

WHO WILL BE YOUR NEXT HIRE?

Having built two very successful financial advisory practices over the past 30 years, the first of which was sold to GE Capital in 1998, we have observed that most advisor firms go through a predictable growth cycle.

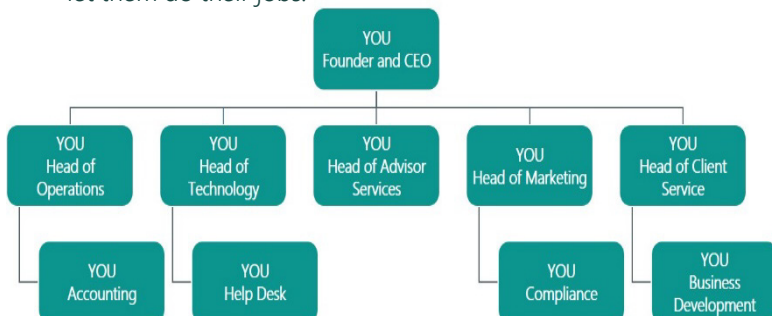
Whether you are interested in growing a \$1 billion advisor firm or you seek to build a sustainable lifestyle practice, here are some key points to help you as you progress on your journey.



Startups and Sole Practitioners (Less Than One Year to Three Years)

In the beginning, you are usually wearing all of the HR hats. If you have been multitasking, this is what your daily experience might look like visualized in an organizational chart.

Consider this observation from a 2004 Schwab industry report on best management practices: "In short, the old adage 'if you want something done right, do it yourself' often doesn't hold true in today's environment. A better approach: Assign the right people to the right tasks, and let them do their jobs."¹



As you naturally develop your marketing skills and attract more business, the time available to adequately address all of these roles diminishes. Think about these two fundamental constraints on your business: advisor client capacity and profit margins.

Various studies have shown that wealth managers — if they are just concentrating on wealth management — can competently handle between 60 and 90 clients. That estimate assumes the average advisor is spending just 39% of their time in client meetings or communicating with clients.

As you build up your client base, anything that takes you away from client interaction negatively impacts your effectiveness as an advisor. There is a difference between being efficient and being effective. Seek to be both.

How many clients can you really handle? Is your personal life aligned with your business life?

Relationship research from anthropologist and psychologist Robin Dunbar found that, "Judging from the size of an average human brain, the number of people the average person could have in her social group was a hundred and fifty. Anything beyond that would be too complicated to handle at optimal processing levels."² Regarding what is known as the "Dunbar number," *The New Yorker* clarified: "In reality, it's a range: a hundred at the low end and two hundred for the more social of us."³

In a 2012 blog, Michael Kitces said of the Dunbar research, "It may be unrealistic to expect planners will ever be able to maintain more than about 75–125 real client relationships (allowing for some room for other personal relationships as well!)."⁴

The value Forum can add at this stage: We provide useful plug-and-play infrastructure so advisors are not distracted from the root of their firm's growth: getting out there to meet with prospective clients. As an alternative to hiring an all-purpose player to assist internally with traditional non-client-facing activities, Forum-affiliated advisor firms can turn to a specialized group of individuals who know their roles inside and out (managed by our COO), including billing, reporting, trading, marketing and compliance.

Post Startup (Three to Seven Years)

In three to seven years, you probably have either a part-time assistant or outsourced some non-advisory functions. Your threshold target should be at least somewhere around \$20 million in assets under management to have a sustainable practice.

The dilemma again is that the more clients you take on, the more staff and technology you must add. As your business continues to grow, the more it expands beyond your immediate control. This should not be seen as a negative, but rather as a positive sign of growth.

In the same best practices survey, Schwab noted that for successful firms, “Delegating and allowing specialists (both internal and external) to handle appropriate responsibilities can reduce expenses and enable owners and senior partners to concentrate on boosting profits.”⁵

The value Forum can add at this stage: For advisors at the tipping point of building an enterprise firm and who want to stay advisors (not become managers of teams), we help with time management. Advisors who spend their days managing staff and technology do not have as much time to pick up the phone and call their clients. Forum advisors have found there is more time to connect with clients instead of only reacting proactively to their clients.

Emerging Ensemble (More Than Seven Years)

Once your firm reaches \$100 million in AUM, which could take 7–15 years or longer, you may now be embarking on building a business with transferable

At this stage, the question you should ask yourself: Are you building a business, or building a lifestyle? In either case, you should be vigilant about these two fundamental constraints: client capacity and profit margins.

Your next hire could be an internal staff person to handle support service and administrative tasks. If you are determined to build a \$250 million or larger AUM business, you may be better served by developing a strategic alliance with a third party such as a turnkey asset management provider (TAMP).

Through outsourcing, your team expands via a TAMP relationship with a group of people qualified to address various roles (client service, trading, operations, technology). So, instead of hiring one internal staff member, you are essentially adding a new team without committing a significant amount of your time and budget to managing and monitoring internal resources.

The value Forum can add at this stage: We provide advisors with succession planning options that seek the optimal balance between business and personal life. We do not advocate liquidation events. We work with advisors who want to slow down and transition a portion of their business but may not wish to completely stop working.

To discuss how your practice has evolved since it started, contact the Wealth Advisor Alliance (waa@forumfin.com).

Sources

¹ “Best Management Practices of Independent Investment Advisory Firms: The Path to Profitable Growth.” Schwab Market Knowledge Tools™ Industry Report, Charles Schwab & Co., Inc., 2004.

² Maria Konnikova, “The Limits of Friendship.” *The New Yorker*, October 7, 2014.

³ Ibid.

⁴ Michael Kitces, “Dunbar’s Number and How Many True Financial Planning Client Relationships You Can Really Have.” Nerd’s Eye View at Kitces.com, October 12, 2012.

⁵ “Best Management Practices of Independent Investment Advisory Firms: The Path to Profitable Growth.”