entree into the community, and he built a practice around bass fishermen, because there's million dollar prize purses, then all the bass fishing endorsement deals start coming in. By his late 30s, he had built $120 million practice, more than a million dollars of production, and 90% of his clients were bass fishermen. When you get into that realm, who are his centers of influence? Conference organizers in the bass fishing community, tournament judges, the lawyers that help negotiate the endorsement deals, because there's only two or three that know how all the endorsement deals get cut.

Michael Kitces:

If someone managed to win a prize against gets an endorsement deal and it doesn't come to him in the first place, they go to one of the two to three go-to lawyers, and then the lawyer says like, "Do you have a financial advisor? Well, here's who you should call because he works with all the other bass fishing pros when they cut their deals." He lives in a realm where he's literally the only advisor who shows up for his centers of influence. Most of us live in a realm where yeah, well, we're going to go after attorneys and accountants and we're going to try to figure out how to get a referral from an attorney who's probably gotten 20 other asks in the past month from other advisors and try to figure out how to get our fair share.

Michael Kitces:

We'll send him a client, and then three, and then five, and then 10, and then 20, and then get really frustrated because we sent him 20 clients and he hasn't sent any back yet. He just lives in a world with tight relationships with a bunch of people in the bass fishing community. Those are the centers of influence in that community. There wasn't even another advisor who shows up because he's the guy, and frankly, it wouldn't really be fruitful to show up at this point because he's pretty much got all the opportunity tied up already.

Michael Kitces:

We tend to start with the what, like what kind of clients are you going for? Well, I don't know, just anybody with money that my attorney or CPA friend can refer me. Well, okay, then you end out with the same undifferentiated story to the same undifferentiated COIs that are getting handed on by every other advisor as the same undifferentiated story. The CPAs and the accountants can't even figure out

who to refer to, so they end up getting their one or two go-to people who they know and trust, and then they don't send the business anywhere else because there's no reason to.

Michael Kitces:

When you live in a world where you start with, who are you trying to serve and how will you be the best at something for them, and then you get really focused on, where are those people and what is their community, and who are the centers of influence in their community? What you end out with are frankly, a whole bunch of call it non-traditional COIs that nobody else is calling on in the first place.

Mindy Diamond:

How about inorganic growth? We're talking a little bit about organic growth, adding one client at a time, getting focused, becoming sort of a niche practice, etc. What are your thoughts about inorganic growth and how should an advisor or a firm think about either when to add it, if they should add it, why they should add it, etc?

Michael Kitces:

I have to admit I'm a little bit negative on inorganic growth, at least as the way that a lot of the industry does it. Here again, not to keep sort of relentlessly beating this drum, but it starts with the vision of what you're trying to do and trying to achieve in the first place. I'll give you a couple of examples of about why I say that. There's one version of inorganic acquisition that says, we do an awesome thing for an awesome focused set of clientele, but there are just very few people who have the expertise to do what we do.

Michael Kitces:

I would love to get a partnership where we could bulk up in our area of specialty. A good example of this in the organic realm was about a year and a half ago, two of the largest firms that specialize in airline pilots as a niche merged with each other. I forget which airlines it was. I think it was basically like the leading advisory firm that advises Delta pilots merged with the leading advisory firm that advises United clients. Then together, they're going to go after all the American Airlines pilots. It was a merger of strategic synergies. We're both super deep in this niche. We have complimentary capabilities.

Michael Kitces:

The whole can be greater than the sum of the parts because we're just going to be even deeper into this really big, but really focused niche that we're both in. That was one version of inorganic acquisition growth. But there are relatively few firms that do that for airline pilots in the first place. They're not going to go and buy 50 firms because I don't think there are 50 firms that do that, and there certainly aren't 50 firms of size that do that, but here were two that could come together to build something bigger than the sum of the parts.

Mindy Diamond:

Well, what you're saying is it should be strategic.

Michael Kitces:

That version is strategic. There are others, frankly, that are not right. If you look at the classic economics of a roll-up business, so one of the phenomenon of how businesses get valued is that there was a size premium. Most of us tend to think of this in the opposite direction, which is there's a return premium for small cap, but what that means in essence is there was a valuation premium on larger companies. They get higher multiples of revenue and free cashflow than smaller businesses. This is a pecking order that is extremely present in the advisory realm.

Michael Kitces:

If you take an individual solo practice, you'll be lucky to get like three to five times your free cashflow. If you've got a couple of staff and a bit of a team, maybe you can get to four to six. By the time you've got a couple hundred million dollars and some staff and infrastructure, you might get five to seven times your free cashflow. By the time you get up to billion dollar firms, you might get to six to nine times cashflow. By the time you get to 10 plus billion dollar firms that are moving around in fields of private equity, who write bigger checks and are looking for fewer bigger plays, some of them will write checks at eight to 12 times your free cashflow.

Michael Kitces:

If you can bulk those up and mash enough of those together, you get to a point where you can IPO into the public markets, and publicly traded markets often pay 15 to 20 times your free cashflow, otherwise known as a good old-fashioned PE ratio in public markets. There's a value creation opportunity that occurs that if you just take a whole bunch of three to fives and mash them together, you can get something that will sell for six, seven, eight times free cashflow simply because of the size premium that associated with it.

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Michael Kitces:

If you match enough of those together, you can get something that sells for 10X. If you match enough of those together, you can get something that sells for 12X. If you mash enough of those together, maybe you'll IPO into something that can do 15 to 20X. You can literally get to a point where 20 of these mashed together are worth twice the value than each of the 20 individually with literally no strategic synergy value whatsoever, just because of the size premiums that come because of how valuations expand as firms get larger.

Michael Kitces:

There was another version of inorganic acquisition out there where yes, if there's some strategic synergy, that's great. If I've got great strategic synergy in my ideal, maybe I can get an even better valuation. The people that do that will always try to find that if they can, but many of those deals out there, and this has occurred through multiple roll-ups cycles in our industry over the past 20 or 30 years. There's a few of these players that emerge every bull market cycle. After a bear market, there was a group of them in the 2000s. There's been a group of them in the 2010s. I'm sure there'll be another wave them in the 2020s. It has nothing to do with strategic synergy. It is just literally a bulk volume play.

Mindy Diamond:

About size. Yeah.

Michael Kitces:

Synergy is a nice bonus if it comes along, but they have very different incentives. The airline pilots merging together, that is an inorganic play around a vision of having a bigger presence to more dominate, a focused niche where you need depth of relationships and depth of expertise in this particular area where it could take you years or a decade to develop that, or you could acquire it and get there very quickly. That's different than being in a roll-up play, which look, could have a whole lot of money at stake.

Michael Kitces:

If you can clash a whole bunch of these firms together and mash them together and get double or more the enterprise value as you play the size premium, a lot of people make a lot of money in that, but it is an utterly, completely different kind of inorganic acquisition strategy with a different kind of ride and a different kind of journey, and a different kind of exit, and different kinds of risks. Even in that realm, I see a lot of firms that they're talking about doing inorganic acquisitions, and they're really still just on

the brokerage firm, like top producer contests. Why do you want to do the acquisition? Well, we'd have more revenue. Or, why does that matter?

Michael Kitces:

It's like, well, because more revenue is good. I'm like, why? Who said that? I mean, aside from the broker-dealer leaderboard, who said that? Talk about enterprise value, okay. Talk about profits. Talk about serving clients better. Talk about some type of other strategic synergy. It could be a money play. That's an acceptable answer too, but it's almost never literally just about revenue. I find for a lot of inorganic acquisitions, the primary reason they're doing, it is just this sort of gut response that more revenue is good because that's what we got trained in, but in business owner realm, that's really actually not always true.

Michael Kitces:

Particularly, if you don't have a clear plan about what you're going to do with that, and what you're going to do to unlock the next stage of value, there are plenty of firms that just end out doing acquisitions. They do one, it's tough, it's bumpy, it doesn't go very smoothly. They didn't have the systems in place. They say, oh man, I'm never going to do that again. It's not that the acquisition was good or bad, it's that they weren't even clear on what the strategy actually was in the first place, because there's easily a half a dozen different types of inorganic strategies across the range between, this is a purely strategic play in bulking up a niche. This is a pure roll up. Let's just expand the multiple and the size premium and try to find the bigger buyer for the next exit.

Mindy Diamond:

That's fair. In the latter case, where it's just about, let's bulk it up for size, as long as a firm is doing that with a strategic vision in mind, building with the end in mind, we are going to bulk up and acquire different firms even if it feels unstrategic one by one, because in the end, we are looking to get to a multiple of 10X instead of a multiple of 5X. I think what you're saying is generally speaking, any reason for inorganic growth can be okay, as long as it's rooted in some sort of strategy.

Michael Kitces:

Yeah. If you've actually got a reason to strategy. When the vision is clear, the decisions get easy. I mean, to me, almost like when a firm owner asks me, what do you think about inorganic acquisition as a strategy? I'm like, if you're asking that question, the answer is no. If you're asking that question, it means you don't already have the strategy. You don't know what you're trying to build. You don't know

what the vision is. You don't have a clear vision. If you want to ask me, let's talk about visions to create greater enterprise value, because I'm trying to achieve a certain valuation, a certain exit. Okay, let's have that conversation.

Michael Kitces:

One of the pathways may absolutely be built around inorganic acquisitions as a way to do it. But the inorganic acquisitions, like that's not really literally a strategy. That's a tactic. The tactic fuels some kind of strategy. What's the actual strategic vision you're trying to get towards in the first place? Then it gets a lot clearer about, what's actually going to work? Again, to me, it's the same version of, what's a good marketing strategy? There's like a ton of good marketing strategies. Who are you trying to reach? Because-

Mindy Diamond:

And what are you trying to achieve?

Michael Kitces:

Yeah. Because the strategy that's great for one type of clientele is absolutely horrible for another. I know a guy whose ideal marketing strategy is go to more bass fishing tournaments. I'm pretty sure that won't work for you, but it's really awesome for him. But that's because he's clear about his vision of serving bass fishermen, and you're not. When your vision gets clear, the decisions gets easier. If you have to take a day or a weekend for yourself, lock yourself up in a cabin or a hotel room or whatever it is you want, bring a lot of paper and whiteboards, and just start drawing a vision of, what do you actually want this thing to look like?

Mindy Diamond:

You mentioned something relative to inorganic growth, that multiples go up as assets under management go up. But to what extent does scale really boost a firm's bottom line?

Michael Kitces:

If you look at the industry benchmarks, the answer is surprisingly little, almost not at all. There is amazingly little difference in the profit margin. Oh my gosh, I should really say like the expense ratios and the expense costs of advisory firms as they actually grow and get larger. If you look at pure operational overhead expenses of advisory firms, you'll often see operational overhead expenses right around 35%, give or take a little, and it barely moves a couple of points, whether you're 200 million or 2 billion under management.

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Michael Kitces:

Just like 10 X growth and it basically produces no visible economies of scale whatsoever. If you look at overall profit margins of advisory firms, there's almost no difference of profit margins between firms anywhere from one or 2 million of revenue up to 10 plus million of revenue. In fact, often, the bigger ones that are 15 plus actually end out with lower profit margins, because they've got a lot more infrastructure that they've got to manage and some new complexity points that come at that size. Part of that is simply because a big portion of the expense is just the cost of advisors to support the clients and the revenue.

Michael Kitces:

Frankly, the advisor marketplace is pretty darn competitive. If you're not paying your advisors a pretty good solid rate for the revenue that they're servicing, either they're going to take their clients with them, or at least they're going to leave to someone who will pay them a better salary, a better percentage of revenue to serve a similar sized client base. There's often very limited savings there. Operations gets very limited savings because at the end of the day, advisory firms, even large advisory firms are relative to us marketplace like micro, micro, sub-micro businesses.

Michael Kitces:

Even multi-billion dollar firms don't, or just barely getting to the size, or it's like, you know what? We're large enough, we could actually have a person who is IT. You'll really get a lot of economies of scale of that, because by then you got like 50 something team members. You just have to have someone do that job to keep everything else from falling apart because there's so people whose computers won't turn on, password seem to reset, and printers won't work that you just have to have a full-time person deal with that, which means that's just an added cost for the size and the bulk of your firm.

Michael Kitces:

The larger the firm grows, the more complexity it gets, it tends to add some costs, and so whatever you get from economies of scale, you lose in additional complexity costs that crop up. Ironically, what we found in seen from some of our Kitces research as well, one of the only things that actually does seem to scale reasonably well with advisory firms is marketing. Marketing actually scales pretty well. If you look out there at firms that have tens of millions of dollars of revenue in a lot of industries and drill down, you'll they've got like a five person marketing team.

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Often, that's about it. It's like a couple of core people that just do that side of the business and feed the demand generation of the business. For advisory firms, by the time you get to $2 or $3 billion under management, you're usually getting to the point where you can hire two or three people that become dedicated in marketing. If you can get to $10 million of revenue and have two people in marketing, and growing to $50 million only takes going up to three or four people in marketing, suddenly, you're getting an immense economies of scale out of the marketing side of the business.

Michael Kitces:

One of the things actually that you see when you look out at how advisory firms grow is there's kind of a pattern of how advisory firms tend to grow. The first $50 to $100 million is usually built on the back of the founder. Just the advisor, you go out there, you slog three, you get one client at a time. Then eventually you hit a capacity wall because you can't handle any more clients and you can't go get more clients because you run out of room. So, you go and get some partners, and you take some partners on the board. Then the three of you get up to three, four, $500 million, but then you hit another wall because now all three of you are out of capacity and just really can't do much business film and take on more clients.

Michael Kitces:

If you want to take on more, you start hiring junior advisors, associate advisors, you hand off your clients to them so you can go out and get even more clients. That often powers a lot of firms to a billion plus, if they're scotch strong, founders who are good at business development, but then when you get north of a billion, you start to hit another wall. Because now you're down to the point where just getting 10% growth, organic growth requires a hundred million dollars per year of new assets, which is like $30, $40 million per owner every single year. You're like, man, it took me like five years to get my first 30 million. Now like I got to do that every year. Oh, and in a couple of years, when you're at one and a half billion, now it's 50 to 60 million a year of new client assets just to keep going.

Michael Kitces:

What happens is a lot of firms start hitting this death Valley of growth as they try to go from one to 2 billion because the firm is so large, it just can't grow on the back of one or a couple of founders. Then they turn to their associate advisors and say, y'all got to grow this firm now. They're like, we didn't come here to be business developers. We came here to take the clients that you were handing off to us. If we were good at business development, we would have gone and made our own firms and not be working for you. Suddenly, the firm hits this wall where growth stops, and there are a lot of firms out there you'll see that their growth slows from a billion to 2 billion, and often, they basically stopped growing between 2 billion and 3 billion, because now you hit the point where the 3% client attrition pulls $50 to $75 million a year off the books.

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Michael Kitces:

Plus some ongoing client withdrawals, like you got to bring in a hundred plus million dollars in new assets every year just to break even, more than that if you want to grow, and the founders just can't do it anymore, and they may be tired because it's been 20 or 30 years of this now, and the advisors they hired aren't business developer mentality, because if they were, they probably wouldn't have taken the service job. The breakthrough that happens for a lot of these firms is you see a lot of firms that come out the other end at three or $4 billion and their growth rate accelerates, which is really hard because now you want 10% growth on 4 billion. You need $400 million. You're now down to the point where like you need 8 million a week, every week of the year, and they start doing it.

Michael Kitces:

What happens that makes them start doing it is that range from two to 3 billion is often, where either they have to start hiring for professional marketing infrastructure or they're able to afford to do it, or they just do it out of sheer necessity because all the other growth things have stopped, and what they find out is that you actually can systematize and centralize a lot of what happens in marketing. The firms tend to start picking up again because they actually find marketing is one of the few things that have economies of scale. The second thing that happens for a subset of those firms is they realize, if you centralize the marketing and do the marketing efficiently with scale, you can actually hire advisors who are really, really focused on service and really, really not good at business development.

Michael Kitces:

The truth at the end of the day is that advisors who are good at service and not business development, cannot command the same salary as rainmakers who are really good at it, which means what you end out with as an advisory firm are advisors for whom you have to pay a good salary, but less than what you have to pay a high producer to bring in business. Then the profit margins start expanding because you can change your staff infrastructure when you separate the sales and business development from client service, because you centralized sales and business development around a marketing team, and you let service advisors be service advisors, but now you don't have to pay your service advisors like salespeople, even though they're mostly doing servicing.

Mindy Diamond:

I guess what I'm confused about is, from your perspective, why does the whole industry focus on scale? Why is scale the biggest buzzword? Does the industry have it wrong?

Michael Kitces:

For the most part, yeah, I think so. We have an entire industry that grew up in a world where the only thing that's better than more revenue is more and more revenue. Again, I'm an entrepreneur at heart that's been involved in growing scaling number of different businesses. I'm not negative on growth. I like growing things as well. I'm not trying to knock growth, but I do think there's a whole lot of growth for growth's sake in the industry right now. Because growth has gotten hard because we're unfocused and undifferentiated, we've turned to sort of the growth strategy of last resort, which is well, let's just buy other people that aren't growing, because at least us not growing plus them not growing means us growing by acquiring them.

Michael Kitces:

It's not really done with a strategic focus and an intent and a purpose. Some of those will still make enterprise value go up because of that size premium effect. There's so much private equity money that's trying to pour into the advisory business right now, starting with the large firms, and then rippling all the way down the pyramid as it goes, that it is driving a lot of money into the business and it's creating a lot of opportunities for sales, but just a lot of inorganic acquisitions I see are still either growth for growth's sake or growth for playing the aggregation size premium game parentheses. We hope there's some strategic synergy, and we'll talk the strategic synergy game, but just a lot of those deal, as I've seen at the end of the day, they weren't really that synergistic.

Mindy Diamond:

Even a broken clock is right twice a day. Right?

Michael Kitces:

Yeah. I do think there's a lot of that. Again, it's not that it's negative to do some inorganic acquisition when you're really clear on what you're shooting for, but when you're really clear on what you're shooting for, it looks different. It looks more like firms like Peter Mallouk's creative planning, who grew to 50 billion organically and then said, maybe we'll go strategically acquire a few other firms that look exactly like us that would strategically fit in with us very cleanly. They didn't inorganic way to get there. They created such a strong value proposition, organic growth machine that they said, if we just had more offices, more locations, more advisors, we could literally multiply this machine faster, and they start to grow that way.

Michael Kitces:

There are, I think firms out there that are doing it with a good focus. I'm certainly not negative on all the mergers and acquisitions that happen in our space at all, but I do think just we have a lot of growth for growth's sake instead of growth for a particular vision and purpose. Not that division and purpose can't include growth and a whole bunch of growth with it, but when we're not really clear on what it is we're

trying to do or achieve, either we grow for growth's sake or we pursue a mirage. Yeah, the number of firms that say they're growing to achieve economies of scale that no industry benchmarking has ever demonstrated exists, to me says at the end of the day, either we're in some strange form of denial about this, or we're just trying to grow for growth's sake and we're using economies of scale as an excuse after the fact.

Michael Kitces:

Instead of getting really clear about what it is we're actually trying to do, because just advisory businesses are complex businesses. When you add a lot of people, you add some complexity. The economies of scale just don't end out showing up because you got to hire more team and infrastructure to get there. I suspect there's a point on probably somewhere North of $20 billion under management, where I suspect some actual operational economies of scale will begin to show up, because now you're actually a point of like, yeah, we have an IT department, but the sixth person is not a big deal after the first five.

Michael Kitces:

We've got a marketing department and we don't actually need a sixth person for a while because the first five are doing great. And some of those scale points start showing up, but as you're growing, even up to that point, and that's far larger than almost any advisory firm has ever grown in our industry organically, just growth brings more demands for infrastructure around it. You're building out HR and benefits and operations and finance and IT, and just all of that area of the FinOps portion of an advisory firm's org chart, that stuff starts to really hurt as you're growing from 50 to 100, to 150 team members. Whatever economies of scale you thought you were going to get on some areas, you give back pretty quickly in those.

Michael Kitces:

You will be larger and you may get a size premium, and that's scratching the itch for you, that's great, but acquiring, because I'm hoping to get two more points of margin out of my business is probably not the best strategy in the advisory world.

Mindy Diamond:

Yeah. Michael, what about fee structuring and client pricing? I know you have a point of view on it. What are some of the best practices you recommend most frequently?

Michael Kitces:

Pricing to me is a fascinating world these days. We are 10 years into the view that robo-advisors will inevitably cause fee compression. Then when we look at the actual pricing data, advisory fees have not gone down by a single basis point in 10 years. Literally, if you look at the benchmarking studies in RIAs in particular, just because it's some of the cleanest data, the revenue yield of advisory firms, which to me is just the purest measure, like total revenue divided into total assets. We get away from, what's your fee schedule and what's your restated fee schedule, what's your real fee schedule after discounts?

Michael Kitces:

All the rest of the moveable parts and the lower advisory fee, but the separate planning fee and the minimums, like all that, you mix all that together when you just get a pure revenue yield, total revenue divided into total assets. It basically hasn't moved a basis point in 10 years. The most amazing thing actually about it not moving a basis point in 10 years is 2020 pandemic, us not withstanding, we basically have been in a raging bull market for 10 years, which means revenue yield should be down simply because when markets grow this much, we have graduated fee schedules and client growth always happens at the cheapest rate at the top of the fee schedule.

Michael Kitces:

Normally, just if you've got a graduate a fee schedule and a bull market, your revenue yield tends to go down simply because the growth of assets comes in at the cheapest tier. When revenue yields don't go down in a raging bull market, it actually means firms are raising their fees more than they're lowering their fees. When we drill down to some firm level surveys of what advisory firms are doing, we see this in our Kitces research data, and I know the purging investment news studies have shown this as well, more advisory firms report raising their fees than lowering their fees right now.

Michael Kitces:

The whole discussion of fee compression and the death of AUM is just turning into this giant fear mirage thing that isn't becoming true as we get there. That being said, what we do see happening in practice is fees are not compressing, but margins are under pressure. Margins are under pressure because there is the phenomenon, I think, virtually, all of us have experienced, which is clients want more than they used to for the same fee that they pay. I think back 20 years ago, for me getting started like I'm aging an asset allocation portfolio, I get portfolio by doing all my analysis in Morningstar Principia pro, and I touch base with you once or twice a year to check in. That was totally legit for a 1% or a 1.3% fee. You can't do that now. Now, I got to hire CFP certificates, they have to do full financial planning processes.

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There are more meetings, more check-ins, clients ask more questions throughout the year. Service demands are much higher. They expect things to happen much faster when they do make requests, because there are a lot of other advisors out there that will compete for business. We have to do more for the fees that we're charging, which means we charge the same fee, but it takes more staff, overhead expense to deliver on that, which means the fees stay the same or go up slightly, but the cost structure goes up as well and margins stay the same and go down. We've seen that as well, that the strange dual factor of this 10 year bull market is revenue yields have stayed even when they should go down in a bull market, but profit margins have stayed even when they should go up in a bull market.

Michael Kitces:

Normally, all else being equal, if the market goes up and I'm doing the same stuff for my clients, the top line growth drops straight to the bottom line as profits, and we don't see any of that showing up in the industry of benchmarking studies as well. We're holding our fees, but we're doing more for them to justify the fees, which is more touch, higher service, deeper planning advice. You got to hire CFPs, you got to put your people through CFP certification. They don't have CFPs. You've got them if they've got CFPs. You got to go send them for a master's degree or a CPWA or some other advanced designation, just the stakes have gone up across the board.

Michael Kitces:

What I see in practice is a big mirage around all of this talk about the death of AUM, but game on step up and do more for our clients, and you bring more expertise to the table, bring more human capital to the table to be able to justify those fees. I feel like that's where the pressure is showing up, but again, some firms are figuring out how to answer that so well. They're saying, we deliver so much more planning value now, we're actually charging more going forward.

Mindy Diamond:

Yeah. That's actually incredibly helpful. I know a lot of people are wondering about it and everyone is under fee pressure, so I appreciate the words of wisdom. We've been going on for a long time, and I could go on and on and on with millions of other questions. But let me ask you, any final words of wisdom to share with our audience? Many of whom are advisors at traditional brokerage firms thinking about where it is best to run their practice. Am I best to stay where I am, either at my current firm? Am I best to go to another traditional brokerage firm as an employee? Am I best to be independent? Am I best to build my own firm or join another firm? Am I best to go to a firm that has become so popular today, like Rockefeller or First Republic? What would you say to our audience?

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I think it starts with you. It starts with, what do you want this practice of yours to be? Are you happy with who you're serving? Are you happy with how you can serve them and the resources that are brought to the table? Are you happy with how success is defined in the environment you're in? Look, we've talked quite a bit about the, I guess the challenges of revenue-based success metrics, but a lot of people are really good at playing that game and they're really happy to play that game, and they're quite satisfied to play that game. If that's the game you like playing and like winning, more power to you. Keep playing and keep winning it, do whatever you're doing with your dollars and enjoy.

Michael Kitces:

I don't even want to knock that in and of itself. Frankly, in a brokerage environment, it's a particularly good game to play because that's how the rules are written, to reward. So, what do you want to do? Who do you want to serve? Do you have the resources and capabilities to serve them? Are they writing the rules the way that you want to play the game? Are they using the metrics of success that lineups the metrics of success that you want? If the answer is yes, that's great. I mean, the reality is there is kind of a self-selection bias of, we choose to work with large firms for a lot of reasons in the first place, right? I don't want to deal with the hassles of compliance. I don't want to deal with the hassle of business ownership. I don't want to have to make the decisions about the technology and be the chief cook and bottle washer.

Michael Kitces:

I don't want to have to deal with all that stuff. That's often why we choose to work with large firms. I don't want to worry about marketing. I want a firm that runs Super Bowl commercials that everybody knows who carries a national, global trusted brand. Because of that, I've always [inaudible 01:03:10], as much as we talk about the breakaway broker movement, we measure the number of brokers who are leaving in the dozens and hundreds, and we measure, well, just the number of brokers at the big four wirehouses is about 50,000 between Morgan, Merrill, Wells and UBS. We talk about how many advisors are leaving, but at the end of the day, 99% of them, more than 99% of them stay every year, because they're fine with the system that's there and what's built for them.

Michael Kitces:

Either they've learned to play the game or they like to play the game, or good at the game. That's played there and it's rewarding to them and more power to them. But I think the core question comes down to, what do you want to be doing? What's actually important to you? Just understanding there is an amazing range of options out there. All the different ones that, Mindy, that you've talked about, you can slice it up any way you want from exactly how much you're still responsible for, or not responsible for, or outsource and delegate, or don't outsource and delegate, or get from back office, or don't get from

the back office, or capture an enterprise value or collecting profits and payouts. The good and the bad is, it's like a Swiss army knife of options.

Michael Kitces:

You can mix and match these things pretty much any way you want, which I know for a lot of people becomes really challenging because it's so many choices it's overwhelming, and I don't know which to choose or how to choose. For me, again, it just comes back to, what do you want it to look like? Don't Fetter yourself to the rules of the game at the platform where you are. Take a blank page, write what you would want that practice to look like, or business, or enterprise, or whatever it is you want to build, figure out whether you can do that where you are, and if you can, that's great. If you can't, recognize the incongruence, own the incongruence and say, where can I go that's better aligned?

Michael Kitces:

What you'll find is, not only may that just help clarify the decision about whether to stay or go, but it will also quickly help narrow down the range of all the different choices that are out there. Because again, when the vision is clear, the decisions get easy. Start with, what do you want this to be? Let go of all the things that your firm or the industry or your peers voice told you about, and open your mind just to say like, what do you want it to be? Write it out as though you were living a wild, silly dream of what it would look like, and then ask around and see if that's actually possible. You're probably going to find it is.

Mindy Diamond:

Well, you and I are totally aligned on that because that is the exact counsel that I give to any advisor we work with is you begin with the end in mind. What is it you want to be when you grow up? What is it that's working for you? What is it that's not working for you? What does the ideal scenario look like? When you get clear, what do you say, when the vision is clear, the decision gets easy? I couldn't agree with that more.

Michael Kitces:

I think the biggest challenge that I see in practice, and one of the reasons I'm a fan of your podcast, Mindy, and why we do our Financial Advisor Success Podcast as well, when we've only been in one firm for 10, 20, 30 years, we've often, literally only ever seen one definition of success, and so we suffer sometimes for maybe limits of our own imagination, because it feels too absurd and fantastical to imagine this thing that would be so different than the only thing you've literally ever known. That if you're still unsure, like what I tell advisors, listen to these podcasts just to literally hear stories of other advisors and what they've built and what they've created.

Michael Kitces on Everything Financial Advisors Need to Know About Growth

A conversation with the industry thought-leader, financial planner and host of the popular blog and podcast series

Michael Kitces:

What you'll find is there's a zillion different firms and bazillion different types, because we all build these things in our own image, particularly in the independent channel, because you can build it in your own image, just to open your minds to all the different kinds of success that can be out there that use different metrics and different qualifiers to get to different outcomes. That may help you see other choices, and you may go through that list of choices and then end out right where you are. That's awesome. At least you're going into it eyes wide open about the definition and metrics of success that you're using.

Michael Kitces:

But if you can't even think about what else it would look like, or it's hard to imagine what that would look like, go listen to stories of advisors, to sharing other ways that it would look like, and get some feel for what other choices might be out there.

Mindy Diamond:

Yeah. I agree with that totally, and I would say that the reason to listen to stories, get educated and take the time to really lock yourself in a room and ask yourself the tough questions is not necessarily because you should leave your firm, but it actually can help you choose to stay from a position of greater strength. It's just to gain clarity on what's working and what's not, and hopefully run your business in a better way. Michael, I can't thank you enough for your time, for your wisdom, for your perspective, for your generosity, and I'm really grateful for it. I'm grateful you've come back to us a second time, and I hope we can keep the conversation going.

Michael Kitces:

Oh my pleasure. My pleasure, Mindy, thank you for the opportunity.

Mindy Diamond:

Michael shared a ton of advice in this episode, so much so that I suggest you download the transcript to be sure you captured it all. You'll find the link on this episode's page on our website, but if you walk away with just one thing, it's a spin on a favorite quote from Roy Disney that Michael shared, "When the vision is clear, the decision is easy." 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.

Mindy Diamond:

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

Mindy Diamond:

Please note that all requests are handled with complete discretion and confidentiality. 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'd give it a star rating and review. That will let other advisors know it's a show worth their time to listen to. This is Mindy Diamond on Independence.