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When Less Is More: Getting Clear on Your Strategic Vision and Target Market

Catherine Williams: Welcome to Dimensional's Managing Your Practice podcast. I'm Catherine Williams, head of Practice Management, and thank you for joining us today. When I consider the true students and visionaries of our industry, my guest today immediately comes to mind. Whether cofounding XY Planning Network, publishing one of the industry's most popular blogs and podcast series, or in his role as head of planning strategy for Buckingham Wealth Partners, Michael Kitces brings a deep and unique perspective to our industry and how advisors can shape the businesses they envision. It's great to have you with us today, Michael.

Michael Kitces: Thank you, Catherine. Really enjoy the opportunity to come out and join and talk about the industry and trends.

Catherine Williams: So excited for our conversation, I've got lots of topics. Probably the biggest challenge will be staying focused.

Michael Kitces: We'll do our best, we will do our best.

Catherine Williams: And I also want to add a quick congratulations for recently making Investment News 40 under 40 list. That's a great way to add to your list of accolades. That's a great honor there.

Michael Kitces: Thank you.

Catherine Williams: So as I was prepping today and thinking about how can we really get the unfiltered view of Michael Kitces and your view of the of the industry, you know, thinking about a tool that we often use on the consulting side. Thought I could start with a little bit of an exercise that we call “keep, stop, start.” Some of the things that we're doing really well, some of the things that we if you could wave a magic wand, you would have us stop doing today, there may or may not be some things there. And then what is it that as we look forward to the health and vitality of our industry, what do we want to be sure that we're thinking about going forward? So with that on the keep side, what should we absolutely keep doing?

Michael Kitces: At the most basic level, like what's going well in our industry, frankly, most of it, like we've I feel like we spent the past 10 years beating ourselves up on everything from the fees we charge or are robo advisors going to blow up, the business models we used, is the AUM model doomed? Technology. Is it going to blow all this up? And here we are 10 years later into the into the robo movement and computers getting a bajillion times more powerful than they were. We all still have our jobs. The average retention rate for an advisory firm is 95 percent. Good ones are at 97 or 98 percent. The average revenue yield on an advisory firm has not dropped one basis points in 10 years of supposed fee compression. All this negativity stuff that a lot of people have to say about our world and here we are 10 years later and firms are bigger, better than ever. Retention is good, pricing power strong. To be fair, margins have maybe come in a little bit. We got we got to do in the aggregate a little bit more than we used to. So a couple of firms that maybe used to run 30 percent margins run 25 percent margins on average. But by and large, the numbers are just astonishingly good to me across the board. For what if you dial the clock back 10 years ago like we were supposed to be on the brink of catastrophe,

Catherine Williams: Right.

Michael Kitces: Like the markets had just crashed. The financial system may or may not crumble. The Fed was about to spawn hyperinflation around the globe. There may or may not be a global default of countries around the world. While robo advisors had just shown up and said they were going to obliterate our business model at a quarter of the going fee, and none of that happened. So for all the naysaying around the industry and not to say, as I'm sure we're going to talk about soon, ways we can do better and get a little better from here, I certainly don't want us to rest on our laurels. But

Catherine Williams: Right.

Michael Kitces: I'm just I'm constantly amazed at the amount of naysaying at our industry and how well it is actually doing and that we are all doing in the aggregate. And I think really it's just a testament to the value of expertise and the value of relationships at the end of the day.

Catherine Williams: And I think that value of relationships is so critical, particularly given, you know, all the technology that's in play, all the different options out there. Right. Lots of different business models to choose from. There's you know, I often say there's room at the table for everyone, but certainly from a client's perspective, you've got to figure out what is the right fit for me. And firms that are doing that well are simply adding to adding to, as you said, the health and vitality of the industry in general. So I think that's great perspective. We're often asked through our Global Advisors study, OK, where's that fee compression going to kick in? And when is growth going to, you know, growth die off, if you will, through client referrals? It's like, well, I'll let you know. We haven't seen it yet.

Michael Kitces: Yeah

Michael Kitces: I was tallying the table years ago saying the way this is going to play out like it was never going to be fee compression, but that margin compression was likely. And we have seen a little of it just being an advisory firm as well, having lived this for a long time, like we're not cutting our fees to 25 bps to compete with robo advisors. Like I'm never going to compete with the technology enabled firm that has a bajillion dollars of venture capital behind it. For better or worse, even if I'm going to compete with them, I'm not going to compete by cutting my fees.

Catherine Williams: Right.

Michael Kitces: I'm going to compete by saying, well, yeah, I charge more. But here's all the additional awesome stuff that I do and all the additional value that I provide. And so my thesis, even 10 years ago when robo advisors were first showing up, we wrote about this a lot on the site, was that robo advisors weren't going to cause fee compression. Instead, we were going to value-add our way up to our fees. But if you got to do more for the same fee used to charge, that shows up in margin compression. And we have seen a little of that. But I think that's also just the raw amount of competitiveness that's come into the space because the fee-based models become so incredibly popular across the industry that there's also just, never mind robo advisors, even just amongst ourselves, there's a lot more competition than there used to be. There's a lot of folks that were solely in a transactional commission-based model that are now in an ongoing fee-based relationship model. And so we're just competing against each other, I think a little bit more not to paint the whole like we're all at each other's throats, but just it's a lot more people offering comprehensive wealth management for an ongoing portfolio management fee than there used to be.

Catherine Williams: And I feel like the current M&A landscape is reflective of, as you said, you know, this elevated awareness, this elevated competition, this elevated value of businesses makes them incredibly attractive and a really interesting path for growth for so many organizations to think about who can we go out and buy? Balance sheets are fairly healthy. And so I think that M&A landscape speaks a lot to what you're describing for sure.

Michael Kitces: We are all the more so. I mean, if you look at just going valuations for advisory firms, particularly larger advisory firms at scale, that get a little bit of a premium to it. I mean, when you look all in the EBITDA multiples for acquisitions of advisory firms have nearly doubled over the past 10 years. For the decade that was supposed to collapse our fees and enterprise values, fees went nowhere, margins barely compressed, and in valuation multiples went up 50 to 100 percent. It's a heck of a thing for the supposed downfall of advice. And it turns out like, no, expertise and relationships still are quite valuable.

Catherine Williams: What are some things that we may be doing that could be distracting or could show up as sort of bigger problems down the road?

Michael Kitces: I kind of think of this in two way, sort of two related issues, both ultimately tying to this idea that there are more and more advisors in the comprehensive wealth management business, which means it is just truly mathematically getting harder and harder to find a client who is not already attached to an advisor. And that's making organic growth for the industry as a whole a lot harder. And what I'm finding is as growth gets harder and competition gets just a little more challenging and just differentiating, standing out is getting harder because we're all kind of clustering into the same model, doing the same thing for the same target clients. I'm finding most advisory firms are responding one of two ways, both of which are extremely unhealthy.

The first is they see growth slowing and they say, we got to cast our net a little wider. And so if you just think of this literally like imagine for a moment, like I'm holding a fishing net in front of me, like one of those old fishing nets, I say I got to catch more fish. So I'm going to take the net. I'm just going to stretch it out so that it'll be bigger. It'll cover more terrain. If it covers more terrain, then more fish will swim into my net and I will catch more prospect opportunities. But if you literally imagine like a lattice net, which I'm holding in opposite corners and I and I start stretching out the nets to make it wider. Right. What happens to the net? The holes get bigger. Right. So what ends up happening? More fish hit the net and more of them swim through the net because you made the holes ginormous. So it feels better. Look at all this new prospect activity we're getting. And then you measure at the end like we didn't actually get any more clients from this. In fact, our close rates went down. And I'm seeing that writ large across the whole advisory industry right now. We look at the growth rates getting slower, oh my gosh, I've got to stretch it more, and we make the problem worse. If I think about, well, what do I actually want to do? If I'm if I'm going to catch some fish with a net like you, don't take the net and stretch it wider and wider and wider. You bunch the net up really tight and you put it where the fish are. You go find a stream that's really dense with a lot of fish and you put a tight net right there. And so that whole phenomenon of not casting a net wider and wider as generalists, but saying how do we get more focused and specialized in the particular client that we want to go after, figure out where they are and put a really tight net right where they are? That to me is the path to growth in the future. But we're just fundamentally doing the wrong thing with the net. We're stretching it wider instead of tightening it up and putting it where it will catch the most opportunities.

The second challenge that I see coming from firms over along this vein is it's getting harder and harder to differentiate and stand out because all these other advisory firms also say we provide comprehensive financial planning advice customized to your individual needs and objectives brought to you with our years of expertise and our credentials, all the things that we put in there to try to differentiate ourselves, which is not actually differentiating anymore. And so we start trying to add more like, well, we'll also do this and

we'll throw this in. We'll do that and go throw all this stuff out there. I call it the value bar, pardon the colorful analogy, but it's kind of what we start doing. I'll give you more and more and more. We're just trying to cram all the stuff out there that we possibly can in the hopes that something that we throw on the table that that particular possibility like, oh, that sounds awesome. Like I'll totally sign up with you for that. But when we do so much of that stuff, that's part of why margins start compressing for the industry. Instead of saying, well, I'm just going to get super awesome this particular type of client and roll out one service that's absolutely amazing for all of them that no one else would do because it's so rare. But all my clients will love it because all my clients are of this particular type. We, when we do this, cast the net wider and wider. We also struggle to figure out how to create more specialized value so we create more generalized value and generalized value kind of ends up being the value bar phenomenon. And the value bar phenomenon becomes very, very expensive just to maintain as an advisory firm.

Catherine Williams: Right.

Michael Kitces: We're doing all these different things. We're doing like 17 different things, each of which is highly valued by six percent of our clients. So we're covering the ball. But jeez, this is getting inefficient and taking a lot to do. And then we come and say, like advice business isn't scalable. It's like, well, no, the advice business is plenty scalable. What's not scalable is doing 17 different things for 100 different clients. You've made it impossible for yourself to scale. So those are those are the two related things, all of them get back to this phenomenon of trying to build up generalist businesses and struggling with it. And it just comes from almost all of us start from the same place. I mean, if you've been this business for any extended period of time, you started with some version of like a phone, a phone book in a cubicle. So we like we get this thing hammered into ourselves from early on. If they can fog a mirror, they're our prospects. If they're related, they're probably going to be a client. And we built our businesses that way with anybody we can talk to who's willing to do any level of business with us and not to necessarily knock that out of the gate, although we do see firms that are just starting more focus at the gate and getting traction faster. But we start with this generalist habit that at least was a reasonable function for survival in the early years. And at some point we get past the survivalist stage and into the you've got to focus to grow stage, but we keep the survivalist baggage and don't let it go. And that's what leads us to a phenomenon like the overly wide net and the value bar.

Catherine Williams: To your point, clients are more likely than ever to be working with another advisor. So you're not just competing to get that client's attention, but you have to make sure that they understand why you're going to be a better option for them. It seems like all of that has sort of come to a head in a way that requires so much more precision for advisors now than ever before.

Michael Kitces: Frankly, I think part of it stems from the fact that the truth is if you look at most advisory firms that are sizable today and just like dial the clock back and say, how do they get to be that billion dollar firm today, maybe multibillion dollar firms. You dial the clock back 20 or 30 years ago, you say, how did they get there? And what you will find for almost all of them is that they got there by one of three paths. The first path was they had some kind of just niche out of the gate, often kind of tying in there are local markets, some company or presence in the local market or we specialize in doctors and dentists and some high income professions. So a lot built around some kind of niche. And they actually just they ran what really is a classic niche model works then works today. The second type of firm that that was really successful is the firm that was basically the only one doing advisory in their area. If I go back 20 years ago, fewer than one in 10 advisors had CFP certification. Very, very few were really providing any kind of holistic advice offering. And so if you were an RIA offering holistic advice back in the 90s such that you compounded it forward and became a billion dollar firm today, like that was a niche that was a really narrow, specialized niche, like any generalized person who was looking for comprehensive fee-only advice from a firm like that. Just the fact that you did that meant you basically were a niche. The third type for most advisors at the end

of the day, as they grew, as we say, like we grew with in person local relationships, which basically means, we grew because we were the only person within a five square mile radius of the client's house who did what we did, which basically meant our differentiator was our zip code and the address of our office. And still today, when you look like the number one Google search for financial advisors, it's "financial advisor near me." So consumers still can't tell us apart that the number one way that they differentiate us is the address of our office and our zip code. That's actually one of our biggest differentiators. It's also why most of the biggest advisory firms are in metropolitan areas, more people, because if you're going to specialize in a zip code, it works better when you specialize in an affluent zip code. So all of these to me actually are just really different versions of the same thing. Every firm that grew big today had a niche. It was either a classic identified niche, you know, the doctors, the lawyers, the dentists, the executive at a company or whatever it was of that variety, their niche was their zip code or their niche was some version of like RIA/fee-only such comprehensive advice when everybody else was still in the transaction brokerage business. And that's all well and good. But the problem is the comprehensive advice for these niches is breaking down because it's getting crowded. The zip code niche is breaking down both because it's getting crowded and because especially over the past year, consumers kind of notice that you can do this with an advisor anywhere in the country through Zoom a relationship and maybe I don't have to find a local one. Sure, some people will still have a preference for local, but now local is going to become a smaller niche because not everybody is going to stay local the way that they did before. Which means the only bucket that you're left with is a third one, which are the nichey niches, the niches as more classically defined that I think you're going to see become the things that really begin to excel and drive us forward. And so in that kind of "start, stop, keep doing" frame like what's the start of what it looks like going forward? It's if you want to grow in the future, you have to decide what you're going to be the best at. And I mean, so the best that when someone types that into Google, you come up as the answer. And that's what growth is going to look like in the future. And the awesome news is those people can live anywhere in the country, anywhere in the world. And this amazing finding machine called Google will lead them right to your digital doorstep. All you have to do is stand out, be known enough for the one thing that you want to be awesome at that has a couple of people on the face of the earth who care about that and have some money to pay for it. And that's actually really freeing in the opportunity to grow an advisory business, although sort of paradoxically a little bit paralyzing for advisors. We feel so overwhelmed of like, well, which niche do I pick? Because I want to make sure I pick a good one. Answer is, there's seven billion people on the planet. Most of us can have wonderful firms with 50 great clients. So, like, literally pick anything and you're probably going to be fine. We highlighted an advisor on our podcast a couple of years ago, his niche is bass fisherman. Just because you know, all fishermen would be too broad.

Catherine Williams: Right.

Michael Kitces: Just bass fisherman and it sounds like a crazy thing, but he grew up on a lake with a bass fishing tournament. He's been involved in the bass fishing community all of his life. Bass fishing tournaments have like million-dollar prize purses. And then the endorsement deals start coming in for all the bass fishing equipment and the TV deals and all the other stuff. He's the go to guy. So it sounds like a crazy thing. But by his late thirties, he built up over 100 million dollars under management and 90 percent of his clients were bass fisherman.

Catherine Williams: So the question that people listening may be asking is, OK, so how do I start how do I get started on that? How do I start figuring out? But I think your example is perfect in that it's like look around, think about your own background, where you sit at your community, the kinds of clients you're currently working with. And probably a couple of things will pop up, I would guess.

Michael Kitces: Yeah, most advisors I find end up coming to a niche by one of three ways. Either they get their first client in it by just fluke happenstance, whatever it is, or even they look at their existing clients. Turns out I got I got five or six doctors. I really like work with them. Or actually two people are both fairly senior executives at this company in town. And I've got a great relationship with both of them and I think I could work with them to go deeper with the company and get referrals to other executives that they're that they're hanging out with. So the first path is for some kind of happenstance, serendipity thing that within our existing client base, we've already got some people in an area and we just say, like, this is where I want to focus more. So I'm just going to start putting my time and energy towards them in particular. And like, you don't have to ignore the rest of your clients or kick them off the bus or do anything else. The reality is they like hanging out with you already. They're not going anywhere. So if you say we're going to be focusing more services in this particular area, but I want to let you know, we've really enjoyed working with you over the years and we're going to continue to support all the existing clients of the firm. And I'm looking forward to continuing to work with you. Oh, awesome. Like you do you. I just want to make sure I'm taken care of. So the first option is we do it off our existing client base and it works just fine. Your existing clients aren't going to run anywhere. If you're serving them well, they hang out just fine. But you can start compounding towards the ones that you want to work with as an ideal. The second path that advisors go down is something they've got some kind of natural affinity or connection for. Jared got into bass fishing because he grew up in the lake with the bass fishing tournament. His family was involved in bass fishing community. There are advisors out there who specialize in teachers. Why, well, my spouse is a teacher, my mom was a teacher. My cousins are all teachers. My parents were teachers. Basically, my family is like 17 generations of teachers. I'm the first person ever not be a teacher because I became a financial advisor. So all we talk about family dinners and family gatherings is teachers. So I'm just going to go specialize in teachers now. So we see those kinds of niches emerge. Like I've got some kind of natural affinity to, a profession often through a spouse or a family member or sometimes like a thing we did previously, career changers often form niches from people from their former career.

Catherine Williams: Yes.

Michael Kitces: And then the third option, which I find in practice, is almost never used. But the place almost every advisor start is, well, I'm just going to sit down with a pencil and paper and come up with the magic niche that's going to be the thing. And you can do that. Look, if you if you come at this like a venture capital firm, they're going to sit down with like a giant map of all of the different households, you all the different consumers that exist, start doing market sizing analysis to figure out the size of the economic opportunity of them, the competition, the space, they'll do SWOT analysis and all this other stuff. Just try to try to decide the particular area that they tactically are going to go after. And not that I'm negative on that, it's a fine thing to do. I'll business strategy nerd out as much as anyone, but it's not necessary for most of us. And the reason really just comes down to the simple reality that most of us can have wonderfully successful practices with no more than 50 great clients, which means, basically almost anything works. I mean, the firms that do those kinds of analyses do it because they're saying if there's not a multibillion-dollar opportunity in this market, it's not large enough for us. That's really what happens when a venture capital firm is coming to a particular area. We need 50 human beings on the planet with some financial wherewithal to pay us for some advice. You really can't go too narrow. I mean, you do have to make sure you pick some segment that has some financial wherewithal to pay you in the first place. So there is some general level of income and affluence that you kind of got to line up on in whoever it is you're going to go after. But short of that, like virtually anything works, which is why we tend to approach it by thinking about I'm going to sit down with my pen and paper and try to intuitively swap out what is my ideal target market size and service and all this stuff for them.

Catherine Williams: Can you pursue a niche client without offering unique services or expertise to that niche, meaning you can grow it because you simply get access to them? Or do you find that you've got to

not, of course, be able to speak their language, but you really do have to have something that is very unique in terms of your service or your expertise for that particular type of client.

Michael Kitces: The way it usually plays out in practice is it starts out working because you can talk their language and have a connection with them. If you pay attention and listen to them and focus on them, you end out making something unique. Because when you have enough conversations with the same type of client over and over again and it's the same type of client over and over again, at some point you're like, this is the 17th time someone has asked me for this analysis, like I'm just going to make a template out of it in Excel. And then I do. And then I make it look nicer and I make it look fancier. And then like I give it a name and I put a trademark on it. And then suddenly I've got my patented trademarked process of how we do this particular thing for this particular type of clientele. And it's not that I sat down at the beginning was like I'm going to make a super differentiated offering for this particular type of client and I wrote it out in my 17-page business plan up front. It simply came from when I started serving these people. And if I do that for all of them, and I know the next five are going to ask me the exact same question, I'm just going to tell them in the prospect meeting that we also do this because most of our clients ask about this at some point. So Jared who works with the bass fisherman and when he goes into prospect meetings like you just won a tournament, you're probably wondering what's coming on. Well, let me tell you how this is going to play out. Like you're going have a lot of unique tax consequence. It's not a problem. We actually know how to handle the tax consequences of the prize-winning sea bass fishing tournaments. Now, the next thing it's going to happen, you don't even realize it's coming, is that the bass fishing endorsement deals are going to start coming in. So congratulations. It's a really good opportunity. But the problem is that a lot of those equipment companies actually have some pretty one-sided contracts that are really in their favor, not in your favor. But the good news is because I've already done this with most of the other winners of the bass fishing circuit, I already know the three major companies. I know what the contracts look like. I know where the traps and pitfalls are. And I'm going to be able to walk you through those contracts the moment that they start coming in, make sure that we maximize value in the opportunity for you.

Catherine Williams: And now that expertise has kicked in.

Michael Kitces: Right now, all of a sudden, you know, whatever other financial advisor that bass fisherman who just won the big prize tournament from is not going to hear anything like what he's hearing from Jared at that level of depth and specialization simply because he knows how this works. He's already got a whole bunch of these, 90 percent of his clients, bass fisherman. So it's just not new terrain. And it's not that any of us couldn't do this. You know, I got my CFP certification. I've been doing this for years. Like, I can give some recommendations on prize winnings, give some tax guidance and figure out how to make some recommendations. Well, it's not that none of us couldn't do it by putting in some of the time and effort to figure it out, it’s that Jared knows it's going to be and he knows it an advance. He knows exactly how to talk through because he's done it a zillion times. And what it would take us 10 hours to do an analysis, he is going to do in 10 minutes because he already knows all the stuff, because he's got 100 hours into it from the past 20 or 30 clients that he's done it for. And so at the end of the day, he can talk it better, do it better, do it more focused, do it exponentially faster and easier, which means he'll be far more profitable than we ever will be and will attract more clients who want it because he knows how to talk that talk and demonstrate that expertise out of the gate. And that's how he gets to be a 30 something grossing 100 million dollars under management very, very quickly with 90 percent of his clients are bass fisherman.

And just I look at that in one niche advisor after the other. And that pathway is often very similar. They don't craft their final niche from the start. The niche evolves and widens over time. Even for Jared, he actually went from the bass fisherman to win the prizes to amateur bass fisherman who like to go on bass fishing expeditions, which he now runs as prospecting events, because he found that if you want to look at like who can do the high end, really cool bass fishing expeditions where you go out for a week on a boat to do this

stuff, it's people who own really sizable businesses and are in senior positions of leadership and ownership where they can go and take a week off from work and it's not a big deal. Otherwise known as great prospects who actually like hanging out on your boat bass fishing. And he's got like stories of fighting off an alligator with a knife to protect one of his clients. True story. Then I see other advisors out there, one I know that started with, hey, we just want to go after medical professionals. So we started out focusing on white coat professionals like that was anyone that wears a white lab coat. So like doctors, dentists, ortho's anything tied to that and then eventually got more specific doctors and eventually got more specific, more specific on optometrists. And then he got even more specific into the optometry ophthalmology world is going through a version of PE roll ups similar to what's happening in our advisor space. And so he is now several years into this, ended up with the niche of optometrists. I get this right, like optometrists in their 50s, who are five to seven years from retirement and planning to sell their independent optometry practice to a PE rollup. And he has a waiting list.

Catherine Williams: Yeah.

Michael Kitces: For that.

Catherine Williams: Yeah.

Michael Kitces: When the pandemic broke out last year, he did a webinar on how to do PPP loans for your independent optometry practice with all the things of like: Question, can you do a PPP loan against the lease payments of your LASIK machine? I have no idea. He did, because that's his people. That's all he does. So that was the kind of questions he's able to answer. So he put 700 prospects on one webinar and has basically a lifetime supply of waiting list clients who are all having giant liquidity events because the PE firms are just rolling through that industry right now.

Catherine Williams: Right.

Michael Kitces: So he didn't start there. He started out with anybody in the country who wears a white lab coat, which is like 10 million people that you couldn't possibly serve. And now he's down to this hyper focused area because he just kept doing it and getting some people and then getting more specific on those people. And then that led to other people, which led him to something that was more specific. Niches tend to evolve. They're usually not masterminded. And I think we tend to overthink sort of the stage one masterminding instead of approaching it with much more of a lean startup style, like just go serve the first one, either because it's a client you've got or a natural affinity you've got do some stuff for them. Listen to what they like, do more of that. Ask them for someone else they know who also wants that and just start going down the rabbit hole.

Catherine Williams: This lends itself to an area that I wanted to get your perspective on, which is formally assessing your client satisfaction, your client engagement. And where that often comes home to roost, so to speak, with many of the advisors we work with and particularly those that participate in our global investors study, which is an end client study tool. We had 17,000 participants last year from around the globe. And this idea of when you know more about your existing clients, you can then use that information to begin developing the personas, the niche clients, that pipeline that you most want to fill with the clients you'd most like to replicate. And yet we often find ourselves in conversations with advisors who are a little hesitant to be formally engaging with their clients, even their top clients, even the ones that they would say they feel the most comfortable with and really asking for their feedback. Why is that? Why do you think there's such sometimes a hesitancy on advisors' part to measure that? Or would you offer that as being something that is important and they should be doing?

Michael Kitces: I think it's something I certainly think it's something that's important. Having feedback loops from your clients about what they like and what they don't like is just gives you much better data driven way to make decisions about what to start doing, what to stop doing, what you keep doing per the earlier conversation then just kind of taking blind stabs and hoping you figure it out. And trying to judge it by the last three client meeting conversations you have in whether they said something nice about it or not, which is not actually a good way to measure overall reactions, because then just squeaky wheels get the grease and you don't necessarily get good perspective on your clients overall. So, yeah, at a high level, like I'm certainly a fan of trying to gather more data. And there's a cool firm propping up these days called NEXA Insights that literally is like building client satisfaction surveys specifically for advisory firms. They've got the questions templated for you. So you literally just cue up an email list out of your CRM and dump it into their thing and send it out. So like the tools in our space are getting easier to make that more feasible as well. Why don't we do it at the end of the day? I mean, I think there's two reasons usually that this crops up. One the industry is so brutal in the early years, it is so, so brutal.

Michael Kitces: And it is, even if you're good, years of lean scarcity, just trying to get enough clients to survive, validate your contract, your numbers, whatever it is, so you can keep around long enough. Frankly, I think it sort of lightly scars and traumatizes us to the point that we have such a scarcity mentality ingrained that the idea of ever asking questions what they like so we can get narrower and more focused is just anathema. Great, if you spent most of your career feeling like everything is scarce, the last thing that you imagine doing is making the net narrower. And I think it's sad, it's like it's I mean, is the reality of the path that we often take, but again, I think it eventually creates a lot of problems for us because we get caught in this like a trap. There's a point where it goes from being a reasonably adaptive behavior in a tough start up environment to a very maladaptive behavior that no longer lets you focus and get to the next level. It prevents you from scaling. It prevents your marketing from focusing. It erodes your margins with value bar and all the other problems that come from it. So I, I know why it's there. I remember living it when I started my career as well, but it's a hard thing to overcome and it makes us not very excited to go and survey our top clients to find out how we would focus for people like them. It's just scary the thought of ever not saying yes to a prospect after you spend one, three, five, seven, 10 years just trying to get anybody to say yes to you is just such a mindset shift. It's very, very difficult.

I think the secondary challenge, at least for some of us in the advisory business is the truth is even as great as our numbers are, the margins, the retention rates and all the rest, it's scary in a lot of us don't always have the best confidence. I mean, there are times, particularly when you've been doing this for a long time, it's like I make some pretty good money. I don't actually work a ton some weeks, particularly if you prune down the client base a little. And I think sometimes we even get to the point of, as brutal as it is in the early years, some advisory firms actually get to a point and it's actually gotten pretty comfortable. Yes, some of this is like make up for how hard it was for a lot of years. But I make some pretty good money now and the hours have actually gotten pretty good. And I'm just not sure I want to start asking some questions and kind of risking that I overturn the apple cart. They're not unhappy, they're not firing me. I'm happy, I'm not firing them, like we can just sort of chill here, like I don't need to mess with this formula. And I do see that crop up from some advisory firms. There is a point where I think the business gets you to a certain level of complacency. Again, I don't want to be negative on it. Like we work our backside off for a long, long time, a lot of years to get to the point where we can enjoy it at that level. But when you get to that point, you can lose a little bit of the hunger, a little bit of the extra swing in your step. It just feels like the reward for all the years that were hard. And I don't even fault us for it. I mean, I think the industry has a tendency of like, grow, grow, grow, grow, grow and put people who grow up on a pedestal and sort of be negative to the rest. But the truth is, like if you were an advisor who has just survived 15 or 20 years in this business, you are making good money in good relationships with people you like working with who pay you pretty well. You earned it like it's cool if you want to just hang out and enjoy making good income and doing some other stuff and focusing on some other areas of your life.

Catherine Williams: First and foremost, certainly if any advisor listening now does currently work with Dimensional, we hopefully you're choosing the global investor study as your mechanism for measuring client feedback. But I do think that the phrase of sort of lifestyle business has taken on kind of a negative connotation in the industry. And it's not fair. It's not accurate. And the reality is, in many ways, we are still sort of a cottage industry. There are so many more of those advisors that that are thriving, have highly valued businesses and are delivering incredible value to their clients. So I think you make a really good point.

Michael Kitces: When just when you drill down, actually look at the metrics, I mean, we found this in some of our advisor income studies through Kitces Research and the old Moss Adams studies, ensemble practice sites have shown this as well. The top solo practices generate as much take home income as the average partner at a billion-dollar advisory firm. And they do it, frankly, without all the stress and heartache of building a billion-dollar advisory firm, and there's a lot of people say like, well, but at least you own the enterprise value of a billion-dollar advisory firm. Yeah, that's true. But you probably only own a piece of it because you had to share a lot of the equity with others in order to get it there. So you've diluted and you probably spent five to 10 to 15 to 20 years making significantly less money because of all the reinvesting and hiring you had to do in order to get there, while you also probably worked 10 to 20 percent more time, if not more, because we see a very clear correlation between size of firm and hours worked. And so by the time you do all the math on that, you don't even necessarily end up ahead. And that's not to say it's a bad thing to build a large enterprise like some people are just wired to build large enterprises and scale them up.

Michael Kitces: If that's if that is your genetic makeup, more power to you. I love the entrepreneur, but most of us are not wired that way and most of us don't really get into the business to do that. We got in the business because we help people. And the truth is, actually, the bigger you build it, the less you get to spend time helping people because you got to manage your team and grow the business and feed a lot more mouths and all the other stuff that comes with that. And the truth is, except for the very, very, very small percentage of entrepreneurs who really build big businesses, hit it big, virtually all of them would have made more money by just staying focused and small and lifestyle in the first place. That's just the actual math of it. And just all the technology and outsourcing and all the rest that's out there today makes it even more feasible now than it would have been 10, 20, 30 years ago.

Catherine Williams: Yeah, good point and certainly within our Global Advisors study for a number of years, we continue to see when we look at faster growing firms as compared to slower growing firms, the faster growing firms tend to have a lower profit margin operating profit margin than the slower growing firms. And in the last couple of years, when we ask about top challenges and concerns for those faster growing firms, profitability is one that kicks in much more so than for the slower growing firms. So I think we're seeing it in some of the data we're gathering as well, too.

Michael Kitces: Absolutely, it's just I mean, as someone who spent a lot of time building a lot of businesses, just growth eats cash, growth eats margins, it's just the nature of it. I mean, if you're really serious about growth, you have to hire ahead, right? Just like you have to hire ahead of your needs. Otherwise, you can blow up your growth and your client service. You've got to build infrastructure. You've got to start hiring middle managers and people to manage people and H.R. and operations and technology and systems and a whole bunch of other stuff that just comes as companies reach a certain size and mass and milestone points. And so all of that chews up growth capital, it chews up dollars, it chews up margins. So you can do that because you think you're building a bigger, better thing at the end. Hopefully we're at least getting enough return on our dollars of investments that the enterprise at the end is worth as much as the dollars that we put in along the way. But not all of us actually do that successfully because the entrepreneurialism is hard and we hit a lot of walls and barriers along the way and not all of us were necessarily wired to do that

in the first place. And so, again, not to be negative about the advisory business, but just high income solo practices are grossly underrated or even sort of small giants, small partnerships of two or three advisors that come together. If you don't like being totally solo because you like some other folks around or gets a little lonely, there's a lot of other models besides let's go build a giant enterprise with all the reinvestment challenges and pain that come with that. And we kind of get sucked into that unwittingly, which is why even we found in our we did a well-being study on advisors last year through Kitces Research and found the unhappiest advisors have two and a half billion dollars revenue. The unhappiest advisors have two and a half billion dollars of revenue and that's not just a random number. It's actually a very logical one if you've studied business at all. So the typical advisory firm usually runs about $250,000 of revenue per employee or so. So as you're going from about two million to two and a half billion dollars of revenue, you are getting somewhere up around eight to 10 staff members. If you look at sort of classic models of management, most people have trouble managing more than about six to eight direct reports. Just it gets a little overwhelming. There's too many people, too many things to keep up with and all that. So by the time you're getting up to two to two and a half billion dollars, you've got eight to 10 team members that you're trying to manage, which is estimated capacity. You also probably have like a hundred client relationships you're managing as well. And the people who manage to top out at six to eight, that's usually with like just managing the six to eight, never mind the doing the work of a hundred clients on top of that. And you start hitting these really rough walls that start coming at you because there's just not remotely enough time to do that. And so we see just the happiness and well being starts falling off dramatically because it's all about the only way you really get through that is you probably should have hired two or three more people and say, well, if I hire two or three more people I'm going to crush my margins. Yeah, that's how growth works. Otherwise, just maybe don't grow it that large, but the problem is, once you get to that many people, you actually it's sort of like a treadmill or like pumping up a balloon. Once you pump it up to a certain level, you have to keep pumping it up and keeping it going. If you've got eight to 10 people on board, the truth is that you have to keep growing. Because if you don't, your people don't have growth opportunities, which means they're going to keep leaving you every two, three, five years, that you have to keep starting over. And that gets really, really painful. And so then you have to keep growing. But then the more you grow, the more all these problems get worse. And I call this the accidental business owner phenomenon, like I just set out to help a bunch of clients because I enjoy the business and helping people and talking about money and, you know, 10, 15 years later badabing badaboom. Suddenly I've got 18 members, two and a half billion dollars of revenue. I work 55 to 60 hours a week. I'm making good money and completely miserable.

Catherine Williams: Yeah, I often referred to them as the reluctant CEO, to your point, that they got into the business to work with clients. In fact, I was talking with Jon Jones, the CEO of Brighton Jones, the other day. And he uses to your point, there's a cycle that kicks in, right? You get clients, you keep clients. You have to get people. You have to keep the people. And then you've got to get more clients and keep more clients to continue that that cycle, that controlled chaos. And he is not a reluctant CEO, but we work with a lot of advisors who and that, I think is driving a lot of the M&A activity that we're seeing in the industry as well. But to your point, be purposeful about making decisions in your business. So, you know, where do I want to be? What kind of business do I want to have? And how do I avoid sort of getting myself into trouble, so to speak?

Michael Kitces: I think a lot of the merger and acquisition activity you see, particularly in what we call the mid-sized or the industry calls the midsize RIAs, just kind of that you call it 200 million up to 700, 800 hundred million in assets under management. Those are the firms that are in that messy, messy middle stage. They're too big to be small and too small to be big and decide, like, OK, maybe we could sort of keep growing figuring this out. But I'm working for a lot of hours for lower margins and this just is not fun anymore. This is not what I enjoy anymore. And just when we look even at Buckingham Wealth, we do a lot of acquisitions and mergers and so-called tuck-ins these days with advisors who just say, like, I would just like to work with a larger firm who has all this staff, HR, scaling systems, technology people, stuff figured

out. So I can get back to the part that I liked, where I just work with clients and do nice advice, relationship, client things. And so we certainly see that we do a lot of merger and acquisition transitions with firms like that. And just in general, like either you decide to take the pain and make the mental mindset shift to say we're going to grow through this, you find someone to merge with and say, you know, that can be their problem. I'll get a nice check and then I'll get back to the stuff that I like doing. Or you, I call it right size the firm in the other direction, which is I'm going to scale back the clients and scale back the team. I'm gonna get it down to what's meaningful for me. And the truth is, actually, I think that that probably is the better path for a lot of advisors, but it means letting go of clients and letting go of team members, which is so difficult for most of us because we feel we're I mean, we tend to be helper types. It's why we come into the business to do this. So terminating staff and letting our clients is not very appealing. So let's find a place to merge where everybody gets to continue. And I just get to put my time back to where I want is where we're seeing a lot of people in now.

Catherine Williams: Michael, you've had the opportunity to talk with, interview, engage with if it's not, I mean, it's at least in the hundreds, I'm guessing, advisors around the industry over the years. Regardless of whether they're defining success by how much they're growing or maybe purposely choosing not to grow, what are the top two or three characteristics that you see when you think about top advisors and those that are really getting it done, so to speak? What comes to mind in terms of those characteristics you see across all of them?

Michael Kitces: I think there's probably two that I would highlight the most. The first is they've got a pretty clear vision of where they want to be. So whatever it is they're doing, they do with intention, right, whether it's intention to be huge or intention to be midsize, or intention to be small and lifestyle, they've got a vision of what that looks like. Which usually means they've taken some time to figure it out. A lot of advisors just they never really sit down and take the time to do that. So the ones that I see that are the most successful, whether it's that they decide to get big or small or something between is they had some purpose and intention around it, which usually involves something like, you know, reading a book around how to just how to formulate vision for yourself. If you're not good at doing that, you know, there's things out there like Cameron Herold's Vivid Vision and some other books out there to help you figure that out if you're not used on your own to formulating your own vision, because it's not natural for some of us. So number one is they have some clear vision about what they're trying to do. As Stephanie Bogan says so well, like when the vision is clear, the decisions are easy. And most advisors I talk to and they say, OK, well, I'm not sure what I should do. I need your advice. Or what do you suggest, Michael. If you have to ask the question, your vision isn't clear. It's like my actual suggestion is get clear on your vision. If you want to talk about this after you're clear on your vision, let's have the conversation. But you're actually probably going to find you answer like 95 percent of your own questions once your vision is clear.

The second thing I would say that is the common theme that I see. And this actually sort of cropped up as I did all these interviews and conversations with advisors and business leaders over the years. So one of the questions I used to ask really early on in my interview process was if you could dial the clock back, what would you do? What would you do differently? Tell me the landmine that you stepped on your journey so no one else who comes after you has to accidentally step on that landmine or hit that wall.

Catherine Williams: Do you specify that in their professional career or can they sort of.

Michael Kitces: Any way that they want to answer it. And what I found just interview after interview after interview after interview, they couldn't answer the question. They flat out couldn't answer it. The answer was always the same. Well, you know, Michael, there's a lot of things that I've done. Some of them didn't always work out well, but all of them were part of the journey of what made me who I am today to figure out the stuff that I do now. And so while there's things that didn't go well, I don't think I could do well the

things I do today, if I hadn't had the painful thing that happened that taught me that one incredibly important lesson that everybody told me, but I completely blew off until I blew myself up on it. Now I get it was so essential what I do. So like, I never would have gotten there if I hadn't walked face first into that wall.

Catherine Williams: And what is your reaction to that?

Michael Kitces: I feel like I identify with it very much as well. I get it like I agree that there's just sort of this aspect of like you, you approach your challenges as either setbacks or learning opportunities. And I know it's like a pithy thing to say, but it really is the common theme that I see for all of the successful advisors that we interview, even when success means wildly different things, because they have some very different visions of success. And we talk to people who have a wonderful income and their goal is to spend 500 hours a year volunteering with their kids PTA. And others who are like the billion-dollar firm is like that's my starting stakes, but I actually want 100x that. So you have talked to people across the whole spectrum. They've got some vision. Whatever that vision is, but the pretty clear on it and whatever the steps and the pain points are on the journey, it's part of what made them. So they don't want to take any of that stuff back. They just lean into it and say, that's part of how I got here, and so I don't even shy away from those things now. And that's really what I find are the are the driving characteristics, it's much more about how you get back up again than the idea that some people don't get knocked down.

Catherine Williams: I think that not fear of failing is in the DNA of any true entrepreneur, right? And certainly our industry is full of amazing entrepreneurs. So that absolutely makes sense. Makes sense

Michael Kitces: But

Catherine Williams: For sure.

Michael Kitces: Most of us are trained. I mean, we're trained to we're trained to avoid that right

Catherine Williams: Yep.

Michael Kitces: In school, like in school an F is bad, in Silicon Valley, an F is a badge of honor. When you try a thing and it fails, like, yeah, you tried that thing. That's awesome. Like you've got a hunger. Come on over and work for us. That's like that makes you that makes you more valuable in Silicon Valley. And I'm certainly not the first to try to wax poetic on the benefits of embracing failure. And there are plenty of people who do it way better than I do. But just having now spent years and years interviewing hundreds of advisors who've gone through this journey successfully and, well, just living it myself of, you know, we've hired and grown over one hundred team members across five or six different businesses over the past six years of growth as well, with a lot of the entrepreneurial pain as well. Yeah, all of it. All the pain, all the setbacks, all the failures. Like there's so many things I'm better at now because I walked face first and some of those failures and including and especially like a lot of things that I feel like I heard as pithy sayings in business when I was in my 20s and 30s. And now that I'm living them and growing and scaling businesses like, oh my God, it was all true. And I had to actually fail at it to be like, oh, that's saying is actually true. Now I get it.

Catherine Williams: And such an opportunity, there's a lot of conversation in our industry about G1, G2. G3 even, and seems to me just a great opportunity for G1 to impart that kind of understanding and awareness to G2, now they're going to have to live it themselves to your point. Right. They're going to have to have their own failings and successes. But I think, you know, I often find myself talking with G1, and they're really when they think about grooming that next generation, whether it's to succeed their business or to fill out their talent pool, they can often be really fixated on the technical skills, the age, just time in the trenches, but sharing with them the stories of what did it look like when you hung that shingle for the very first time

and took on that first client and all the things that have had to happen in the business when it was just you. Those sort of experiences seems like such a rich opportunity to sort of move the conversation, move the needle with the next generation of talent in some of these larger organizations.

Michael Kitces: Yes, yes, I certainly agree, but with sort of an unfortunate asterisk to that, which is so if you're a firm owner, you're a firm owner because you've got a certain comfort, frankly, up front with that level of failure and challenge and risk. Otherwise, you wouldn't have done your thing 10, 20, 30 years ago and hung your own shingle and the no income and cold calling and brutal no's and rejection, all the harsh stuff that happens, pretty much all of us when we go and build our firms. And for so many now, we're hiring G2 advisors who come in in salaried roles and servicing clients to move up the line. A very different type of environment and frankly, one I think that is much, much better for the profession overall. I think the way we brought talent historically is horrific. And we have driven away immense numbers of fantastic advisors with a terrible, terrible process. But the process we had was really sort of uniquely well suited to pull in entrepreneurial risk takers. And the new model that we're building is particularly supportive of non-entrepreneurial non-risk takers. In fact, if you are an entrepreneurial risk taker, you usually don't even take that job. You actually go and do one of the more traditional paths because you're totally good with the fear of failure and risk and all that, the upside reward and all those things. So what we end out with and so many firms are people who are particularly wired for risk trying to develop people who self-selected into non-risk, non-entrepreneurial roles.

Catherine Williams: Yeah, excellent point.

Michael Kitces: And not that you can't potentially get people there. Right. We grow and evolve in amazing ways. A lot of people who are very averse to risk at some stages in their career get much more comfortable with it at other times and then do it and learn from it and all sorts of cool things happen. So I don't want to shut any particular person's journey down, but I think sometimes we grossly underestimate the size of that gap because of the self-selection bias of who, by virtue of sort of entry into the industry and survivorship, is a G1 founder now, and who by self-selection took a G2 employee job in the first place. And then you map onto that that the truth is a lot of G1 founders get more risk averse as the business grows because just there's more dollars at stake. And so you mash all that together and you get risk takers who don't want to take risks anymore, paired with people who don't want to take risks in the first place. And there's a lot of not risk taking, not failure, not entrepreneurialism that starts cropping out that like it's no one's fault, like no one's doing anything bad or dumb or anything. Like it's just these are the natural conditions that form in this sort of environment. But it gets to the point where it's really hard to get some of the G2 to the level of sort of taking the risks and having the failures and learning the lessons that need to be learned for them to get there. And I think that in part is why we're seeing so many firms in that kind of mid- to large-sized realm ending out with sales and exits and other pathways. I mean, we talk about this is like, well, it's really hard for the next generation to afford the firm and all that. Like, I'm sorry, like that is a complete and utter B.S. answer. Like the economics of buying an advisory firm are really simple. If the firm is running 20 to 30 percent profit margins, you finance it over seven years, the deal basically covers itself. The math is not that challenging and difficult. And frankly, it has gotten easier every single year for the past 10 years because of the just the sheer entry of SBA loans and other specialized lenders into our space.

I mean, I don't want to completely belittle, like, yes, there are some economic risks and the math doesn't always perfectly work out the first year or two. But almost none of this is a math problem around affordability. It's a risk taking. It's a risk attitude which then gets into what experiences have you had to experience risk and be rewarded by risk, particularly when you took a job that was not necessarily the riskiest path because you picked the employee path instead of starting your own firm from scratch, because if you want to start from scratch, you had done that and built that, you wouldn't be here talking to me about G2.

Michael Kitces: And I wouldn't be selling it if I was at a certain point where I didn't feel like I needed to grow any more. I just want to cash out what I've got. But if I want to cash out what I got, why would I take a bunch of risk? Now I just want to cash out of what I've got. You just start jamming all that stuff together like that to me is why a lot of the succession planning challenges are emerging that the way that they are.

Catherine Williams: I think to your point, we see in our study that the top reason why a succession plan is not moving forward, G1 saying, I'm having I'm struggling to identify, I want to do an internal succession, but I'm struggling to identify the best candidate. And yet when we talk with them, they have great advisors. They have they have great team members. But it is that piece of getting, you know, I think getting them to think about the risk of that and really moving that conversation forward because they're both coming at it from two different angles. So I think your perspective is really interesting. Makes sense.

Michael Kitces: I don't want to belittle some firms that really maybe have some talent challenges, but a lot of those like, well, I can't identify the person I think can do it. I'm like, well, is that because you're trying to identify the person who's going to succeed at all of it the first time out of the gate? Because, like, yeah, I'm not surprised you can't find that person. They probably don't exist. And you didn't do that path either.

So you have to drive and inculcate those kinds of opportunities for the next generation as well. Like, yes, they're going to fail and have some setbacks along the way, just as you did. So try to come at it early enough that they can fail, have some setbacks, learn from it, grow from that, and then grow it enough after they grow from that, they get higher than where you were originally. It actually feels good and they don't tank something right before you were planning to

Catherine Williams: Create that runway

Michael Kitces: flying to the exit.

Catherine Williams: Yeah.

Catherine Williams: And go back to that top characteristic that you started with, develop a strategy, develop a vision of where you want to be, whether you're G1 or G2. Both sides of that conversation should come to the table having thought very carefully, you know, oftentimes with G2, we have conversations where they're sort of they're sort of in receipt of what the organization looks like today or the blueprint that the G1 has created. And the reality is this is an opportunity. And in fact, you should think about what does your own strategy look like, what's your own vision. And that can perhaps inform not only the risk you're willing to take, but what does this look like beyond when that check gets written, those next couple of years. Pretty powerful. It's been fantastic to spend time with you.

Michael Kitces: Likewise. Thank you.

Catherine Williams: And we are so appreciative of just your willingness to give of your time and expertise. I think that that generosity is so appreciated. So thank you and thank you specifically for spending a little time with us today. It was it was great to talk with you, just as we talked about, just as we suspected, we ran across a number of different topics, which was a lot of fun.

Michael Kitces: Absolutely my pleasure, Catherine. Thank you so much.

Catherine Williams: So I want to thank everyone for joining us today. I want to remind everyone to absolutely check out Michael at Kitces.com. That's where you can see research, the blog, the podcast, all of the great tools and resources that that we've talked about here today. And certainly if you're looking for

more information about dimensional and how we work with advisors and investment professionals, you can check us out at dimensional.com. And with that, we will see you next time.

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