MANAGING YOUR PRACTICE: A DIMENSIONAL PODCAST SERIES

How Advisors Can Follow the Shift in Wealth and Serve Multigenerational Clients

Welcome to Dimensional Fund Advisors Managing Your Practice Podcast. This podcast series is dedicated to helping financial professionals make the critical business decisions successful firms face every day in key areas such as driving growth building enterprise value and the client experience.

Catherine Williams: Hi, everyone. Thank you for joining us today. Did you know that an average of 10,000 people will reach retirement age every day for the next 20 years? And perhaps not surprisingly, within our industry, there are more financial advisors over the age of 70 than there are advisors under the age of 30. So if you think about this and you think about even the other end of the spectrum with regard to clients where it's estimated that only about a third of advisors are even pursuing clients under the age of 40.

You can see we've got a bit of a challenge in front of us. Well, why does this matter? These shifting demographics for both advisors and clients present an opportunity and a challenge for financial advisors. And that's what we're going to explore today. It is my pleasure to speak today with someone who has delve deep into the state of our industry.

What it looks like today, and how these generations of investors and clients are going to show up down the road. Chip Roame founded Tiburon Strategic Advisors nearly 25 years ago with a focus on offering market research and consulting services to financial service firms. And during this time, they have conducted extensive research across 3000 topics which help inform the insights and opinions you're going to hear from Chip today.

And with that, welcome, Chip, thank you for joining me.

Chip Roame: Some other time we'll do a wine and spirits call. That will be more exciting.

Catherine Williams: I like it. I like it. Well, as I mentioned, you have an incredible body of research and insights around what's happening across the wealth management landscape. The financial services industry. And I'm hoping to really focus our conversation is thinking about the shifting demographics of the industry and clients in particular, and where opportunity may lie for advisors in the business today, both with existing clients, but also with future clients.

And what that's going to look like, where wealth is going to be established and what that may mean for the financial services industry. And then I think correlated and at least related to a good portion of this, is also what does that mean potentially for online digital advice? It's another area that we get asked about quite a bit, not just in terms of the technology, which we can certainly talk about, but how do you leverage it?

What does it mean? Why it may be a game changer even for this industry? So if you're game, I'd love to dig in around those.

Chip Roame: Sounds great. I think they're both important.

Catherine Williams: Let's talk about demographics and I can even level set around what is a Millennial versus a Gen X is lots of labels and definitions out there. But in the research that you've done with Tiburon, why does that stand out to you as something that is a significant game changer for this industry?

Chip Roame: At a basic level, Catherine, I think of it this way. Most advisors who are in the business today are Baby Boomers themselves and have grown up serving the Baby Boomers and they primarily serve Baby Boomers today. And, you know, you can with numerous studies out there, but the number is 50, 60, 70, 80% of clients of advisors are Baby Boomers.

And 50, 60, 70, maybe 80 or 90% of advisors are Baby Boomers. Okay, so that's our starting point. That's the situation out there. But over the, over the coming decade, the Gen X investor will save and invest the most money, more so than Boomers and Millennials added together. So again, we hear a lot of the talking heads out there talk about Baby Boomer, Baby Boomer, Baby Boomer.

Then they jump to Millennials and they kind of overlook the Gen X. In the next 10 years, for two reasons, Gen X will save and invest the most money. Number one, they're in their peak earnings years. And number two, they're the biggest inheritors of the wealth transfer. So Gen X is the next 10 years. Now, most advisors have grown up serving the Boomers and are Boomers themselves.

So they need to start changing their views on both lead gen and on service of clients. So I agree with you from both angles how you generate the incremental leads and how you service them. The world is changing right now.

Catherine Williams: Yeah, you mentioned that Gen X is expected to generate over $33 trillion in investable assets by 2030. There's a tremendous opportunity with that.

Chip Roame: Everyone overlooks the ease of new money and the difficulty of takeaway money. So if your objective is to grow a big business, you have two ways to get money, two ways to get clients assets. One, you can catch them when they're generating new money, maybe they're getting a rollover, or maybe they're just saving money, or maybe they're getting an inheritance.

That's new money. No one has that money. No other provider has that money. Or you can go out there and try to pry the money away from Merrill Lynch or Charles Schwab or wherever the money sits today, right? It's a heck of a lot easier to capture the new money. So the first thing to start with is, geez, where is the new money?

And when you do the math and you realize the Gen X is going to save and invest more money than Boomers and Millennials in the next 10 years, you go, well, geez, maybe I want to try to capture that first. So how is that money moving around? Where are they shopping for advisors? What media are they looking at?

You know, how do they process that? I think those are the questions I would ask first because that's the easier money to get then is the pry-away money.

Catherine Williams: So we often hear from advisors that they think about that in the context of a small account offering, right? That's a phrase that's been batted around in the industry for quite some time. What are your thoughts? Is that the way to think about that, to get your arms around them when they are in fact smaller? I don't want to oversimplify this.

I'm curious to see when you do look at organizations that seem to be figuring this out and have found a way to engage with Gen X, what do you see in play?

Chip Roame: So I think the small account verbiage and strategy is more relevant to the Millennial client than it is to the Gen X. So the Gen X is in their peak earnings year, so making good money. The oldest of the Gen Xers are even retiring soon. So they're going to have rollovers and business sales and things like that.

And the Gen X is inheriting money and inheritances when they're interesting, have lots of zeros on them, right? So those are that's not a small account. I don't think Gen X and small account strategy go together. I think Millennial and small account strategy go together. So let me go down that path and just frame that. So I think Millennials the challenge is I think of it as the Schwab Fidelity Vanguard challenge of 25 years ago. When these firms were young companies and had retail offerings, the full service brokerage firms –- and there really were no RIAs and independent reps back then -- but the full service brokerage firms looked down their nose at them and said, well, geez, we'll let the small accounts go to Schwab or the small accounts go to Vanguard. And theoretically, they would say, when those people get money, someday they'll come to us. Well, I'll tell you, that didn't happen.

So it's not just little investors anymore in retail. I mean, in retail, right? The lesson that I still think we're overlooking again, here comes a new generation. We're overlooking it again is if you don't capture the clients when they're young, then you're not going to capture them later. And the firms that do capture them when they're young and have small accounts, they'll find ways to hang on to them.

So I would say that's happening again, Catherine, in today's terms. Right. So what is Robinhood or what is eToro or what is Coinbase or what is Stash or Acorns? There are all these firms. They're out there capturing a bunch of small accounts and a bunch of talking heads are sitting out there going, oh, those are tiny accounts. We don't need to worry about those.

We don't want those. Those people will come to us someday. My God, I feel like I'm in 1995 again having the same conversation, you know. No, they will not come to you later. That's not what will happen, right? We already proved that was wrong, right? And so I think the Robinhoods, the eToros, the Acorns will grow up and be really savvy firms with very complex offerings by the time their clients grow up and they'll hang on to those clients.

So therefore if you don't have a small account strategy for the Millennials today, you might as well assume you're not getting the Millennials later. I think that's the way to think about it.

Catherine Williams: As you do think about the Gen X, and, you know, we're talking about a pretty healthy age range, 41 to 56 years old, in and about there are Gen-Xers, and they are accumulating, they're creating their own wealth in many cases, or as you said, they have begun to inherit wealth from their Baby Boomer parents.

So what does that mean? For those advisors who need to begin taking care of them? I'm certainly hearing from advisors that are looking at delivering services, for example, that might traditionally have sat more in a family office environment that they're having to maybe think about introducing some of that in a traditional RIA environment, so to speak.

Anything that stands out to you in terms of how advisors really are getting their arms around Gen X and what are they having to do with regard to their service offering, maybe even their investment offering to engage with those clients?

Chip Roame: Yeah. So I think Gen X, so sticking just with Gen X now, so putting Millennials off to the side for a couple of minutes. Gen X is a super interesting generation. By the way, I'm a Gen Xer. Granted I'm an old Gen Xer. I won't tell you how old I am, but I squeeze into the Gen X category here, right?

And so Gen Xers are relatively tech savvy. They're not quite as tech savvy as the Millennials. They're super educational-oriented. They eat up webinars and stuff like that. They probably already do save and invest somewhere today. So they're not a naive new investor. And so you're out there thinking about how am I going to capture the Gen X wave right now, realizing they probably save and invest, they probably care about education. They're probably moderately tech savvy. The first thing that pops in my head is webinars, right?

So why would you not be on a huge webinar campaign right now? And again, go back to how I talked about Gen Xers before. They're going to get wealthy in the next 10 years for two reasons. They're going to save and invest because they're in their peak earnings year. So that's their own money that they're socking away.

And/or they're going to inherit money, right? Therefore, why is your webinar campaign, if you want Gen Xers, why are you not out there with tons of webinars, educational webinars, talking about either saving and investing? And again, as the Gen Xer goes into retirement, the oldest Gen X is 56.

So over the next 10 years they will trickle into retirement. You should have saving and investing webinars. You should have rollover webinars, you should have business sale webinars, you should have inheritances webinars, all of those focused on the Gen X investor, right? I just think webinars, educational video content is the next 10 years. That's how Gen Xers are going to generate their investment advisors.

Catherine Williams: Well, and I often think about that age range, which you could even put this on the younger Baby Boomers. They have aging parents, right? They still have parents very much in play. And then they've got their own kids and in some cases grandkids, right? So to your point, the ability to meet them where they're at and recognize that even within that Gen X age range, what a 41 year old might be looking for versus a 56 could be even slightly different. So you've got to be nimble about that. But recognize that I mean, I also think about where they sit even within the generational chain, if you will, within their family and the opportunity there.

Chip Roame: Yeah, and I agree. I also think, you know, generational age bands are somewhat of a silly concept. We use them because they're convenient right? But a 56-year-old Gen Xer or a 41-year-old Gen Xer are not the same man or woman. Let's be clear about that, right? You know what's interesting is take a decade, and that's kind of what the math that I've used earlier is, you take a decade the 41-year-olds now 51 and the 56 is now 66. So what has happened is Gen Xers have pushed into retirement over the next decade. That's what's interesting.

The oldest ones are probably pretty clearly retired. The youngest ones are probably pretty clearly working 10 years from today. But the Gen X investor is in that place where, sure, they're getting their kids off to college. The parents are still around. They're going to retire, they own a 7-Eleven or a gas station, they're going to sell that thing. That's what's going to happen over the next 10 years. That's exciting. That's new money that can be captured by investment advisors.

Catherine Williams: Well, and then, you know, you factor in Gen Y, which is mid-20s to late 30s, early 40s. And, you know, you can drive a Mack truck through that relative to what the needs are around Gen Y for sure as well. Coming back a little bit, then on with the Millennials and Gen Z, which, you know, and I want to, as you said, I do agree with you.

I want to be very careful about throwing these labels around. But, you know, we talked about Millennials already for a moment. 56% of them, according to research, are more likely to use social media around a financial advisory relationship. What does that look like and why should an advisor pay attention to that? You've touched on it a little bit relative to capturing those potential clients, but why is that important for advisors to pay attention to?

Chip Roame: Yeah. So first of all, let me take one step back and make sure all listeners are clear on definitions right? So the term Gen Y and the term Millennials are the same thing, right? That's the same generation, right? So we were talking about Boomers who generally are 57 years or older. Gen X, the generation I was talking about before is 41 to 56.

Gen Y are Millennials. Same thing, between age 25 and 40 right now. Your comment is that they're very social media aware, so they think technology is a given. Me and the Gen X generation, you know technology is thing I had to learn. The Millennials grew up with technology, so technology is a given, but they are super social media savvy.

And I think this is super important to understand. I think a trend no one's talking about today that they should be talking about today is embedded finance. Meaning do I get my discount brokerage or robo-advisor not at a discount brokerage firm or a robo-advice firm, but maybe I actually get that at a social media site.

Maybe what we start seeing is things like that where the discount broker, the robo-advisor is coming to you, and I think you're going to see that through social media over the next few years here.

You're going to see discount brokerage firms, robo-advice firms buried into Facebook or into Google or into something. You know, it's been a long discussion of whether the big tech will get into the business. I'm not sure they'll get into the business. I think you'll see embedded finance. You'll see the firms that already exist being available so I'm reading an article on Google or whatever it is, or I'm on Facebook, and there is the link to open an account at Robinhood, or there is the link embedded into the article, embedded into the social media chain.

So I think that's what's coming there. I think that's the next level. That's a more of a Millennial generation thing, I think, than it is a Gen X generation thing.

Catherine Williams: So are you suggesting that younger investors might be more comfortable with learning, engaging, executing around financial advice in a purely robo fashion, or do you have a sense of, I still want a human being? I still want a human being at the end of that chain of communication?

Any thoughts on that? Because I think that's a little bit of what I would even maybe call a little bit of a misconception around some of the robo advice. But I'm curious what your take is on that.

Chip Roame: Yeah, I think the data is actually pretty compelling. I think, you know, everyone talks about the robo advisors, but I think there's a difference between the pure robos and the hybrid robos. And if we actually take a step back and look at the data, the hybrids have kicked butt over the pure robos. So I think that's important to understand, right?

So I'll give credit to a guy named Bill Harris. I don't know if any listeners know Bill Harris was, but he was the founder of Personal Capital. And like a decade ago, he said to me at a Tiburon CEO Summit, I don't believe in in-person advice, but I believe in face-to-face advice. And for the life of me, I didn't actually understand it for about three years.

Three years later, I figured out he was talking about video advice, long before Zoom happened and long before COVID happened and we all now take video advice as a given, right? It’s that video advice was the future and he got that long before I even understand what he was talking about. He understood that, right?

And I think that's a very important thing. So I think, Catherine, the Millennial and even the younger part of the Gen X generation are very content with online advice and face-to-face advice via video. And I think COVID has pushed everyone down that path, right? Even your grandma is a little more happy talking to you on Zoom these days. And, you know, Baby Boomers are happy on Zoom these days. And every generation below that is certainly happy on Zoom these days. So I think what you're going to see is the idea of driving to an advisor's office is a really passé idea, right? What do I need to come to your office for? What I need to sit in traffic and all that for?

Think about the banking industry, it's the same thing. Like, you know, who goes to a teller anymore and gets cash, stands in line? It just doesn't happen. Maybe you go to an ATM. Frankly, I don't even go to an ATM. I generally walk around with no money in my pocket and just live on Apple pay or on my credit card or whatever, you know?

I don't even know what a bank is anymore. Why would you physically go to a bank? It's a ridiculous concept, right? Banks should be an online lender of money and a place to keep your cash, right? Investment advisors can be a face-to-face on video thing. So that's where we're going. I mean, to try to stop that freight train just seems crazy to me, right?

So your narrow question then would be, will people interact solely with the website without seeing a face or will they most of the time interact with a website, but when they have a tough question, they want to press the button and have it pop up. Well my God, I hope they'll get some advice. And I hope that's a really simple technology, which is, you know, press the button and Susie or Freddy pops up and answers your couple of tough questions, but you don't need an advisor to show you how a pie chart looks.

I mean, we can all figure out a pie chart today. We got that part down, right? So I think it's going to be some people are content purely online, but a big slug of people are what we call validators. The vast middle, which is most of the time I'm content on my own, but then I run into a tough situation, like I'm funding my kids 529 plan.

What's that thing about I can put five years in? I don't totally understand how that works. I want to ask someone that question, right? There, I can press the button. I'm not coming to your office for a big review meeting, but sure, I'll talk to you face-to-face on Zoom. So I think it's a hybrid world for the vast majority of people.

I think the majority of people are validators. That's the point.

Catherine Williams: To your point, the online advice firms have gathered over $770 billion assets under management. So this is not, you know, this is not a hey, you know, we're still proving this concept, right? Like it is very much here and here to stay. So when you think about the discount brokerage firms, you've also got the big wirehouses, the Merrill Lynchs, the Morgan Stanleys.

You've got the traditional IRAs, which of course, are getting bigger and bigger as well. And we have so many more billion dollar plus multi-billion dollar firms. Any particular area that you see is kind of figuring this out a little faster, a little maybe a little more of a nimble fashion that a traditional advisor, for example, might want to pay attention to.

Chip Roame: Yeah, I would say the ones that seem savvy to me, I'll give you three categories that seem savvy to me. The discount brokerage firms collectively seem savvy to me. So I put Schwab or Fidelity, I put Vanguard in that category as well, because what they're doing is they have a retail offering for the retail investor and then they custody money for the RIA. So they're kind of playing both channels. But that seems savvy to me.

Secondly, I put the upper end of the RIAs in this category. So you think about how Edelman Financial Engines works or how Mariner works, or Mercer or Allworth. All of these are big lead generation places. Cap Trust would be another really good example. WEG, Wealth Enhancement Group would be another good example.

You know, they're very good at lead generation. They understand the new investors, they're building. You know, they're acquiring lots of offices. They're building organically as well.

And then thirdly, in the wirehouse category, both Morgan Stanley and Merrill Lynch are doing interesting things right now. I think we like to pooh-pooh the wirehouses, I'm not with the gang who is pooh-poohing them.

You know, Merrill Lynch created Merrill Edge, which has $250 or $300 billion of assets now. That'd be the fourth or fifth or sixth biggest discount brokerage firm today. So Merrill's building it organically. Morgan Stanley went and bought E-Trade, which got them both a retail discount brokerage offering and also a stock option plan business, which a lot like the 401k plan business is a lead generator for their advisors.

It's kind of going after the employee channel along with the discount brokerage channel, along with the traditional advisor channel. So if I'm looking for good case examples, discount brokerage firms, generally high-end RIAs, Morgan Stanley, Merrill Lynch, all those impressed me with what they're doing right now.

Catherine Williams: I want to talk about another group, another potential channel, and then absolutely, I would love to come back and talk about what you're seeing, what your view is relative to the impact on the registered investment advisor business. Either having to pivot or beginning to pivot in some of the direction that we've been talking about here today. What does that mean for the business itself?

Profitability, capacity, functionality, all those. But before we do that, another group that I'd love to spend a few minutes talking about is around women and recognizing that women, consumer households, as you've noted in your research, have $22 trillion in investable assets, which is up from 2015. That number, we expect will only continue to climb. The number of business owners, women business owners and the opportunity there.

Can you talk a little bit about what you've seen in your research and your work with advisors around the impact and the opportunity, particularly with women investors?

Chip Roame: Yeah, great question. And if I can, I'll extend your question about women. I think minority investors have some of the same trends, different trends and some of the same trends. So let's talk about people besides white men, if we could, for a second, right? The whole investment wealth industry is structured around white men, right?

85% of advisors are white men. You know, most marketing literature, most websites are all about the happy white man-led family, right? Now again, that's just not how the world works anymore. And certainly as the Gen X influence over the next 10 years, comes to be, the world is going to change very, very quickly here. Right? So, you know, you think about women and you realize things like they're going to inherit 70% of the inheritance. They're going to women. You think about the fact that there's more women college graduates today than there are men. There's more women small business owners than there are men, right? So women are coming in a big, big way, both inheriting money and earning money. Minorities as well. They're all different. But I'm just talking about ethnic minorities for one second.

But if you separate African Americans from Latin Americans, from Asian Americans, from Native Americans, they all have slightly different trends. Right? Latin Americans, just like women, are big business starters. They start a lot of entrepreneurial ventures. That's going to come to roost someday. No one seems to be paying any attention to these things today. So I think all these things are important to understand over the next 10 years because as the Gen X generation grows up, it's not all about white men anymore.

And then you look at the industry statistics and it's still all white men advisors, et cetera. I heard someone make the case that as the industry changes from, you know, 20 years ago it was a stock picking, you know, very male-dominated culture to what is now a financial planning centric, softer, more educator type model, do we actually see a humongous shift in the advisor population towards women?

And I hope so. I mean, it makes good sense. I mean, if half of the clients are women and 15% of the advisors are women, something seems off. I make the same point with minorities, so I hope it changes. You know, there's some good leadership out there, there's some good college programs working and things like that today. So hopefully it happens that I think the industry is changing.

What we do for our clients is changing. Therefore the skill set should change, therefore the people should change, and hopefully it will.

Catherine Williams: And we see within our Global Advisor study for which, you know, last year we had around 14,000 end clients. So this survey, if you will, for the advisors and clients, one of the predominant takeaways again this year is that when clients think about attributes and what they're looking for in their relationship with an advisor, they absolutely want to have a sense of the advisor works with clients like me. And I think some of that also translates out to the degree that client that advisor can also relate from a cultural standpoint and from an ethnic standpoint, there can absolutely be an opportunity there.

So we see that emerging very clearly in our Women and Wealth initiative and through our Global Investor study. So I appreciate your comments on that. And we see that being absolutely reinforced in the data that we're gathering as well too.

Chip Roame: I think the simple answer to this issue is I want someone who looks like me, right? I think the more complicated answer and the better answer is I want someone who empathizes with me. And so it can still be a white man advisor if he understands the differences of how a woman or how a minority, what their issues are and how they're different.

I don't think we have to if I'm a white man, I have to be served by a white man and you're a white woman, you got to be served by one. I don't buy into that. But I think you have more empathy if you understand the person’s situation. If you had a similar situation, that makes empathy a lot easier.

But I think we can all develop more empathy and I think that's an important thing to do. And even if you don't change the makeup of your workforce, having more empathy for different types of clients is a big part of the future.

Catherine Williams: And I think that's spot on. I think that's an excellent point. And I'm even talking to an advisor a couple of weeks ago, middle-aged white guy, as we often say, he self-identifies that way and he said, you know, I have more women clients than men, you know, and he attributes some of this to a wife that has really helped him on with the empathy factor.

But, you know, he's like, we're feeling a little beat up here, you know, kind of a thing. And I'm like, no, you're right. Absolutely. And certainly the skills and the acumen, even as we work with advisors whether they're trying to look for diversity or just look for talent, period. So much talent is in need in this industry. So this idea of look outside the industry, there's something, you know, there's an amazing opportunity.

One of our advisors recently said, you know, hire to the character, teach to the competence. Like find the right people for your business and the rest will take care of itself. So I think that I agree with you. And that empathy piece is a huge part of that. So I appreciate you making that point.

Chip Roame: You know, Catherine, if you think about it, like the financial advisor industry for a couple of decades has really been an investment advisor industry. A more narrow word, very focused on investments, right? And you think about skill sets and occupations that would lead someone to be an investment advisor and they’re other numbers-oriented, egghead kind of professions, right?

So what would have made a good investment advisor might have been an engineer or an accountant or, you know, someone that was a numbers person. And if the world of advice is changing to be more financial planning-centric and more client-centric, well, then it's more of a teacher, or maybe it's a social worker, or maybe it's a nurse, or a doctor.

People who think more about customer needs, or client needs, or patient needs, or student needs, or whatever it is, and less about being the great number cruncher that the engineer or accountant was. But more the nurse or the teacher who held your hand and, you know, and they would have walked you through your schooling or your surgery. Maybe they'll walk you through your retirement or your inheritance or whatever.

So I think the skill sets changing and the skill sets should change because the advice offering is becoming bigger and broader, and that's good because again, there's lots of studies that show you add more value through financial planning than you do narrowly through investment advice. And so maybe the skill set should change, maybe the people should change a little bit, maybe this is all good. Actually.

Catherine Williams: You know, you and I last connected at our Deals and Succession conference. We were talking about all things M&A and certainly succession planning. And one of the recurring themes that we're certainly engaging with advisors around is this idea that, you know, that single G1, one who's now got to get G2 squared away, and in some cases, let's be honest, even G3, right? This industry has now been around long enough. And it's not a one-to-one transfer, so to speak.

It's a one-to-two or three or four potentially that you're succeeding your business to. Some of that's because you've grown and there's been increased complexity. But I think there's a little bit of this that we were just talking about in that as well too, that where you can bring some different types and skill sets and backgrounds to the table. Seems as if that could be a nice opportunity for the future of your current business.

Chip Roame: I think that's right. I think, you know, there's a funny perception that says advisors are aggregating. We all know that. And the Deals and Succession conference was a good example of that, right?

And the Tiburon prediction is that number is going up. They're going to acquire more in the future. These firms are going to aggressively acquire. And Tiburon has a phrase called the "consolidation of consolidators," that some of those firms will then get married to each other, right?

Yeah, you'll see consolidation of the consolidator someday. OK, so that's a little, I see that as a given. That's factual. That's my prediction. But I believe that could be all be true. That does not mean the small advisor goes out of business. And I think that's a funny thing people jump from, well, if I'm not ginormous then I'm out of business. I don't think that's true.

And I don't understand the argument there because again, the logic to how a small advisor stays in business is one, does he or she have enough clients? And two, does he or she have enough technology and or staff to serve those clients? That's all you need to stay in business, right? And I think the technology for small advisors is plentiful, right?

So there's plenty of firms out there that help advisors run their businesses better. And so there's plenty of technology. There's plenty of human capital. I mean, again, there's a little bit of a talent shortage in America right now, but there's plenty of people you can hire.

You can run a small, successful business. I think the challenge is more on the marketing side for a small business is how do you grow it? Now maybe you don't want to. And again, that's another one of the things that I think the industry people get all caught up in. Maybe you don't need to grow it. Maybe, maybe you got 100 or 200 clients and, you know, you charge 1% a year, and you got $100 or $200 million of AUM. I'm not sure you need to get any bigger.

You might have a perfectly happy life and play golf three days a week or whatever your hobby is. So I wouldn't jump from because there's aggregation, therefore small advisors are in trouble. I don't know that I understand that argument. I don't see any factual basis for that argument. I think a decade from today there's tons of small advisors out there, because they've hired a small staff and deployed technology well, and they're happily serving 100 or 200 clients.

That's my guess.

Catherine Williams: Yeah. I don't think we're a cottage industry anymore, but I think there's still plenty of room for cottage advisory purposes, if you will. And in the, in the sense of, of the smaller businesses, and in fact I would offer we need them. We need them as much as we need the bigger firms as well too. So I would agree with you on that.

Chip Roame: I'll give you a factoid. The industry is dispersing more than it's aggregating. Meaning last year, and actually it's been true every year recently, last year there's more new RIAs than consolidated RIAs.

No one notices that, right? There's plenty of new firms. The number of RIAs is going up, not down, right? So we're not consolidating the way the popular press might lead you to believe.

Catherine Williams: I think it's a great comment. Yeah, absolutely. What do you see as sort of the greatest pressure on the businesses right now?

Chip Roame: And so I think RIAs have three pressures, maybe four as a general rule. So again, you find this stuff in your own practice management study. But if I'm practically running an RIA firm or an independent advisory firm, there's four big, interesting issues to me, right? One is lead gen. Where am I getting my incremental client from? Two is staffing.

How do I pay people, promote people, you know, whatever, but benefits, et cetera, you know, do they work from home? All these kinds of things and the talent shortage. So staffing and compensation, category number two. Category number three, technology deployment. You know, do I rely on a turnkey asset management program, a TAMP? Do I have in-house technology? Do I get a separate financial planning software or do they actually integrate? Or is this a big disaster?

And, you know, third, questions about technology, and fourth, questions about succession planning. I want to transition my ownership maybe internally, maybe externally, maybe quickly, maybe slowly. But somehow, I have a succession planning issue. So if I'm running an RIA firm, those are my big four issues, right? Lead gen, people, technology and succession planning.

So I think that's true if you're running a small firm, if you're running a big firm. Now, the answers to those and what your real question is are entirely different depending on how big your firm is. But those are the big four meaty issues to me.

Catherine Williams: And you're right, we do see those four areas absolutely kicking up in our studies and in our engagement with advisors as well, too. Absolutely. And the succession for sure. I think from a growth standpoint, obviously there continues to be a pretty high appetite, a lot of media around growing inorganically. But I think what we tend to see is that the firms who are able to successfully deploy an inorganic growth strategy are firms that in fact have figured out how to maintain the organic growth strategy. That they still have found that they've got that muscle well-built. Do you see that as well in your work?

Chip Roame: Absolutely. I think this is a place where I think small and large firms differ and they should differ, actually. Meaning if I'm an advisor with, I don’t know, a hundred clients or some number like that, and maybe I'm a single principal office, right? What is growth to me if I really think about that practically, right? If I say I'm growing, do I mean, I'd like to add five or 10 more clients next year.

I mean, I'm not going to try to add 100. I'm not going to double my client base. That's crazy. I'm a single principal office. So I think people get a little confused here. You know, we're talking too generically, right? For a small advisor, if with maybe 100 clients, maybe client referrals is your only marketing strategy, you know? I mean, maybe the reality of your whole business model should be about retaining your clients, number one. Consolidating your clients, meaning capturing the rest of their money. If they get a rollover, make sure you get it kind of thing. And number three, meeting a handful of new clients. Prospects from your existing clients. Client referrals, nothing about professional referrals, nothing about the custodian referral programs, no digital marketing, no seminars, no radio shows, nothing else.

I mean, if I'm a small advisor and I define growth as adding five or 10 new clients a year, I'd say it's all about my clients. Hanging on to them, getting the rest of their money, and meeting their friends. It's all about my clients. Where if I'm a big advisor, you know, client referrals are important to them, but that's never going to give them the growth rate they're looking for, right? It doesn't mean client referrals or any less important. It just means there's only so many client referrals you're going to get in a year, right? So then you have to be focused on digital marketing.

So I think all the big successful firms that are organic growers, now some of them are just consolidators, and I think it's super important to notice the difference. But if they're an organic grower, maybe an organic grower and a consolidator, but if they're an organic grower, then they are all about digital today. Now, digital may be branded search, it may be SEO, it may be webinars, it may be paid lead flow from Nerd Wallet or Smart Asset, but they're doing something in the digital realm because that's how you grow a big business today.

It's digital, digital, digital. So when we do studies and I see somewhat silly answers to this, like 50% of people think client referrals are the future and 50% think digital’s the future, well simply it just matters how big your business is. If you're a small advisor, then client referrals should be your number one. And if you're a big advisor and you want to get ginormous, then it has to be something around digital.

So I think marketing is very, very different when you're talking about adding 10 clients or adding 1,000 clients or 5,000 clients, right? You don't get that from client referrals, right? So I think it's super important to draw a thick line between organic growth for a small firm, maybe single principal firm and organic growth for these firms that want to be hundreds of billions of dollars.

Very, very different.

Catherine Williams: Well, and when you're a smaller firm, the impact of accelerating your growth, maybe doubling your clients, if that's what you're looking to do, and what you need to do in terms of people, technology, systems, processes, leadership, profitability. All of those pieces of the business just inherently gets a little bit more complex with each sort of iteration of growth.

I think about John Jones with Brighton Jones talking on the podcast about this cycle of, you know, you get clients, keep clients, you get people, keep people, you've got to get more clients, you know, and then it just becomes a self-fulfilling cycle. So to your point, and we certainly talk with many advisors frequently who say, look, I don't know that I want to sign on for that.

I maybe didn't get into the industry to have to manage that side of the business or, you know, recognizing that there probably, you know, there may be some elements of that, you know, their business will suffer if they don't do it well. And so why would I? But, you know, it's nice. I feel like we're in an industry that there's room at the table for everyone, which is I think is pretty darn cool.

Chip Roame: I could see a shift in who the executives are of these firms as they get bigger, right? So historically, the CEO of a big RIA firm is the guy who started it or the gal who started it. It's the person who started it. They grew up from being the entrepreneur.

They were savvy enough to understand recruiting and technology and all. And they became the CEO of a bigger firm. So that's kind of what we have today. Who's the CEO of, you know, a lot of these firms. It's the guy who started it, right?

But there’s starting to be some beginnings of, wow, so if a big RIA has dozens or hundreds of offices and hundreds of advisors, man, that starts looking a lot like a wirehouse. Isn't that an entirely different skill set? That's a managing people and motivating people skill set or whatever. And or it's a marketing skill set. It's lead gen.

And it's not about the intricacies of financial planning or investment planning. It's about marketing. And or I could see some big marketing people jumping into the industry who go, oh, I know how to generate leads. I'm good at that. I used to generate them to sell, you know, Tide detergent or sell pencils or whatever I sold before. I can generate leads in your industry.

So what we have today, leading big RIA firms are the guys and gals who started them. What we might have in the future would be some professional managers coming out of the wirehouse channel or some marketers coming out of the consumer goods channel. We'll see, that's a prediction. I don't have any evidence for that one.

Catherine Williams: You heard it here first, folks. We'll see what happens. We'll check back with you, right?

Chip Roame: Ask me in five years. Yeah.

Catherine Williams: You know, if you're an advisor business owner listening today and they're thinking, OK, I get it. My clients are predominantly baby boomers. I do need to think about the next generation and their needs and complexity, and how do I get my arms around them or begin to. Based on your observation and working with firms who are absolutely focusing in on some of these areas, what's one thing an advisor could do to get this going, so to speak, within their own business?

Chip Roame: Let me answer this slightly more holistically. So I would say, if I'm an advisor today, my first strategic decision is, do I like the size of my business or am I really trying to go to a 10X, right? And if I'm just happy to grow five or 10% a year, then the rest of what I say is kind of irrelevant to that guy or gal, right?

So if I'm a guy who just wants to grow five or 10% per year, as long as I have a decent staff and some good technology and I get some client referrals, I'm fine. And I just want to be real clear, there's nothing wrong with that as a strategy, right? So I just want to say that clear.

But separate, draw the thick line. Now I want to grow it 10 times bigger. Then at least Chip Rome believes, and Tiburon believes you've got to have a Gen X strategy today. You probably have to have a Millennial strategy today, right? So for the Gen Xer, I would be all about education and webinars and getting out there, generating leads that way.

And for the Millennial, I'd be all about a small account strategy. Maybe you start them with an online only offering or, I don't really love that, I like the online offering with a pop-up video, you know? Maybe, yeah, I don't know, somehow you limit how many hours they can ask you questions or something like that, but it's some help and advice.

Maybe it's not to an individual advisor, but to a team of three people. You have a team of three people who serve all your, quote, small accounts. I wouldn't call them small accounts, by the way, they don't like that phrase. But, you know, your emerging clients let's call them. Your emerging clients all report into a team, a team approach.

Maybe the team's only two people or three people or something. But if they press the help line, which is a video help line, if they want some help and some advice, it's always video. And it goes to one of two or three people, right? That's a pretty easy small account strategy or emerging client strategy to execute today. So I think if you want Millennials, you want to be in business 10 and 20 years from today, you got to have a Millennial strategy.

You want to be in business for the next five or 10 years. You've got to have a Gen X strategy. If you're happy riding out the Baby Boomer wave, again, there's nothing wrong with that. You made a lot of money. You had a good life, you served a bunch of clients well. So I think all of those are decent strategies when I think about the generations of consumers.

Catherine Williams: Well, thank you. Thanks for letting me put you on the spot a little bit with that question and get your perspective around it. So that's great. So I posed this question recently to Cameron Passmore with PWL Capital up in Canada, $3 billion firm. And, you know, we talked a little bit about navigating the business from a leadership standpoint and the complexities that come with that.

And I shared with him a quote from James Mattis, who's a four-star Marine general, and he's the former secretary of defense. And he talks about how solitude allows you to reflect while others are reacting. And that we need solitude to refocus on perspective decision-making rather than just reacting to the problems as they arise. And as a business owner, as a leader in an evolving business, how do you recharge? How do you find sort of those moments in solitude to get ready for the next great adventure?

Chip Roame: When you read about, you know, what was it, the old Myers-Briggs study or whatever it was, the difference between an extrovert and an introvert, most people misunderstood it. They thought this an introvert with this nerdy guy or gal who didn't want to talk to anyone. That's not what an introvert meant. What an introvert meant was that you recharge by maybe being home or being alone or doing something habitual that allows you to think, right?

I'll tell you two quick stories as fast as I can. I get my energy back from two things, from physical work or from physical exercise. And so I will invite your listeners into both of these. I co-lead two trips every year, one called the Tiburon Impact Adventures, which is like our charitable trip. And we go build homes in Mexico. And this is hammer swinging, let's be clear. This is about putting a pair of shorts and a work shirt on, and some work boots and, you know, carrying around some nails and swinging a hammer and banging shingles in, and building a pretty humble home, but for an underprivileged Mexican family. And we do this every year at the end of February. We just did it a couple of months ago.

We took 50 or so people down there. We built three houses in two days. Just awesome. And so I get some energy back from both the charitable aspect of it, but also the outdoors exercise part of it. So that's one that's how you have how do I get the solitude? That's one way I get it. And then the other is in the summer every year.

And by the way, I should say, in fairness to them, for the Tiburon Impact Adventure, Scott Hansen from Allworth and Craig Weitz from First Rate are my two co-leaders on that.

And then separately with a guy Skip Schweiss, who is a longtime TD Ameritrade guy, now runs Sierra, he and I lead the Chip and Skip, or Skip and Chip he would prefer, Excellent Adventures, where we go do big hikes in the summer or mountain climbs. And we took 62 people to Glacier National Park in Montana last summer and this year we'll go to Lake Tahoe. Again, it's just outdoor, it's exercise, it's hanging out with people in the industry, but doing so outside of the office and doing something in nature and all. And so short answer to your question, I get my energy back, my solitude is either from physical labor and charity or from the outdoors. And I love doing those things. And so I kind of have two outlets for those. And again, your listeners can join either one of those efforts if they want to. They're welcome.

Catherine Williams: That's great. That's fantastic. Well, Chip, thank you for joining us today. I feel like we could you know, we could certainly talk for another couple of hours because there's so much going on. It's an exciting time in our industry and there's lots of lots of opportunities and things to tackle, if you will.

But thank you for joining us today. And I want to remind everyone who's listening, you can absolutely find Chip on LinkedIn, on Twitter, incredible resources at TiburonAdvisors.com. I think I've got that website correct. And certainly, you know, as someone who's been just a fantastic contributor to some of the events that we've done as well, too, if you're a client of Dimensional, we've got Chip on video on a couple of things as well, too, with the legendary blue and yellow slides right that's we are we always remember those slides, they're fantastic.

So Chip, thanks for being with us today. It's great to have you.

Chip Roame: Thanks for having me, Catherine. I appreciate it.

Catherine Williams: And for anyone who would like to find more information about Dimensional and how we work with advisors and investment professionals, check us out at Dimensional.com. And with that, we will catch you next time. Thanks, everyone.

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