“The Growth Formula: How Smart Financial Advisors Scale Faster & Build More Valuable Businesses”

By:

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I grew up an only child in a lower middle-class neighborhood. We lived paycheck to paycheck and my Dad probably averaged $35,000 per year while my Mom stayed at home. My Dad was an alcoholic and it was partly to blame for his cynical disposition. One day, while barbecuing burgers I asked him, “How do people pay for things when they retire?” I was a curious 9 year old who wondered if things just came free, or if there was some magical social safety net to help all of us turn the professional life off, so that we can rest while playing with the grandkids. His terse response, “Nobody actually retires. Get that thought out of your head. You and I will work till the day we die. That’s what life is.” The good news for me was I didn’t believe him due to his constant angry disposition. He often yelled about my physical, mental and social limitations but it was all driven by his own insecurities, and his struggle with addiction. There had to be a better future than the one he painted.

Fast forward to 1998 when I landed my first gig in the financial services business. I was an advisor with MassMutual in mid-town Manhattan. Like any young kid trying to break in, I was given a long list of prospects (which should have been defined as anyone who could fog a mirror) and told to start cold calling. I made the fatal error of having success at this. I scheduled four appointments in my first ten calls. Managers called me a cold calling cowboy. Oh no. I didn’t want this. I switched to public seminars around the five buroughs and had immediate success due to my dynamic presentations and energy. It didn’t take long to get noticed by organizations that would want to capitalize on that specific talent. I became a wholesaler to financial advisors and began a long career of inspiring and motivating financial advisors to live their life mission and achieve levels of success they didn’t believe possible. This was an approach that was quite different from my peers. Most wholesalers have their eye on sales of product, and nothing more. There is nothing wrong with that! Senior management at these distribution companies love people who are laser focused and deliver exactly what is expected. What many of them didn’t realize was that sales is all about building relationships. By spending my time helping advisors become better, they would reward me with sales in my company’s product - to an even greater degree than the other wholesalers! As a result, my career is littered with turnaround stories. Worst to first became my calling card. I turned around five different territories from worst to first using this method. Innovation and a strong commitment to helping advisors exceed their own expectations drove my success. These principals continue to drive me even now.

Over my 25+ years in this business, I have helped laid off executives turn their low cost basis company stock into a tax-efficient pension plan through charitable remainder trust planning. I have also built a sales training and coaching program that took an entire territory of insurance salespeople and converted them into wealth managers who deliver a virtual family office experience for middle-class millionaires. Most recently, I launched a business that simplified financial planning and even gave the advisor, and their client, a mobile app that acted as a tool to illustrate the consequences of their decisions around retirement planning, education planning, saving for their children's weddings, etc. The app did these calculations in ten minutes and displayed them in a fun, sailing through life metaphor.

Today, I am focused on helping financial advisors take advantage of some of the most powerful tools ever available to grow their business and have built one that has significant value for their inevitable exit.

Important questions for you:

1. *Do you have a marketing budget that is dynamic from year to year?*
2. *What percentage of your revenue is committed to marketing?*
3. *How do you balance tools like artificial intelligence and the human touch with people you have never met?*
4. *Is marketing an expense or an investment?*

The Two Advisor Case Study

Financial advisors can get paid in two ways, either through recurring fees or through commissions. The bulk of the industry has moved to "fee-based" revenue which is generally charged quarterly (in some cases monthly). Many insurance products are still commission driven and can often complement investment portfolios that are fee-based.

For the purposes of this study, I am going to assume both advisors are totally fee-based, both charge 1% in annual fees, both benefit from a 6% increase in assets under management due to stock market growth each year, and both have overhead which absorbs 40% of their revenue. Both are starting this comparison with $75 million in assets under management.

However, *Advisor A* does not invest in any marketing activities. When I was a wholesaler, I identified this advisor by asking how they grow their business. Most often, the reply came just a second after they folded their arms and it sounded like this, "I only accept referrals from my clients." I was always willing to challenge these advisors by asking, "When you build your annual business plan, how do you estimate how many referrals you will get and how do you predict how good they will be?" The answer was usually a shrug and an admission that they didn't actually build an annual business plan.

Advisor B, on the other hand, commits 20% of his/her annual revenue into marketing activities to grow the business. These marketing activities could range from dinners for prospects at fancy restaurants in exchange for thought provoking presentations that try to inspire a working relationship with the advisor to social media campaigns that attempt to distract the Facebook user's engagement with lifestyle shares to webinars that try to appeal to a specific niche. There are no limits to the ways a marketing budget could be used as long as everyone remains compliant with regulations.

Which advisor do you think will earn more in the long run?

Breaking Down the Numbers

Advisor A grows their business with the stock market. Since this advisor doesn't do any marketing and doesn't build annual business plans, we will assume no new clients. It is important to highlight the stock market often outperforms this 6% number, but when an advisor manages allocations for a large number of people who differ in risk tolerance, accumulation phase vs. distribution phase, etc., it is important to be realistic with just how much stock market movements affect the assets under management.

Advisor B also participates in the same 6% market growth of their assets under management, but spends 20% of their annual revenue to fund marketing projects to drive new clients to their firm. We assume the 20% investment delivers a 20% increase in assets under management by year-end. It is important to note that poorly trained salespeople can make this number unattainable and equally important for the advisor to continually monitor marketing metrics to determine which methods are most effective.

Revenue and Take-Home Pay

Year	Advisor A Revenue ($K)	Advisor B Revenue ($k)	Advisor A Take-home Pay	Advisor B Take-home Pay
1	*750*	*750*	*450*	*300*
2	*795*	*945*	*477*	*378*
3	*843*	*1,190*	*506*	*476*
4	*893*	*1,500*	*536*	*600*
5	*946*	*1,890*	*568*	*756*

- **By Year 2, Advisor B's revenue surpasses Advisor A's.**

- **By Year 4, Advisor B's take-home pay exceeds Advisor A's - even after reinvesting 20% into marketing.**
- **By Year 5, Advisor B makes nearly double what Advisor A makes ($1.89 million vs. $946,000 in revenue).**

The beauty of this analysis is it demonstrates how quickly Advisor B realizes the benefits of being frugal early in order to reap the rewards in just a few short years. For those who plan on staying in the business for 15 years or more, this is a great roadmap to realizing your mission statement when you joined the business. These thoughtful advisors will help more families fulfill their family obligations while becoming independently wealthy themselves.

Firm Valuation Growth Over 5 Years

It is not easy to assign any specific formula to accurately assess the value of an advisor's practice. The most common valuation method discussed in advisor circles is the multiple of revenue method. In reality, this method may be the most flawed of all of them. For an advisory firm that is considering an exit in the next few years, I strongly suggest getting a professional valuation from an independent third-party (not from your own broker-dealer!) who blends various methods that would most accurately assess the valuation at that time, in that environment. This is so important that I recommend repeating the valuation process every couple of years leading up to the exit, in order to better understand what is happening in that specific marketplace.

For the purposes of this conversation, I will agree to use the multiple of revenue method. The chart will show a range of potential valuations each year and factors that influence that valuation include a thoughtful succession plan where families feel comfortable with buyer, an owner's manual that helps new staff (and the new owner) understand prior policies in order to maintain consistency, and a consistent overall investment/financial planning experience among the families served.

Year	Advisor A Valuation ($M)	Advisor B Valuation ($M)
1	*1.5-2.25*	*1.5-2.25*
2	*1.59-2.39*	*1.89-2.83*
3	*1.69-2.53*	*2.38-3.57*
4	*1.79-2.68*	*3.00-4.5*
5	*1.89-2.84*	*3.78-5.67*

Advisor A's firm is worth between $1.89 million and $2.84 million after five years.

Advisor B's firm is worth between $3.78 million and $5.67 million after five years.

Higher valuations are driven by thoughtful planning and execution of a business plan that creates an organization that can successfully exist without the founder. This includes a lot more than an electric personality. It includes a consistent program to drive revenue increases (with a focus on new clients) and an organized effort at multi-generational planning in order to keep the assets with the firm upon the death of the matriarch and/or patriarch. The virtual family office experience that I referenced earlier speaks to this and addresses one of the biggest mistakes financial advisors make when building, and managing their practice.

Key Takeaways

1. The stock market benefited both advisors, but marketing accelerates growth exponentially.
- Advisor A sees modest AUM (assets under management) and income growth.
- Advisor B sees massive AUM and revenue expansion.
2. The crossover point happens quickly. Advisor B's income is greater than Advisor A's even with the 20% allocation to marketing in year 4.
3. Advisor B's business valuation is significantly higher.

Even if both advisors wanted to sell their firms in year 5, Advisor B's firm is nearly twice as valuable as Advisor A's.

Bottom Line:

Marketing + Market Growth = Massive Long-Term Advantage.

Are you ready to realize this kind of growth? Let's plan a 15 minute strategy session at no charge. My calendar is available from the link below. I promise to share strategies that are innovative and proven.

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