

Podcast Transcript

Synergize: Unscripted Conversations to Help Guide Advisor Growth

Episode 2: John Furey: Working *On* Your Business While Working *In* Your Business

INTRO:

Welcome to Synergize, unscripted conversations where we explore the evolving role of the financial advisor in an emerging AI-driven world. Join us as we bring together thought leaders across a range of disciplines, and industry experts, sharing insights designed to help RIAs thrive in the industry of tomorrow. And now, here's your host, Bill Coppel.

BILL COPPEL:

Hi. I'm Bill Coppel, Chief Client Growth Officer at TradePMR and Head of Advisor Evolution Sciences, a TradePMR Company.

While the RIA industry has enjoyed substantial growth over the past 10 years or so, the real question is this: Are RIA businesses truly growing? Don't be too quick to pat yourself on the back given the market appreciation we've experienced.

Today, we'll look at the state of the industry and how we got here. And we'll explore the opportunities that, I believe, lie ahead. Why do I say that? Consider this: We are in the midst of a generational wealth transfer that we've never seen before.¹ Large numbers of advisors are leaving the business² and more people are seeking advice.³

This spells opportunities for RIAs to grow enterprise value. I believe if advisors truly capitalize on what the future holds, this can be one of the most profound growth periods in the history of the RIA business.

So, when I think about the important things that need to be in place for growth, I think about strategic planning, the idea of M&A, talent, and understanding what it really means to go from being a practitioner to a business owner.

My guest, John Furey, shares this perspective.

JOHN FUREY:

So it's no longer this cottage industry. If you're an advisor considering starting a firm or growing a firm, there's tremendous support resources, today. There's incredible growth opportunities that can be achieved through the development of talents, deploying marketing strategies, leveraging technology, doing mergers and acquisitions.

BILL COPPEL:

John is the Founder and Managing Partner of Advisor Growth Strategies, a management consulting and transaction advisory firm that works with financial advisory firms and institutions looking to grow or solve key management challenges.

I had a chance to talk with John recently to get his take on the evolution of the RIA industry and the growth opportunity.

Here's our conversation.

BILL COPPEL:

John, what have you seen change over the decades? Because one of the concerns here is if you don't evolve with the industry, you're likely to get left behind.

JOHN FUREY:

Yeah, there's been a tremendous amount of change in the space. So, one thing we all have to keep in mind, the RIA industry and independence in general hasn't really become mainstream until now. But back then, it was still somewhat of a risky endeavor if you think about it. If you're a successful team working anywhere in the ecosystem at a large institution, and someone said to you, leave that security net and not only you, but your clients behind and try something very entrepreneurial. That was a bit of a leap because the infrastructure of the industry wasn't really there. There were just simply asset custodians and maybe this cottage industry of tech providers, maybe a consultant or two here or there. But what's happened over the years through the advent, of technology, the development of platform providers in the industry, consulting firms like ours, the interests of private equity in the space or really just private capital. There is tremendous and this is what's happened slowly but surely over the last decade and the market wind behind our back has obviously aided this. But the ecosystem around independence has just developed tremendously.

So, it's no longer this cottage industry. If you're an advisor considering starting a firm or growing a firm, there's tremendous support resources, today. There's incredible growth opportunities that can be achieved through the development of talents, deploying marketing strategies, leveraging technology, doing mergers and acquisitions.

BILL COPPEL:

You've worked with hundreds of firms over the years, and you've worked with them in a variety of ways focused on helping them grow, whether they have the right infrastructure and whether they have the right compensation plan. Do they have the right equity plan for their ownership? Let's talk a little bit about what are the things you see that are most common missing that are weighing on a firm's ability to really take advantage of the opportunities in front of us.

JOHN FUREY:

I'm going to speak from a place of our experience because we've worked with hundreds of firms in the United States, some of the most successful ones that are very large, the ones you read about in the media, and then also firms that don't want that, right? They just want to run a successful practice and have very, very measured growth. But what we've observed over the years, which are always...

maybe yellow flags or growth inhibitors, are things in and around team development and finding the right talent. The ability to have a great proactive client experience that creates a scenario where your clients want to talk about your business. And then the other piece, which I think is so incredibly critical, is the management of business equity and accountability. And that's probably the single biggest one.

And then I'm gonna circle back to teams. But one of the biggest challenges, and again, because we're all so busy running our business and serving clients, is the development of, think a strategic plan. What are we gonna hold ourselves accountable to? What is our goals and why? And then actually holding a management team or a group of advisors, the team that could actually move the needle and achieve the goal to accountability metrics. And it sounds so amazingly simple. And some firms even through tech have, you know, KPIs and key business indicators, dashboards that measure their result. And you can see it. This is how we're doing. Here's our net new assets, whatever you're maybe looking at as an owner.

But what I'm talking about is what do you do when there's a variance? Your goal for a year is maybe to bring in 25 million in AUM, and here we are, or something like that, with 100 million AUM, let's say that. And maybe you're here in February, and you've only brought in 2 million. Do you just look at it and say, wow, we're at 2 million, we need to get to 100? Or do you do something and hold a team accountable to activities to get to the number? So that is like the single biggest challenge for most firms versus some people rush to, oh, our brand is not very good. We need better technology to deliver financial planning or whatever that is. Those things are all incredibly commoditized. It's really that accountability piece.

BILL COPPEL:

You know, over the last couple of years, we've seen this enormous M&A activity in our space, and it almost feels as though there's a bubble coming of some kind. What's the driver behind that? Why are firms not taking advantage of what appears to be a very, very large opportunity to grow their enterprise value year over year?

JOHN FUREY:

Yeah, I think it's interesting. There's a lot of industry media and coverage about M&A. And I think it's only the first-period hockey analogy, second-inning baseball analogy. And why that is, if you take a step back and you look at the total of registered investment advisors in the United States, there's about 40,000 of them and about 100,000 registered advisors.

And then if you look at the total deals that are happening year in and year out, it's just under about 400. So, you just simply do the math. There isn't really a lot of deals happening, right? 400 versus 40,000 firms. So there still is a long way to go. What has happened and why M&A has increased, which it has, you know, even five years ago, six years ago, there were less than 100 deals happening. So maybe it's four or five X the activity. And it's a couple of reasons.

One, large strategic players came into the space, think like a CI financial out of Canada and others, and they started being very aggressive in the space. And then the other thing that happened was private equity or private capital more broadly discovered the space because the beauty about owning a registered investment advisor is how durable the revenue is. in up and down markets. So, you enter into an advisory agreement, you collect a fee, it's very predictable, right? It's usually basis points. And I guess the only risk would be client attrition, which rarely happens because attrition rates are only 2%. And then the revenue is more or less tied to the market. And even in a bad market like we had last year, the revenue models are still very, very durable. So, if you look at an outside investor or private money deploying capital, it's become somewhat mainstream with them really because of the predictability of the revenue and the steady ascent of the revenue. So that's why I believe M&A is still like very, very early days.

BILL COPPEL:
Got it.

JOHN FUREY:
And I think the implication for your listeners and for advisors is not to ignore it, which is kind of your point. And the second is to get educated around it, because if you own a business, you know, I own a business, you still have optionality around it, right? You can simply continue to operate it. You can maybe do M&A and find a partner, or you could find providers that can help you maybe scale your business. But I think that's the big thing. We all get very busy including me, focusing on the day in, day out of our businesses. But now the rate of change is so fast. Owners have to look around them a little bit more consistently.

BILL COPPEL:
As we said at the top of this episode, the advisor population, in terms of the number of advisors, doesn't seem to be keeping up with the demand for financial advice and guidance delivered by a human being. What do firms need to be doing to address this and how do you see the situation playing out?

JOHN FUREY:
One thing that's so interesting, going back to maybe the origin story of Advisor Growth, when I started the company, in all channels, there were about 300 advice-giving advisors in the United States, wire houses, RIAs, all channels.

BILL COPPEL:
300,000.

JOHN FUREY:
300,000. Bill, guess how many there are today?

BILL COPPEL:
No idea.

JOHN FUREY:

It's about the same, 300,000. Yet if you look at the number of households in the United States, and the AUM more specifically, those advisors are servicing, we know this because it goes one way, it's more than 4X, right? So, it's incredible. There's a talent shortage. And then the beauty of our country broadly is to pick up productivity gains, right? You could serve more with the same amount of people, but still in the end, especially when you think of technology, whether it be AI and everything, all things will be commoditized in wealth management with the exception of one thing, which is the sales function and the advice-giving professional... trusted advice. So, there's still a talent shortage, right?

So, if you put, if you think all the way through it, what teams are going to win? What firms are the firms that can attract and retain the best talent, right? Simple. But why is that? So, talent is always attracted. It's like steel on steel. The best talent wants to be on the best team, right? It's true in sports, true in anything. So, if you're going to be successful in the future, you must create an environment where top talent wants to join your team. And unfortunately, not a lot of firms are really thinking that way, which is a major problem.

BILL COPPEL:

It's a bit of a catch-22, John, right, because some firms think that they need to attract talent to become an attractive firm to go to, right? As opposed to building a strong team immediately or continue to focus on building that strong team and you'll evolve to being a destination. So what I'm hearing you say is that part of the growth formula, part of the success formula is talent development and I think you mean by that it's not just getting them into the business but we need to evolve our skill sets to keep pace with the changes that are taking place in the market and then from there continuing to position the firm as a destination. Am I hearing that correctly?

JOHN FUREY:

Yeah, that's exactly right. So, and what makes it super challenging is most firms, their origin story or practices are very founder-centric. Maybe there's a couple of partners who start the firm and there's a very small team. And then once you start there, like stage one in development, is just trying to get leverage from your team, right? The founders or the advice givers developing the business and how do we get leverage? But eventually you hit a wall. And that's not good enough, right? And the only way to, because the founders will hit capacity, you just run out of time. You simply run out of time. And the only way to break through is to do exactly what you said. You have to do team and organizational development, which unfortunately, most RIAs, registered investment advisors, don't have the ability to have like a talent management, I think, development team. It's just too expensive. So, it's very, very difficult.

BILL COPPEL:

I'd also say, John, that based on my observations as well, is that it's not a strategic objective.

JOHN FUREY:
True.

BILL COPPEL:
It's wished for. It's intellectually important. But are they actually arranging assets within their human capital pool, which is really their number one asset to grow the business? They're not taking advantage of a lot of the things that are out there that will really focus on that. And to your point it doesn't happen overnight. It's an investment over time.

JOHN FUREY:
And Bill, the one thing with that, just to hit on that point, the one thing I don't want to forget, there's also a reinvestment equation to what I just said. So, let's say you buy in. We really need to develop our team. There is a cost to that that comes out of the advisor's pocket because you have to spend money to develop your team or to find new team members.

However, there are uncertain returns on it, right? And I think that's challenging. So, if I say to you, you're running a really nice business, but to develop it, you have to spend a million dollars on new team members and developing them, and it's gonna come out of your pocket, and you know, owner or owners, but the return on it's not gonna come for three or four years or whatever. Some advisors struggle with that equation because it's risky.

BILL COPPEL:
So, take a minute and talk a little bit about some of the firms you have worked with that have changed behavior, adopted these kinds of approaches. How have they fared? How did they go about doing it? What was that effort? What does that look like?

JOHN FUREY:
Yeah, I think there's stages of development. So, think when you start the company, it's what I referenced earlier, there are founders, and you're really just trying to build capacity or fulfill capacity. Then once you get to that level, the next stage is what do we need to develop our capabilities? So that could mean things like hiring functional specialists.

So, we've seen our clients have great success with doing something like this. What's normal when you're a practitioner, the advice giver does everything they do the selling, the financial planning, the investment portfolio, they help a client's service and maybe there's light support behind them. But what firms start doing as they evolve, they get more functional expertise, which is, you know what? Bill is better at business development. Bill should be doing the sales and relationship management piece. And then we're gonna have functional specialists to build a portfolio and do the planning, and then Bill gets a leverage point. And that's like another critical stage to it, is the realization that people have unique strengths, and you should have them focus on those unique strengths to get leverage out of your business.

So, if you go...it's not even our clients. We can go to any large firm, really, in the United States. Any of your clients, larger clients, you'll see that, right? You go to the website and you'll see financial advisor. You'll see financial planner, CIO, chief investment officer. That's what they're doing, it's the evolution of the organizational structure. And then the final stage of it, and this is for large firms that are five billion moving towards 10 billion is the development of professional management, a true executive leadership team that's strategically running the company.

And then you start working on things like, should we bring on an investor? How should we structure our equity for our team? Things like that, that are going to help further perpetuate a business. So that's the transformation thing from a practice, stage one, early days, essentially to a business.

BILL COPPEL:

In your experience, how have they been able to transition their mindset from being a practitioner to a business owner, which I think is a very different mindset?

JOHN FUREY:

It's incredibly challenging. And Bill, I'm not quite sure, in our experience, not all owners are suited to do that. So, what they need to do and we try to help our clients with this, it's very hard for a founder, including me, to do what I'm about to say. If someone comes to us and says, hey, we have a great team, we have 20 people, and maybe it's 8 million in revenue in our firm, a billion in AUM, and we want to 5x it. A really simple way to think about that is like, okay, if you're a 5 billion dollar firm, this is what that looks like. Here is the investment equation, the capabilities you need, and then here's your organizational structure.

And then you ask the founder or the owner, based on this future state that you said you wanted, where do you see yourself helping the most and adding the most value? Most owners, when you articulate some of the things I said earlier you need a professional management team and the role of the CEO is to do these things. A lot of the time, the founder will say, oh, I don't wanna do those things. Then the next question is, well, do you wanna be a 5 billion dollar firm, yes or no? And if it's still yes, then the answer is obvious, right? You have to hire the capability or grow it up within whatever that is. And you as founder should not do that, right? So, it sounds very simple, but then there's the founder mentality of not wanting to do what? Cede control, share control, whatever that means. So, it's challenging.

BILL COPPEL:

It's finding the right chair for the people on your team, meaning where they excel and allowing them to do that. Often, we see the rainmakers take on the title of CEO or president, and you can't do both well. Historically in our business, we like to promote top producers into management positions, and it typically doesn't work. They're really good at being in the business as opposed to managing or running the business.

BILL COPPEL:

So, to recap, here's what advisors and firm leaders in the RIA space today may want to think about as they position themselves for the growth opportunities that lie ahead:

First, understand the value of having a well-defined vision and strategy and organize your business around achieving that. Your strategy doesn't have to be elaborate, but everyone should be pulling in the same direction.

Second, your human capital is vital for growing your business. So be intentional about how you're managing it.

Third, consider shifting your mindset from being a practitioner to a business owner. And understand what steps to take when challenges arise.

We hope you enjoyed today's conversation. If you like what you heard, please take a moment to subscribe and follow us on social media.

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

PRE-RECORDED OUTRO

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¹[Cerulli Anticipates \\$84 Trillion in Wealth Transfers Through 2045](#), Cerulli Associates. Published January 20, 2022.

²[40% of Advisory Assets Will Transition in 10 Years](#), Cerulli Associates. Published June 13, 2022.

³[Investors Increasingly Choose Advice](#), Cerulli Associates. Published November 30, 2023.