Bill Coppel:

Hi, I'm Bill Coppel, Chief Client Growth Officer at TradePMR, a Robinhood company.

Ryan Neal:

And I'm Ryan Neal, Senior Editor at TradePMR/Robinhood, and you're listening to the Synergize Podcast live.

Bill Coppel:

That's right. We're here at the JW Marriott for TradePMR's signature event, Synergy25. We had an opportunity to sit down with Michael Kitces, who is one of our featured speakers today.

Ryan Neal:

That's right, if you're listening to this podcast, chances are, you know who Michael Kitces is. He's about to be going on the Synergy stage to present the four factors that really drive advisor productivity. So, we had a chance to catch up with Michael here at the podcast booth before he goes on stage, to share with us some of the insights he's going to be presenting, for those of you who weren't able to make it to Tampa.

Bill Coppel:

So, Michael, thanks for joining us.

Michael Kitces:

Appreciate the opportunity to join you today at the beautiful JW Marriott. This is an amazing place for an event.

Bill Coppel:

It's great. It is great. For those of you who may not be familiar with Michael, which I doubt there's anyone out there, but Michael clearly is well-known as an industry veteran.

He's a thought leader and an influencer. He hosts the financial advisory podcast called Advisor Success and is the nerd's eye view author of a very successful blog. How am I doing?

Michael Kitces:

Doing great, doing great.

Bill Coppel:

Okay. As a practitioner, Michael wears a number of hats, including head of planning strategy at Focus Wealth Partners and co-founder of AdvicePay and XY Planning Network, a platform that serves next-gen advisors. So, let's just jump right into it, Michael.

Michael Kitces:

All right, let's jump in.

Bill Coppel:

You talk a lot about productivity, and you talk about advisor productivity. Help set some context for this conversation by giving us a definition of what you mean and how you measure it.

Michael Kitces:

Yeah, productivity is kind of an interesting thing we all sort of intuitively get. So, productivity means I can kind of get more things done with the time I've got available, right. It all sort of rolls up there, but different advisors, I find, really do think about it differently. Some we're just sort of thinking of it in in terms of, am I more efficient with my time?

Some measure it in terms of how many client meetings do I have? How many client meetings can I do, right? If I'm not productive, I can't get as many client meetings in the week cause I'm getting gummed up with too many other things. The way we ultimately measure it, and like I think a good baseline in how to evaluate it in the firm is to measure it in terms of revenue. And how much revenue is being generated by each advisor in the firm, if you're multiple advisors, or by you if you're an individual. Because I can do this lots of different ways. I can have 300 plus clients who are mass affluent. I see them once a year and productive is all about whether I can get out to enough meetings to see them once a year.

I can run like an ultra-high net worth practice where my whole client base is 20 people. I have a minuscule fraction of the meetings, but I have a ton of additional financial planning analysis and other work that I do for them. Because I’ve got to justify why these people are paying me tens of thousands of dollars a year.

So productive looks very different. The kind of great equalizer is, look, I can work with hundreds of small clients. I can work with a few dozen really big clients. I can work with something in between.

In theory, they kind of equalize at a revenue level, right? At some point, you're taking your knowledge and your expertise and your capabilities, we're all working the same number of hours, give or take a little, and you can translate that into some amount that people will pay you and generate revenue from. And so, we find revenue per advisor is a remarkably kind of consistent, stable way to compare across firms to understand who's actually being productive and efficient.

And just for anyone listening, me the most straightforward way to do this is literally, so your number of advisors, in this context, are people who have responsibility for managing client relationships. The people you're going to look and say like, but you know, Jimmy left, why did Jimmy leave? You’ve got to explain what happened. Like it's those people. So not necessarily my paraplanners, not necessarily my associate advisors. They may have an advisor in the name, but they don't have any client relationships of their own. They're supporting a more senior person.

So, anybody that has client relationships and is responsible for them. So, take your gross revenue, just like the very top your P&L, divide by that count of how many lead advisors you've got, and you've got a pretty pure measure of revenue per advisor. And we see in practice, firms can go anywhere from less than $200,000 of revenue per advisor, lots of folks that are somewhere in about $400,000 to $800,000 of revenue per advisor, some that average north of a million dollars per advisor in the firm.

And in part, that's why we started doing the research. Because I'm looking out there at the landscape and I'm talking to advisors I know. I'm like, I talked to one advisor and they've got $1.1 million of revenue per advisor. And I talked to another one, they've got $300,000 revenue per advisor. And I know they're both working really hard.

Serving their clients really well. I'm like, but one of you generates three times as much revenue as the other for the same number of hours in your week. Something else is different here.

Bill Coppel:

That's right.

Michael Kitces:

And so then we went and tried to hunt for, so what's so different that some advisors can literally do like 2x, 3x, 4x the revenue of others?

Bill Coppel:

That's so insightful because, you know at least with that as a starting place, you can begin the then fine tune how I can, obviously, the goal is to increase that revenue per advisor.

Michael Kitces:

Yes. If I can find some ways to do more of the revenue generating things, and not get stuck in time doing the not revenue generating things, the more that number tends to go up, right? Even within an advisor context, you know, most of us will spend about two-thirds to three-quarters of our time on client and prospect facing things, give or take a little. Just like that's what we find in the data, of the research that we published over the years.

And then the other quarter to a third is compliance, management, professional development, right, vacation. I mean, there's a subset things.

Bill Coppel:

That's your firm, that's not the industry average.

Michael Kitces:

No, that's industry average.

That's industry average. Now, of the two-thirds that advisors spend on client-facing things, not all of it is in meetings. So, the actual meeting time is much lower. Most advisors are existing clients 20% to 30% of their time in client meetings. And in most it's actually closer to 20% than 30%. If you do the math, if you think about a 40-something hour work week, 20% to 25% of my time is 8-10 hours in meetings. If I'm doing one-hour meetings with existing clients, it's about 8-10 meetings a week. So, you know, I got two or three meetings a day on Tuesday, Wednesday, and Thursday. I prep on Monday and I wrap up on Friday. It's very common.

Bill Coppel:

So, before we leave the subject, the question I've got for you is: when we when we look at that number, what have you found in your research that of that number of client-facing or prospect-facing, how much of business development actually gets done, not with existing clients but with prospects?

Michael Kitces:

So, not a high percentage for most advisors overall. Marketing/biz dev time for most advisors is somewhere between 5% to 15% with sort of some bookends to that. Look, when you're brand new and getting started, it's like 85% biz dev, 10% compliance about all the biz dev you're doing and 5% other. Like when you got a lot of time and not a lot of clients, everything is biz dev oriented. But once you hit some level of, I'll call it established practice. I've got some viable amount of revenue that I'm not just trying to literally fill idle time, right, I've got enough clients to do things that now I actually have to be efficient about the things that I do to create the time so that I can continue to do business development and continue to grow the practice.

We tend to see a lot of numbers and only about the 5%-15% range. Some of that is sort of the marketing or behind the scenes things I might be doing to work in my practice.

Bill Coppel:

Right.

Michael Kitces:

And then the other half of that is like actually out in prospect meetings. Which means most advisors, at the end of the day, I mean productive advisors, still may only be doing one or two prospect meetings a week, right? That's an hour or two a week out of 40 hours in a week, roughly speaking, it's about 5% of my time in prospect meetings because we don't even necessarily have the flow to do, to like to get more prospects in. If you gave me a line of prospects, I will find the time to see more of them. But most of us don't have a waiting line out the door. We also have to go find them and get them in the first place. And so that marketing plus biz dev time shows up in a 5% to 15% range for most advisors once they're established.

And some it just gets to how much you're even trying to press the gas pedal at that point, right? Particularly as we've moved away from industry routes where we are commission-based, where like the moment you take your foot off the pedal, your income goes to zero.

Bill Coppel:

That's right.

Michael Kitces:

Because it's all one-time transactional revenue. Like you can never take your foot off the gas. In AUM, subscription fees, like all these recurring revenue models, you wake up at some point on January 1st and I've got $200,000 of revenue, $300,000, $500,000, a million, 2 million, 3 million, 5 million, depending on how that gets grown, you get some point where you wake up and go like, wow, I have a lot of revenue.

All I have to do is serve these people really well, not screw it up. And the incremental impact on my income of getting another one or two clients is actually not that material. And as all of us have experienced in biz dev, it's really hard work. Like It's really hard work. It doesn't actually move the needle much on my time or on my financial outcomes, relative to the amount of recurring revenue that I've got.

And so, we really do see in in these models, like what starts out as you putting on all the nitro boosters and trying to get enough clients and revenue to just survive in the first couple of years, often shifts for a lot of advisors to say, okay, I'm actually feeling like I'm at a good place. I mean, I'll do a little biz dev because growth is good. If you're not growing, you're dying, we get a lot of those things in the industry.

And hey, if I'm serving my clients well, some number of referrals tend to whack me upside the head anyway, so I'll take those and pursue them. But beyond that, we do find a lot of advisors take their foot off the gas because they don't really need to spend a lot of time on business development to grow their practice because they don't really need to make the income a lot higher than it is.

Bill Coppel:

Got it.

Ryan Neal:

And that's something that has been covered here, actually, since I joined TradePMR.

Robb Baldwin, CEO, has talked a lot about this very idea of kind of, you know, you’re hungry at first, you're growing your practice, you learn how to bring in clients, and then, you know, you get less hungry, maybe. Or, you kind of stop that like sort of rainmaker mentality.

Michael Kitces:

Yeah, we segment the landscape for our research into three broad types of advisors that we see show up. The first are what I'll call the quintessential entrepreneurs, right. This is the like, Omani Carson types, like just go out there and build giant businesses, right. They like to build business, they're excited to build big businesses and they drive forward and make it happen.

The second group, are what we call boutiques. For anyone who's read the book, this is like Bo Burlingham's Small Giants. These are businesses that didn't actually didn't necessarily set out to grow big businesses. They simply do a thing that serves the community they're trying to serve, and they don't know how to stop. They're serving people well, it's a mission, they're driven, it's working. And because we can only serve so many clients, if you're doing a mission-driven thing that's working really well and you keep accumulating clients, at some point you have to hire other advisors make the business bigger. Because otherwise, you're going run out of capacity, and you're not allowed to run out of capacity because you're serving a mission, so you can't stop that.

And so, some of those actually grow to be very fairly sizable businesses, but they're not doing it ‘because I want to entrepreneur a big business’. When you talk to them, they start talking about mission and values and community and service, but it happens sometimes to grow to a pretty big thing.

Then there's a third segment that I call the lifestyle firms. And lifestyle firm has, to me, like a weirdly pejorative connotation in our industry. Like, oh, you're a lifestyle, so you must be like small and not growing and not that good.

Except when we actually look, most of the highest income practices that we know are lifestyle practices. High-income lifestyle practices have more take home income than the median partner of billion-dollar advisory firms.

Bill Coppel:

Interesting.

Michael Kitces:

And we've seen that in our data for years. High-income lifestyle practices have more take home income than partners at billion-dollar advisory firms. And then someone's like, well, but you've got equity at a billion-dollar advisory firm. It's like, well, yeah, I hope so. Because you made less money for 15 years while you were reinvesting to the firm, building that thing, than the high-income lifestyle person who might be clipping 70 to 80 percent of their gross revenue every year, year after year.

And that could be 70, 80 percent of half a million, $750,000, a million plus. I've seen folks that are running one-and-a-half to two million dollars of revenue with two support staff.

Bill Coppel:

Wow.

Michael Kitces:

And taking home 85% income. So you got to be a heck of a large enterprise firm to offset that.

Ryan Neal:

Sounds like a good lifestyle.

Michael Kitces:

Yeah. So, like there are amazing businesses that get built in that realm as well. But the fundamental difference is, entrepreneurs, they're driven by the entrepreneurial journey. I like solving the business challenges. I want to build something big.

They often move themselves out of the advisor role relatively expeditiously, right? They're people who really would rather be the CEO of an advisory business than big advisor.

And so, they'll often make that more. The boutique-oriented firms tend to stay on their mission, their advisors tend to stay client focused. But they're very focused around mission and core values and drawing people in who are drawn to that. And it'll grow as big as it grows, but it can get big.

And lifestyle firms hit some capacity threshold where they say, I just literally can't take any more clients. And I don't want to, because if I did, I'd have to either work more hours or hire people, and I don't want to deal with any of those things. Doesn't mean you can't keep growing. It just means they always grow by saying every time I take a new client on, I have to let a client go. And if you always take a client on that's above your average and you always let a client go that's below your average, you'll keep growing forever.

But you don't add total client headcount, which means you don't have to add staff headcount and you don't add all the complexity and the hours and the other things that come when the practice expands that way.

And coming like all the way back, Ryan, your comment from what Robb had said on the podium: When we look at the industry, everybody puts the entrepreneurs on the pedestal, right? Everybody, you know, there are lots of awards for who made the biggest entrepreneurially driven, growthiest firm.

And there are not a lot of awards out there for who managed to make a million dollars working fewer than 20 hours a week in their practice as a lifestyle, even though there were a lot of people out there that actually have managed to do that. We all put the growthiest entrepreneurs on the platform.

But what we find when we pull out to the advisor world is that in practice, Fewer than 10% of us are actually really of the entrepreneur orientation and of the rest it's about evenly split. About 45% show up boutique oriented and 45% show up as lifestyle oriented.

And we really find even of the about 10% that show up as entrepreneur, when we actually like, if I dig in and start asking them questions, I find that not all of them actually really want to be entrepreneur. The sound of entrepreneur sounds neat and the idea of it sounds neat. And then when I really start saying like, so are you ready to like completely reinvent your role and change as the business changes and deal with all the things that start coming as the business grows, and talk about some of the milestones that they're going to hit, they're like, that sounds awful. I'm like, then this probably actually isn't the thing you really want. Because like the true entrepreneur, as you talk about all the challenges, they're like, that sounds awesome. I can't wait to problem solve all those things.

So, I'm not even sure it's 10%. I think the true number may be closer to five. And so, I do think we get some disjoints in the industry because all the people we put on the stage are the entrepreneurs, and 19 out of 20 advisors don't actually want to do that.

They want to do one of the other things, and they don't know what models of success look like in the others. And there are models of success, and there are super high-income lifestyle firms. There are boutiques that grow very large, but they grow differently. And if you don't know what the different growth paths look like, you get on the wrong growth path and you kind of get back to the old Stephen Covey, like if you don't make sure that the ladder's against the right wall, you just climb to the wrong place faster.

Bill Coppel:

That's right. And I think the important thing, the point you're making here is the fact that of the three models, they're all fine. They all work.

Michael Kitces:

They all work. They all make wonderfully successful businesses that will allow you to send your kids to college and have a wonderful retirement.

Ryan Neal:

Yeah. Well, Bill, I think we have time for one more question. I'll let you take it. But, real quick for our compliance specialist who's hurriedly taking notes over there. All of this data you're referencing is from your own research that our listeners can find.

Michael Kitces:

This is all from our Kitces research report. So if you go to Kitces.com, there is a tab across the top with a thing that says research. And what I've been quoting you from a couple of different studies. We do a study on advisor productivity outright. That's where a lot of the productivity metrics come from.

We do a separate study on advisor well-being, which is where we find some of these kinds of lifestyle boutique entrepreneur persona types show up. We also do one on technology adoption and one on marketing. So, it's a series of four studies.

We do one every six months rotating. So, it takes us two years to go through the full cycle. Kitces.com/productivity, Kitces.com/marketing, Kitces.com/well-being, and you'll find all of those studies.

Ryan Neal:

There we go. We got the source in there. Bill, I’ll let you take it down.

Bill Coppel:

Let me wrap it up with this, Michael. Obviously, you've been at this a long time. You've seen a lot.

There's a lot of talk about a shortage of advisors, a great wealth transfer, the challenges we face with technology, and how technology is going to replace the advisor, all of the noise that's going on.

Give us in a brief moment here, what do you see for the future? What's the opportunity look like and where are we heading?

Michael Kitces:

I think the opportunity for the industry is still fantastic. I mean, in the purest sense, you know, as the industry likes to frame as talent shortage, I just hear it's like, oh, cool.

So, young people will have massive demand for their talent into new job opportunities with what almost certainly will be rising salaries. Because that's basically what happens when there's a talent shortage, you need to attract people. So like great, base salaries are going to go up, career training is going to go up because those are all the things you got to do to attract talent.

This is just going to become a better place for people coming into the industry than it has been. Technology to me is always a fascinating thing. I started, I've now got my share of gray hair, I started 25 years ago. We were in 2000, right at the tech peak, where all my friends said, like, why would you become a financial advisor, Michael, you're an idiot. You're going to be replaced by the internet. I mean, this was the heyday of E-Trade running commercials.

It's so easy a baby can do it. And the baby was in the crib day trading stocks. Like, a baby can day trade stocks in the crib. What are you, like, why would you possibly become a financial advisor? And so, I was supposed to be destroyed by the internet. And then I was supposed to be destroyed by smartphones. Like, how can you be in the business of advice when all knowledge known to mankind is available in less than seven seconds in the thing you hold in your hand. Like how you be in the knowledge business when unlimited knowledge is available on a smartphone?

It's like, funny, I'm still here. And then robos were supposed to destroy us, and then business automation was supposed to destroy us and now AI is supposed to destroy us. So, when you look at all of those, what you actually find at the end of the day is those all become technology things that we use in our practices. That we used to build bigger and better and more efficient practices, that we used to do more things for clients to become more capable with richer job opportunities for what we do. Right. I used to peddle mutual funds.

Now I get to deliver holistic financial advice with really cool technology that lets me do ridiculously advanced analyses and show clients the answer in five seconds so we can have a meaningful conversation about it, so here's what the analysis says. Is that what you actually want with your life?

Bill Coppel:

Right.

Michael Kitces:

And your money and what time you've got left on this earth?

The technology just gets us to amazing conversations faster. So, I really don't fret about the technology. We'll find ways to use it to do more amazing things for clients while we create more opportunities for young people coming in. Because that's what happens when the industry needs talent, salaries rise, career tracks form, more opportunities form. We will draw the talent in. I mean, very few industries really sustain talent shortages because markets are actually pretty good at rectifying that over time.

Bill Coppel:

Listen, man, thank you very much for being here. It was great conversation.

Michael Kitces:

My pleasure.

Ryan Neal:

Yeah, absolutely. And thank you Michael, for joining us. And thank you, everyone who listened to us. Wherever you've got this podcast, if you can just take that quick second to like, subscribe, share, follow, all the fun little buttons. They help the algorithm. They help get us out there. And thank you for listening.

Bill Coppel:

And thanks for listening and look forward to our next episode where we'll bring you more insight and actionable ideas to help you grow your business. And remember, the challenge is yours to capitalize on what the future offers.

Ads and Disclosures:

Please contact the provider for information about their terms and conditions as well as any fees that may apply.

Outro:

If you want to join the conversation or connect with us, please visit us at SynergizePodcast.com. This content is provided for general information purposes only. The views expressed by non-affiliated guest speakers are their own and do not necessarily reflect the opinion of TradePMR or its affiliates.

TradePMR and its affiliates do not endorse any guest speakers or their companies and therefore give no assurances as to the quality of their products and services. This channel is not monitored by TradePMR. TradePMR does not provide investment advice, tax advice, or legal advice.

TradePMR is a member of FINRA and SIPC. Trade PMR Inc. is registered with the Securities and Exchange Commission, SEC, and the Municipal Securities Rulemaking Board, and MSRB, Trade PMR provides brokerage and account services to registered investment advisors. Custodial services provided by First Clearing.

First Clearing is a trade name used by Wells Fargo Clearing Services, LLC. Member SIPC, a registered broker dealer and non-bank affiliate of Wells Fargo and Company. For a transcript of this episode with sources, visit synergizedpodcast.com.

Sources:

How Financial Planners Actually Do Financial Planning, The Kitces Report, Vol. 2, 2024
What Actually Contributes to Financial Wellbeing, The Kitces Report, Vol.2, 2023