EPISODE TRANSCRIPT

Top Tips for Setting Your Business Up for Success Years Before a Move: An Industry Update

A conversation with Mindy Diamond and Louis Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Top Tips for Setting Your Business Up for Success Years Before a Move. It's an industry update and a conversation with my partner, Louis Diamond. I'm Mindy Diamond and this is The Diamond Podcast for Financial Advisors.

This podcast is designed for advisors like you, who are interested in learning more about the evolving wealth management industry through candid dialogue with breakaway advisors, those from the C-suite, and industry thought leaders. It's available on our website, diamond-consultants.com, as well as Apple Podcasts and other major podcast platforms. So be sure to subscribe and share it with your colleagues.

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Contrary to what many advisors believe, transitioning from one firm or model to another does not happen overnight. And this is particularly true for moves made by advisors and teams at all levels. To ensure a transition is accomplished with the least amount of disruption, highest level of portability and greatest success, takes a good amount of planning. Of course, there are several steps we walk our advisor clients through when they're considering change, such as educating them on the latest trends, helping them to evaluate economic models, and understand their enterprise value, guiding them through the thought process around their goals and vision, conducting a strategic due diligence process, and the act of comparing and contrasting their current firm to the options on the table. But this is different, there are things that you can be doing to prepare your business for a potential move, whether you're just at the curiosity stage or even deep into due diligence. Steps that will prepare you, your team, and your business for change, plus actionable advice to help improve portability.

And the good news is that these are actions that will enhance your business processes, whether you ultimately make a move or not. So even if you've done all you need to prepare your business and book, and never actually move, this guidance is designed to keep you ready to pivot in whatever direction you need to. So in this episode, Louis and I dive into the top tips we've gathered from over two decades of helping our advisor clients through successful transitions, real action items that you can get started on today, whether you're considering a move or not. Plus, we've got a worksheet available for download on this episode's page on our website, and we invite you to take a look at it when you're done listening. There's a lot to discuss, so let's get to it. Louis, welcome. Thank you for joining me. I love this topic.

Louis Diamond:

Me too. It's one we've been developing for a while and sampling and surveying many of our past clients, and really excited to share with the audience some really actionable tips that they can get started on today.

Mindy Diamond:

Okay. So it might be obvious, but let's state the obvious. Why is this an important topic for advisors?

Louis Diamond:

Even if an advisor is never going to make a change, the tips we're going to share in this episode are just things that will make you a better operator of a business. They're practical elements that you can take and apply pretty much right away. And ultimately, if you do decide to move, we've seen these smooth the process. We know any transition is a lot of work. There's no way to shortcut that or bypass it, but there's things you can begin doing today that will either enhance your portability or make your team more ready for primetime. And again, it doesn't matter if you move or not, these are just really good tips to really operate the business like you're going to sell it tomorrow or like you can move it tomorrow, which ultimately puts you, as the advisor, in the driver's seat.

Mindy Diamond:

Yeah. And if I can just weigh in there, I agree with that completely. I used to play tennis years ago, and I think about it as the tennis stance. I remember the rule of thumb was to always be on your balls of your feet ready to pivot in any direction. That's what we're talking about. When you work for a firm, you are not entirely in charge, and the firm has the ability and right to make changes that won't necessarily be in your best interest at any time. And so, what we're talking about is being ready at any time, having a business that's ready at any time. Even if you're perfectly happy today and have no intention of moving, we believe it's important to always be in readiness mode.

Louis Diamond:

I think, too, the reason why we're calling this years in advance is because a number of these changes, you can't just snap your fingers and do it, they're things that you have to be deliberate on, you have to plan in advance for. And some of the tips too, if you start doing it right away, start doing it quickly, you might raise some alarm bells with compliance. So doing it more normal course of business, and in a methodical way, just lets you apply these tips in the most impactful way while keeping you as safe as possible.

Mindy Diamond:

So Louis, let me ask you a follow-up question to that. What if someone is closer to making a move, have they lost their opportunity to plan in advance?

Louis Diamond:

There's never a replacement for planning. And as we get into the tips, I think you'll see that many of these you can begin thinking about even if you're deep in transition mode, but there's some tactics like creating a secure client vault for clients that, I think, would be a little bit of a challenge to do if you're deep in the throes with it. Same thing on the portability side, if you're in proprietary feeder funds for instance, you can't just flip a switch and get out of those. So, I'd say maybe half of these you can apply if you're deep into transition mode, and you don't have the benefit of time. But pretty much all of them can be applied at any point in an advisor's lifecycle.

Mindy Diamond:

Yeah. And I think it's worth noting that no one does all of them. We're just going to share best practices and people can pick and choose what feels right, what feels genuine, and what works for them based upon their timing. So I think we'll pivot. For the rest of the episode, we're going to focus on the top actionable tips advisors can implement today to best prepare for the future, whether that future being never move five years from now, or move six months from now. So let's begin to go through the list of best practices and talk about preparing one's business and their team for a potential move in the future. I'll go first. The first step is to begin to separate yourself from your firm's brand as much as possible.

And a lot of advisors do this naturally, whether it be because they had a bad experience in 2008 and '09, where they began to lose trust in their firm's brand, and just naturally it was all about selling themselves or their team, and their capabilities, not necessarily making it about the firm. So of course, you position your firm as a strength or a capability when it serves you, when your firm is doing something unique that can really help a client. But for the most part, top advisors believe that whether they're thinking about a move or not, it should always be about positioning you, yourself, your team, and your business's capabilities, and separating yourself from the firm. So the more likely you are to think about moving, the more you want to think about separating yourself from the brand and putting yourselves front and center.

Louis Diamond:

Yeah. And one thing to add there is, I think this also goes to when you're talking about your team's capabilities, it's more about your intellectual capital, it's our credentials, it's our planning expertise, it's our unique process for serving business owners. It's a step beyond "We have access to commercial banking and lending, and we're part of a very large financial institution." So again, aside from just your team, I think it's also going the extra mile to connect the dots on how your team's unique capabilities lets you stand out versus other teams at your firm. And by doing this, I think well in advance of a move, it just makes it so that when prospects are coming in the door, they're choosing you for you rather than choosing you because your business card reads UBS or Morgan Stanley.

Mindy Diamond:

Yeah, I think that's absolutely right. And when advisors move successfully, as we've had the privilege of interviewing now hundreds of advisors that have left their firms. And they all talk about the fact that while they were terrified about portability, how much of our clients will follow, it's never guaranteed. They were always pleasantly surprised by the fact that clients are much more loyal to the advisor than to their firm, anyway.

Louis Diamond:

The next one, this one is one of my favorites. And put it in the camp of starting to do this as just part of your normal client review process. I wouldn't flip the switch and start doing this immediately for every client if you're moving soon, but this is one where, with planning, and I think some preparation. This is probably one of the most impactful tips that we've gathered, and that's to use your firm's secure document vault or client vault to upload your client reviews, whether it's their financial plans, performance statements that have cost basis, cap gains info, their trust and estate documents, pretty much anything that your clients access either through your own unique deliverables or through your firm's resources. The reason this is important is, number one, it can be positioned as a value add. It's look, if something happened, you have one place where you can go and find all these documents.

You don't have to have all the papers at home. It's a break glass in case of emergency situation. So it's a value add to the client from a planning standpoint. But when you transition from a firm, you're not going to be able to take client data. So having a centralized repository where you can direct your clients to go look after you move will get you a lot of the information that you left behind. So this is one to be careful about. You don't want to raise compliance flags. You certainly don't want to put a client in a weird position to make them send you information before you move. But if this is done as part of a planning process, it's a major value add, and it gives you a huge leg up if you do this a couple of years in advance of a move, to have critical information that you weren't able to take with you from one firm to the other.

Mindy Diamond:

Yeah. And now in terms of being in readiness stance, readied and able to pivot, that's probably, as you said, the most impactful step. But let me ask you a question about that. So number one, does every firm offer that capability?

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Louis Diamond:

Probably most do. If they don't, it's potentially part of... I know eMoney, if you're an independent advisor, has a capability like this, there might be some third party platforms you can use if you're independent. I'm reasonably sure that most major firms have it. If you don't have a secure vault like this, which is certainly more efficient, I've also seen some teams create a family review binder where they begin to deliver to the client, in paper, a document each year that has their updated estate plans, their trusts, performance documents, their financial plans and everything in one place. So same thing. It's not as easy to say, "Hey, we just moved. Remember that vault we helped you create? Here's the steps to send me the information so I can upload it into our new CRM." But at least they have information they can reference and it's not going to be left behind. So again, it's positioned as part of the planning process, and do it in a way that's not going to raise any alarm bells.

Mindy Diamond:

And the other thing you said is that, in a move, you can't take client data with you. What if you're making a protocol move, moving from one protocol firm to another? Do you still feel like this is a necessary step and what can you take?

Louis Diamond:

Yeah, because even if it's a protocol move, what you can take is your protocol spreadsheet, that is basically just client contact information. So it does not include the financial plans, trust and estate documents, performance information, et cetera. Where this type of document or this vault may not be as useful, is if you're an independent advisor and you verify that you own your data, and If you left, you can take all your CRM data. You don't lose any of the real information. It still might be a good backup though. And again, I think it's a real value add to the families you serve, regardless. But probably more important to get this right if you're employed by a firm who owns the data and views that they own the client relationships. The next tip, this one might seem obvious, but I think going the extra mile will only pay off in spades, if you're more intentional about this tip, and that's pouring extra time and energy into your client relationships in the year or two up to the move.

So most advisors are successful because they're accessible to their clients, they're present in the client relationship. So that's not to say that you all of a sudden go from never speaking to the client to now being annoying and seeing them 10 times a year. But what I'm talking about here is, let's say there's some clients where maybe half the time you see them in person, the other half of the time you just do it on Zoom or you forget about it. I would be more intentional about getting dates to actually meet with them in person and redoubling your contact with them. So a big market event happens, instead of sending a quick email blast or hoping for them to call you, maybe be more intentional about calling the A and B clients. What this can also mean is, we call it the dishwasher rule. I got that from Matthew Jarvis from The Perfect RIA, who is a prior podcast guest, and that's being really intentional about calling out and showing to your clients what you're actually doing for them.

An example of this would be tax loss harvesting. So most advisors do it at year-end, just normal course of business. So that's great. It's a value add. But make it known to your clients. "Hey Joe, I just wanted to let you know we're doing some tax loss harvesting for you. This means X, Y, and Z. We're doing it because it's going to save you probably $50,000 in capital gains taxes for the year." So just by going out of your way to call out what you're doing and the value you're adding, makes it so that the client's going to remember this extra value that you've added. And also remember that they can't really do this without you.

Mindy Diamond:

And why is it called the dishwasher rule?

Louis Diamond:

Dishwasher rule, because if you're at home with your spouse and you empty the dishwasher, instead of just emptying it, it's saying, "Hey, I emptied the dishwasher." So you get credit for it.

Mindy Diamond:

Kudos to you for emptying the dishwasher! Got it. Okay. And it's worth noting though that the further you are from a move, and actually really at any time, even if you're moving a month or six months from now, you don't want to change your behavior, your normal cadence of behavior so much that it makes your firm wonder if you are a flight risk. You want to be business as usual. But I think our point is that to begin to integrate some of these things into your normal course of business as just good professional hygiene, again, whether you move or not.

Let me take the next one. Really giving yourself the time to get educated even years before a move. Any advisors that we are lucky enough to have relationships with, we are on, say a six-month cycle of talking with them. And they talk to us every six months, not because they're thinking about moving every six months, but because, even in the best of cases where they're incredibly well situated, they know we aren't going to waste their time. They know we're not trying to sell them on anything. Our goal is to educate them. So whether you get education from us or just by reading an article or listening to a podcast, or talking to your colleagues, or even taking meetings with other firms, the industry landscape has expanded so much. And for any practice, no matter what kind of business you do, no matter how big your clients are, no matter how much in assets you manage, the waterfall of options has expanded and changed.

And it is important, just like being in that tennis stance, ready to pivot at any time, it's important that you understand what would appeal to you, where your business would fit. Even again, if you have no intention of moving, it's just good from a position of strength to really empower yourself with knowledge. The next thing I think you want to do is to do a deep assessment of yourself, your business, your goals, your team's sensibilities, the things you're able to do for clients, the things you want to do for clients, to look at the investments, the training capabilities, your ability to manage people, the ability to grow the business, your sales function. And spend a lot of time really thinking about your vision. Now, we recommend this, having nothing to do with making a move, we tell every advisor we work with that at least once a year, in a lot of cases twice a year, in the privacy of your own mind or with your spouse or just with your partner off campus, really assess everything that it takes to run the business and determine if you believe two things.

One, if you were looking for a new firm today, would you still choose your firm to meet all your needs? And two, to really hold your firm to the light of every aspect of the business. Is it still more than good enough? Does it allow you to do everything you need to do, including grow the way you want to without limitation? And will your firm allow you to maximize enterprise value? That is the value of the business at day's end. So long as the answer is yes, you stay put. So long as the answer is, I'm not sure, and that's where some of that education comes into play. But again, it's good to have the knowledge so you're not starting from ground zero in fire drill mode if you need to.

Louis Diamond:

I think where this comes into is figuring out what's most soulful for you about the business, is again, it's good to always do, to make sure you're offloading the things that you're not good at or that bog you down or sap your energy. Just any business coach would tell you that's important to do. But especially if you're thinking about change in the future, if, let's say, you realize that you hate managing people, then you probably know enough about yourself to say, "Even though I know a number of people that went independent and that sounds great, it's probably just not for me because I took deep stock of what's important to me and what drives me, and ultimately I just want to spend time with clients. I don't really want to deal with running a business." So that's where this also comes in is it can help to give you a compass or a roadmap for different types of options you might look at now or in the future.

Mindy Diamond:

Yeah, I think that's right.

Louis Diamond:

Part of this too is taking a really deep look at your team, making sure that every team member is on the right seat of the bus and to make sure that you have the right team behind you. I know a lot of advisors are part of firms that have hiring freezes, so maybe a little bit less proactivity you can do. But if you ultimately decide to move, your staff is going to be working overtime, they're the ones you're inviting to this new firm. And if you're re-imagining the business in a new way, a big part of it is making sure you have the right team to help take the business to the next level. A lot of advisors we work with think about a move as being a cathartic exercise, and cleansing the business, starting over, giving them a new platform to accelerate growth or to just be reinvigorated by the business.

And if you don't have the right people on your team to be your partners in arms in this, then it's going to be really hard. Another thing we've seen work well is, assuming your firm doesn't have a hiring freeze, or even if it does, let's say you have someone who's toxic on the team, we realize that there's a gap in your CA support structure. May as well use the firm's recruiting department and resources to hire someone that eventually you can take with you. So this is one, you can't just hire someone and then next week go into their office and say, "We're leaving. Are you coming with me?" But if you, again, just running a good business, are thinking about do we have the right team to help scale this thing and are these the people we want to build our business 2.0 with, that gives you a little bit of time to either rejigger roles or backfill certain responsibilities, or perhaps move away from a team member who's not ideal for the future you.

The next one I would say, and this one is fairly obvious, but worth mentioning, is just being extra careful and diligent about anything you print, any keystroke you make on your keyboard and anything you put in writing. You have to assume that if you ever transition, the firm very quickly will look at everything you've done on your computer. So don't print a bunch of client documents before a move if you've never done it before. Don't email yourself a client contact list. You got to assume everything you do is being watched with a watchful eye. So just being extra, extra careful, and even probably paranoid in the months or years leading up to a move, will just protect you from finding yourself in AdvisorHub because you violated your firm's employment agreement.

Mindy Diamond:

That's actually a really important thing to say, and incredibly true. I think the last one in this category is just making sure that you are simplifying the business. And you really said it, that the notion of considering offloading smaller accounts, or getting rid of toxic clients, or determining in that self-evaluation, if you determine that your goal for the future is to take the business upstream and serve more high net worth clients, then it's all about simplifying the business as early as you can so that you're able to focus on the right clients and the right things for the business as you move forward. And again, that's just great business hygiene, whether you stay or you go. So let's focus now on how to reconfigure one's practice to enhance portability. Because obviously the goal of any move is to maximize portability, but the right portability. Again, we've talked about offloading the wrong clients, but how do you maximize portability for the right ones? So what are some of the things you can do, Louis? You want to take the first one?

Louis Diamond:

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Yeah. So this first one, the caveat I'll give you is, everything that we're going to say in this section has to be done with the client's best interest at heart. Don't just start making changes because it's going to benefit you. That's a one way ticket to a customer complaint or a future compliance issue. So everything we're saying here is in the context of, if you deem it's best for the client, these are some things you can proactively do to prepare yourself. The first one, this one's probably pretty obvious for most advisors is, especially if you have the benefit of time, if all else is equal, try to not use firm feeder funds for alternative investments.

If there's a possibility of having a direct relationship with a manager, or maybe instead of putting this A client in a new private equity deal, instead put it into something that's going to be more portable and isn't through a firm proprietary feeder, because every advisor knows that any assets that are in feeder funds are going to be locked up until that fund seeks liquidity. So that's an easy one to begin doing. Again, you may not be able to avoid it, because private equity or hedge funds might be important to the client, but if you have a couple of years of foresight, you can maybe just think long and hard about either different options for alternatives or just to move away from the alts category, to some extent. Related to this would be market link notes or structured notes.

Again, if it's best for the client, these actually typically can move, but the simpler the businesses, the better off it's going to be. So using either third party structured notes instead of firm ones might help just enhancing portability. In addition, it might be moving away from firm run investment models. So a lot of firms, one of their strengths is they have CIO models or they have no cost SMAs that you can use. They're great for scaling a business, making it so your team doesn't have to manage investments, but if you ever moved, you'd have to find a suitable replacement for this strategy, or there's an extra cost associated with it at another firm. So again, just thinking about what you can control, maybe it's doing some more of these investments in-house, or figuring out maybe you can do this through an SMA or a third party solution that's not tied in with the firm exclusively.

Mindy Diamond:

Yeah, and I think some other ideas are having your clients set up their financial affairs wherever is most convenient for them. So let's assume the case of a client who needs a mortgage and you work for Merrill Lynch. The normal course of business is to try and get that mortgage need met at Bank of America so that you can get paid on it. And while that's still certainly a good possibility, if you've got a move in your future, we're not talking about selling away and we're not suggesting in any way that you facilitate a mortgage elsewhere, but you may begin to suggest that a client might be better served by getting a mortgage at another bank, at a third party bank, if again, it's convenient and appropriate. The other idea is to suggest that, again, if a move is in order, to shy away from using in-house trust companies, if possible. Use a third party trustee, such as a CPA, an estate planning attorney, or an independent trust company. It's likely cheaper, less restrictive, and more flexible for the client.

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Louis Diamond:

Yeah. These last two points are ones where being really careful with selling away. It's more so just taking a step back and acting as more of an agnostic consultant to the end client. So this one you have to be careful about. One of the strengths of working for many firms that our audience might be employed by is having everything under one roof. So you don't want to go so far as to disrupt the value prop and make it harder for clients, but it's just thinking through maybe there are actually better ways to serve their trust needs than US Trust or then the in-house trust company. And doing this will make it so that the client can continue to work with this trust company if you ever decided to move. So again, we sound like a broken record, but being really careful that you're not disadvantaging the client or raising any alarm bells that you're selling away, and all of a sudden recommending that all of your clients now work with the outside trust company.

And then the last one that we'll share for today, and there's probably many more, but this will take us home here, is to close zero balance lines of credit. So some firms call them LMAs or securities backed loans. So they're very helpful tools for having clients not have to sell securities to make a quarterly tax payment or to buy a house. So I think they're very effective. But what a lot of firms have done is advocate that every client account, regardless of whether it's being used, have permissions or have a securities back line of credit attached to it. So the good thing is, if you have this attached, it's quick to get approved and to get the funds, if there is a... If you're trying to buy a car and you need cash quickly, you don't want to sell securities. But what happens is if you ever want to move, you have to close that account.

Even if there's a zero balance on it. That will take some time. And the accounts can't ACAP to a new firm until either the balance is paid off or that account is closed. So it just slows things down. And you know that the firm you're at will take as much time as they possibly can to close that account. So this is something that probably could raise alarm bells if all of a sudden you close all of your clients zero balance securities backed loans, but maybe just in normal cleanup mode as you're going through client reviews. Just like, "Hey, are we using this line of credit? No. All right, so let's just close it out, let simplify it." So this is one that will save you a ton of time, get assets moving quicker, but it has to be very careful that you're not doing it all at once because you don't want to raise alarm bells.

Mindy Diamond:

Yeah, I think the key behind this whole thing, as we take this home, is the notion of you don't want to do anything to A, raise alarm bells, put you yourself, your business in jeopardy, and to suggest, in any way, that you are a flight risk to your firm. And the most important thing, the true north, as we said before, is all about doing the things that are absolutely in the best interest of your clients. These are just things to think about if it doesn't really matter or if there is a choice of how to do things.

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But I think, generally speaking, we are all about, our advice to every advisor is to, one, recognize that they hold all the cards. That even though you may work as an employee for a big firm, and even though your contract says that your firm owns the clients, at the end of the day, it's your business. Clients are more loyal to you likely, if you continue to do the right things, than they are to the firm. And always be in flexibility, readiness and pivot mode. It's just a good thing no matter what, because that is what will allow you to continue to have agency over your professional life. Is there anything else you'd add to that, Louis?

Louis Diamond:

I don't think so. The only thing I would add is we threw a lot out at the audience. So we have a worksheet that summarizes many of the points we made and actually elaborates on some of them too. So we'll include the link in the episode page and you can find it on our website as well. So don't feel stressed out if you miss something, we have a written document that will get you started on this path.

Mindy Diamond:

Thanks Louis, for joining me. I love this topic. It's a conversation we have with advisors that we counsel all the time. We take the information for granted. Those that work with us, take us for granted. But I love the topic because I think it's not obvious to a lot of folks. And I'm really glad we had the conversation.

Louis Diamond:

Me too. And it might seem overwhelming to have to do these 12 things, whatever the number is. But even if you take one or two of these tips to heart, you'll make your business more valuable in the future, and make you more prepared to be really successful if you ever do something different.

Mindy Diamond:

Curious about where, why, and how advisors like you are moving? Download the latest advisor transition report to learn more, including intel on recruiting deals and our insight and analysis on the latest trends in the wealth management space. You'll find it at diamond-consultants.com/transitionreport, or if you'd like to talk, feel free to give us a call at (908) 879-1002.