



Thrive in—Don't Just Survive— the Next Market Downturn

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Let's Talk Recessions





3rd Quarter 2020

67%

1st Quarter 2021

84%

Recessions—Prolonged **Market** Impact

S&P 500 Returns

Start	Max Drawdown (%)	Time to Bottom (Months)	Time to Recovery (Months)	End
March 2000	-49	31	56	March 2007
October 2007	-57	17	49	March 2013



Dot Com Bubble



Great Recession

Firm Growth Stages

PRACTICE BUILDING

TEAM SERVICE

BUILDING INFRASTRUCTURE

INSTITUTIONALIZING



Solo



Ensemble



Enterprise
Ensemble



Super
Ensemble

Firm Life Cycle and Profitability





Healthy Advisory Firms



What defines a healthy advisory firm?



Quantitative The Metrics

Growth
Profitability
Productivity



Qualitative The Vital Signs¹

Clear **VISION & STRATEGY**
Human capital aligned with vision
Compensation plan that reinforces the strategy
Conscious attitude about profit management
Built in leverage and capacity



The Annual Physical The Check Up

Financial Management
Segmentation
Annual firm valuation

Today's focus, three "healthy" disciplines

Financial Management Capabilities

"The Financial Physical"

Focus on profitability
Create capital to reinvest

Segmentation

"Managing Your Client Portfolio"

Consistency in Service
Ideal Client Profile(s)
Managing profitability

Capacity for Growth

"Your Firm's Lifeblood"

Human capital alignment
Built in leverage & capacity
The right growth plan



Financial Metrics “The Pulse”





Firm Health—The Quantitative



Growth

- % growth of AUM
- % growth of Revenue
- Number of new clients
- Asset Dynamics (Net New AUM)
- Referrals

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Organic Growth



Profitability

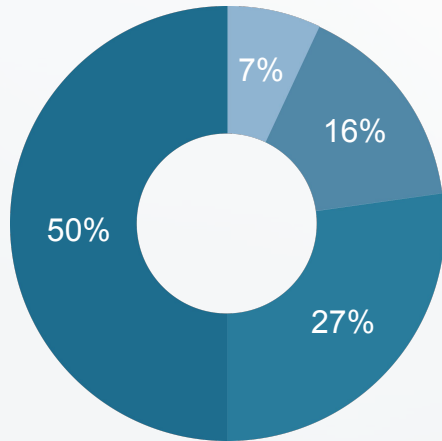
- Gross Margin
- EBOC
- Overhead %
- Profit / Operating Margin



Productivity

- Revenue per employee
- Revenue per client
- Clients per advisor
- Cost to service

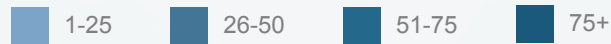
How many clients per advisor on average?



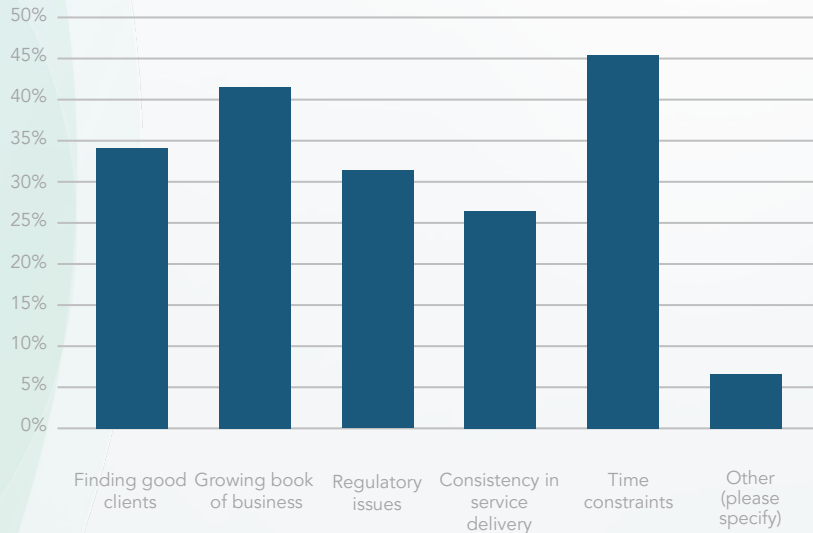
50% of Respondents indicated that they manage over 75 clients

27% of Respondents manage between 51 to 75 clients

Only 7% manage fewer than 25 clients



What are your biggest pain points in managing your practice?



45% of Respondents indicated that **Time Constraints** are one of their biggest pain points in managing their practice

42% selected **Growing their book of business**

31% selected **Regulatory issues**

34% selected **Finding Good Talent**

Productivity—Total Overhead Expenses

	Top Performers	All Other Firms
Ensembles	29.0%	42.3%
Enterprise Ensembles	21.3%	47.6%
Super Ensembles	32.8%	44.7%

Average 35%

Productivity—Revenue Per Professional

	Top Performers	All Other Firms
Ensembles	\$597K	\$354K
Enterprise Ensembles	\$727K	\$537K
Super Ensembles	\$678K	\$550K

Profitability Metrics

	Top Performers	All Other Firms
Ensembles	44.5%	17.5%
Enterprise Ensembles	44.5%	14.2%
Super Ensembles	35.3%	15.7%

Average 25%



The percentage of
firms that track,
understand, and
benchmark their metrics

15%

Advisory Firms at Risk

	Healthy Planners Inc.	Average Joe Inc.
Revenue	\$10,000,000	\$10,000,000
Profit Margin	44.5%	14.2%
Profit	\$4,450,000	\$1,420,000
Market Returns (Hyp.)	-30%	-30%
Profit / (Loss)	\$2,750,000	(\$280,000)
Market Returns (2001)	-49%	-49%
Profit / (Loss)	\$1,700,000	(\$1,330,000)

Assumptions: (1) ROA = .75%, (2) Portfolio 75%/25%, (3) No organic growth

Build Financial Capital Through Profitability



Build Financial Capital

Moat around the castle

War Chest
Access to Capital



Manage to Profitability
TODAY

Metrics matter

Productivity
Profitability

Up Next: The *Right* Clients



The Client Portfolio
The RIGHT Clients

Managing Your Client Portfolio ...The Facets of Segmentation



Quantitative

AUM
Revenue
Profitability



Qualitative

Demographics
Psychographics



The Value of a Client

Asset potential
Revenue potential
Family relationship
Network value
Fulfillment

Segmentation Outcomes

Ideal Client Profile(s)

The **RIGHT** clients
Target customer personas

Defined & Consistent Service

Improved processes
Improved productivity

Profitability Analysis

Cost to service
“profitability line”

Firms with a Segmentation Discipline

Reporting Growth
In AUM

17%
higher

Number of
\$1M+ Clients

46%
higher

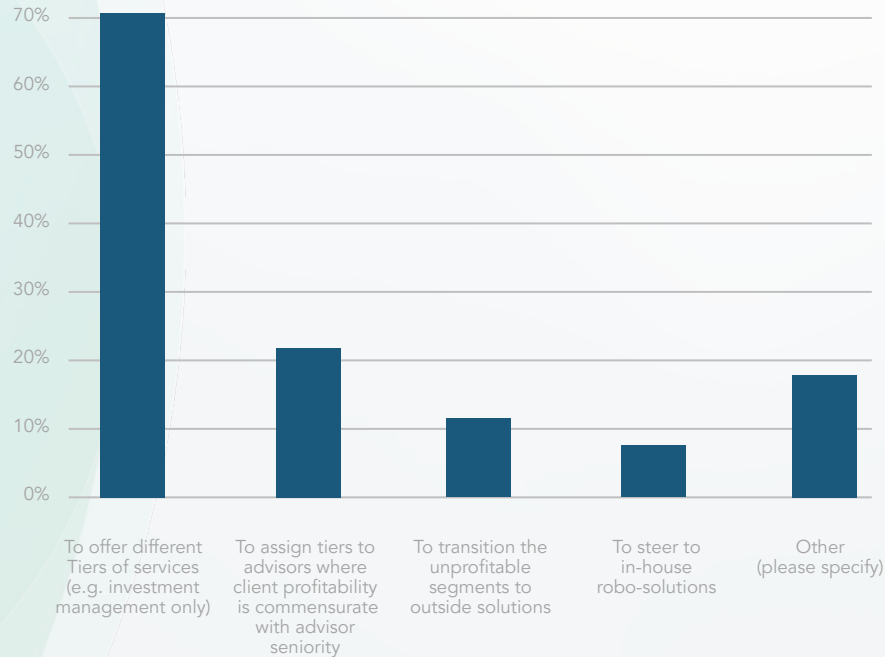
Annual Compensation
Per Advisor (mean)

\$364K
vs.
\$223K

9 out of 10 found improvements in

Firm efficiency | Advisor productivity | Overall firm profitability

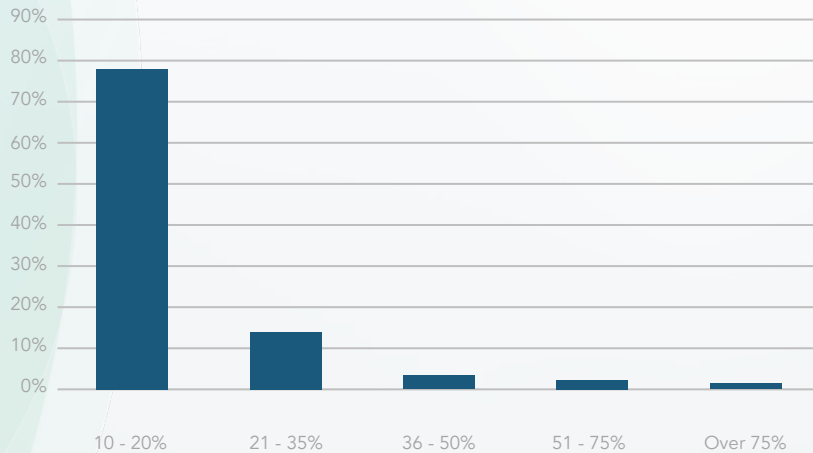
Why do you segment your book of business?



71% of Respondents indicated that they do segmentation to **offer different tiers of services**.

22% of Respondents indicated they segment to **assign tiers to advisors where client profitability is commensurate with advisor seniority**.

Of the time you spend servicing clients what percentage is for unprofitable accounts?

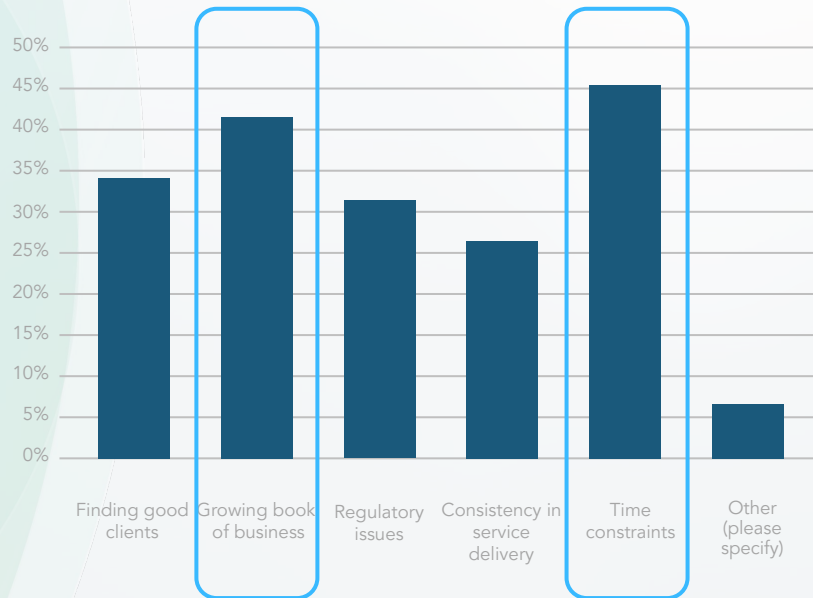


78% of Respondents indicated they spend 10-20% of their time on unprofitable accounts

15% of Respondents indicated they are spending 21-35% on unprofitable accounts

Few Respondents indicated that more than 50% of time is spent on unprofitable accounts

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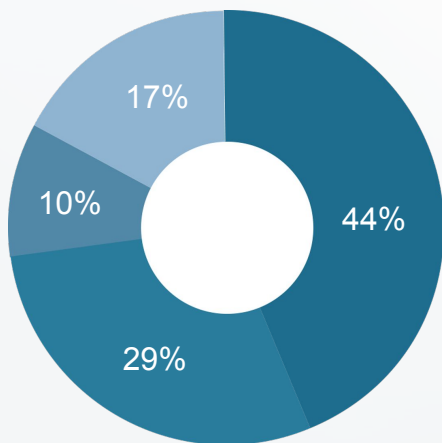
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Capacity for Growth

Do you have a minimum AUM or Revenue?



- Yes, but we don't enforce it.
- Yes, and we are disciplined.
- No, but we're thinking about it.
- No, we service everyone.

44% of Respondents reported **Yes** but they do not enforce account minimums

29% of Respondents indicated **Yes** and they are disciplined

17% of Respondents indicated **No**, they service everyone



What's Driving the Capacity Problem?



People & Team

Poor team structure
The wrong people
Not enough people?



Poor Productivity

Poorly defined services
Poorly defined processes



Unprofitable Clients

Lack of discipline
Lack of action
Lack of a solution



People & Team



Poor Productivity

I am going to hire a junior advisor.

“All Other Firms” vs. Top Performers
Staffing Decisions

50% more people

Support Staff & Advisers

Impact on “Health” Metrics

“All Other Firms” had

LOWER revenue / professional

LOWER revenue / staff

LOWER return on assets

Unprofitable Clients



Do nothing—you can't bear to emotionally part with these clients



Hire a new financial advisor

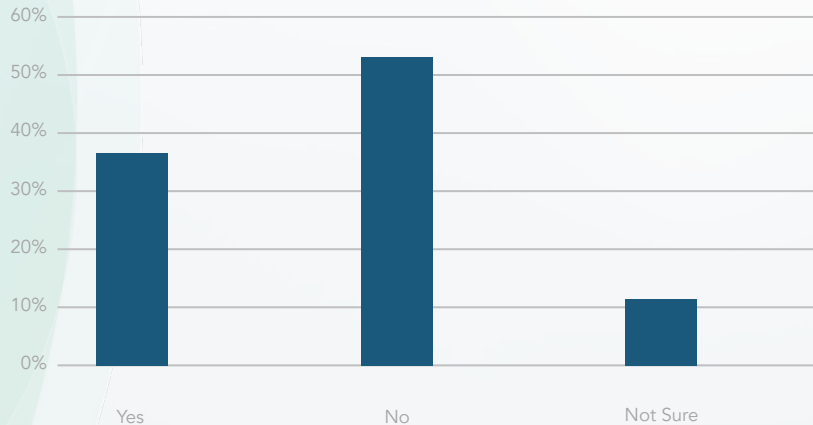


Offer lower service levels to small clients—investment only, young advisor, restricted access, call center



Transition your small clients responsibly

Do you have a formalized process for (or even a thought process) about transitioning clients who don't fit your ideal profile?



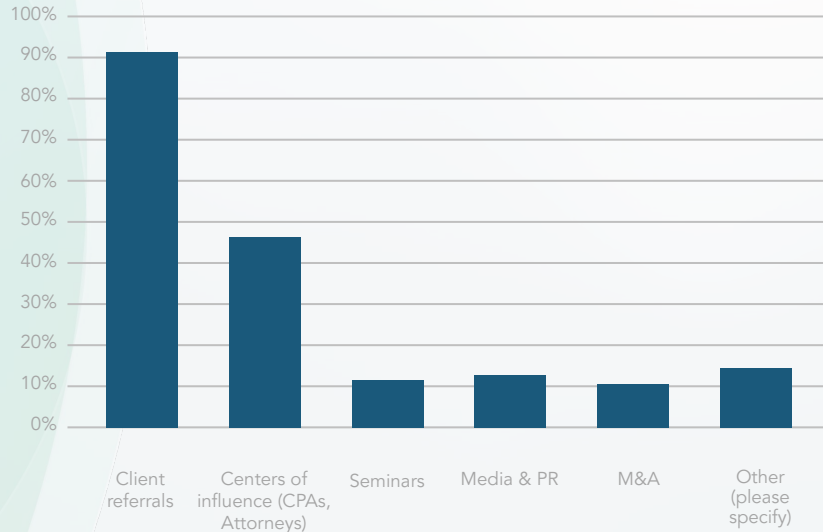
36% of Respondents indicated **Yes**, they have a formalized process for transitioning clients who do not fit their ideal profile

52% indicated **No** they do not have a process in place



Prepared for Growth

What are your primary sources of growth?



91% of Respondents indicated **Client Referrals** as their primary source of growth

47% of Respondents indicated that **Centers of Influence** are a primary source of growth

Only 12% indicated **Media & PR** as a primary source of growth

A Disciplined Approach to Growth



A goal of **QUALITY** organic growth - the **RIGHT** clients



DISCIPLINE to stay the course



Production mindset to **PROFITABILITY MINDSET**



The **BEST SOLUTION** for all prospects



Pulling it all together



Perform a Financial Physical

Focus on profitability
Create capital to reinvest



Manage Your Client Portfolio

Segmentation
Ideal Client Profile
Unique Value Proposition



Capacity & Growth

Human capital alignment
Built in leverage & capacity
The right growth plan



Questions & Answers



Facet Wealth is a strategic partner for financial advisory firms, wealth managers, and RIA's looking to:

- Free up time & increase capacity
- Generate firm growth
- Improve profitability
- Drive greater brand awareness
- Improve valuation

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