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[00:00:00] Welcome to the perfectly integrated podcast, hosted by Matt Ackerman, where we show the power of teamwork in wealth management. Now onto the show.

[00:00:16] This is not a moment. It's a movement, you know, to steal a lyric from Lynn, Manuel Miranda seems particularly poignant and appropriate. Whenever we discuss RAs, independent advisor has been leading a true revolution in financial advice for the past 30 plus years, the days of the large mega wire house with an army of brokers, mindlessly pushing products has evolved considerably.

[00:00:40] What, where, where we are and where the industry is heading from here, that's still a mystery to me. The answer is growth. The once young and rising independent advisor has reached adolescence and is ready to grow. I saw a great stat from the wealth management edge study that said that RAAs can expect a medium [00:01:00] growth rate of 29% annually.

[00:01:02] Hey, welcome back to perfectly integrated. I'm Matt Ackerman, and I am really excited for today's conversation, because. Where you grow and how you grow can be hard, but I'm excited for today because we're joined by a true entrepreneur who has been working with independent RAAs and helping them grow for decades.

[00:01:21] Brad Beman of FP transitions. You know, I love picking Brad's brain. We've been getting to know each other for the past year and he always can find a way to find a nugget that really makes me. Aha. Those aha moments are why folks listen to this podcast, why they get enveloped and, and are excited by everything that Brad's doing at FP transition.

[00:01:40] Hey Brad. Welcome. Matt's so good to be here. So Brad, for second, let's step back. Let's let's level set for the audience with me, when did we first reach this inflection point where independent advisors were the norm, rather than just the except. Yeah, gosh, that's a great question. You know, we've, we've been, [00:02:00] uh, FP has been around for 20 years, so, and during that period of time, the only constant has been change.

[00:02:08] This is such a dynamic industry and that makes it fun. That makes it terrific. But if you ask me to focus on the one place where I think that the inflection came, I think inflections come when you put things under stress. In other words, inflections come at crises if you will. So probably I would pin that inflection point as the great recession starting in 2008, through 2010, we saw something really interesting emerge, which is that independent practices during that period of.

[00:02:49] Rather than sliding down with the rest of the industry actually picked up speed. We saw in fact that the annual [00:03:00] growth rates of those small practices coming out of 2009, going into 2010, 2010 to 11, they had hit 20%. And that. Coming off of one of the steepest recessions that we have ever experienced was really an eye opener.

[00:03:23] I think that that was the turn. And I think that that set the stage for what was to come because those practices were turning into robust business. It's those moments, those moments of crises, where you gotta kind of have you have a choice, you can steer off the cliff, or you can kind of turn into the skid a little bit.

[00:03:45] And I think that's what we saw in that timeframe was people finally getting comfortable and saying, Hey, there was a lot of mistakes there by these big companies, you know, and maybe these smaller, independent shop. Maybe maybe, maybe [00:04:00] that's where the, the comfort really is. I mean, is that why, why are investors so much more comfortable now working with independent advisors and maybe they were in 2007.

[00:04:11] I think it might have been mindset, Matt. I, I think that what we see over and over, and this is part of the American story, is that when you have a big change in a marketplace, that it is led by the entrepreneurs. And one of the great things about our industry is that it has, it is dominated. By entrepreneurs and who run their own businesses.

[00:04:48] On the other side of the equation, going into that period of time, we still had domination by the large banks. And in, in addition to the investment bank [00:05:00] holdings of the Merrill Lynches and Morgan Stanleys, and UBS's, we also had bank channel. Uh, advisors as well, who worked for small regional banks, they all had one thing in common.

[00:05:16] They were employees, independent financial advisors ran their own business. They would swim or sink depending on how resilient, how they changed their model. But most importantly, how they responded to their client. And over and over and over, we see closest to client wins and that's what was happening.

[00:05:46] That's not the model. It was the people. That's exactly the closest to client. The people begin winning and you know, there's so many small RIAs out there that are [00:06:00] close to clients that I can see why they begin to gather momentum here. Small is an interesting word there, you know, the average RIA is relatively small, especially when you compare them, you know, to these mega, um, shops that used to exist and used to really dominate the industry.

[00:06:19] Is there a threshold for success in your eyes where you know that for growth to happen for true success as an entrepreneur to happen? What is that threshold for the RA? Right. Well therein, I think your question, uh, actually has the answer embedded in it because we, to answer that question, we would have to define success.

[00:06:44] Wouldn't we, when we define success for the bank, Well, what's that that's going to be a share price. That's going to be, what are you returning to your public shareholders? When we define success for the operation of a diverse [00:07:00] group of independent financial practices and financial firms. We're talking about a different definition of success.

[00:07:09] Maybe that's maybe that success is lifestyle. Maybe it's their ability to work with a small number of clients most when whom are their friends and allows them to work just the way they want focusing in exactly the way to provide the maximum returns for those people. Maybe it's different. Maybe their, their idea of success is to create a sustainable legacy practice, which allows that firm to serve clients for generations built on the investment philosophies and the service.

[00:07:51] Philosophy as well as careful planning that the original founders of that firm devised, these are [00:08:00] different kinds of success. And in an, in, in a robust, independent market, we can have all of those different models. That's what makes this, this market so interesting, so robust and so resilient to market change.

[00:08:20] So it all comes down to you defining what success means to you, but also a certain intentional to all of this and intentionality to, to all of this. It's, it's finding where you want to go having a destination and going from there. I always like to say to folks, I was the kid when I was growing up, who would go to McDonald's and start the, uh, start the maze from the end.

[00:08:43] Cause it was always easier to find the beginning. And to go the opposite way. So knowing where you want to go first, right? So thinking intentionally then how can those independent advisors grow in a smart and intentional way? If growth is their goal, Matt, I love that that's the nugget I'm [00:09:00] going to take away, start at the end of the maze and work your way back.

[00:09:03] That's exactly right. So, first of all, let's, let's talk about the mind shift that happened with advisors in terms of value. Let let's actually, rather than let's narrow down our definition of success. And let's talk about it as firm value. Let's let's put it on a, a level playing field. Can small grow into medium can medium grow into large?

[00:09:29] Can we end up having. Meeting a success metric that is based on value of the firm. Absolutely. But it had to do with a change in mindset that has really taken place over the last 10 years of shifting the idea of value from a book of business, to a business, to a business. The value is not in a list of names of [00:10:00] clients.

[00:10:00] We're not selling clients. What we are selling is we are selling a collection of talent. We're selling a collection of methods and we are selling as well and image in a marketplace that is a huge mind shift. And when that has, and when that occurs and it has been occurring rapidly, the people begin to focus owners of practices, turning them into businesses and ultimately into firms, focusing on delivering profits to the bottom line rather than monthly or quarterly income into their.

[00:10:44] That shifts them onto the same plateau as their clients. In other words, their clients are investing with them because they want their wealth to come back out in the future. [00:11:00] As advisors shift to a business strategy that is focused on the value of the firm. They're now playing on exactly the same playing field.

[00:11:13] In other words, their goals and the client's goals are aligned. How do we build wealth together? 10 years from now, 20 years from now. And that's about building and that's, that's really where that intentional growth comes together. Understanding where the end of the maze is and where the end of the maze is typically some value target that we have in the future.

[00:11:40] Now here's the good news. This is what we do every day at FP, we help clients by mapping out where do they wanna. Given where they are in their career right now, five years from now, 10 years from now, which might be the point where they want to be dialing back, [00:12:00] or maybe they want to be exiting. We can set a target for that value.

[00:12:04] That's the end of the maze that you're talking about. And then we work backwards from that laying in place, the actual milestones that we need to hit the KPIs along the way, those key performance indicators. And how do we get that? Well, we can compare them. We have the data to different practices that were at those stages of growth all the way along.

[00:12:31] So in other words, we've already mapped the maze. Those turns, we have them all flagged and what you have to do is you just have to follow those turns. So intentional growth is how you get there. Your business is not a collection of names. And that is fascinating to me because I think so many advisors, especially, you know, I think back to my days on the media side and writing about succession planning [00:13:00] and how, so many advisors struggled with it because it was this Rolodex that they were handing off and selling to, to the next advisor.

[00:13:07] And they, the next advisor was struggling to, to make value, find value in that. Really was the relationship, not just a name on a card. And when you think about your practice instead as a business and the talent that's there, it creates much greater value. And I think that is that's the fascinating difference that's what's evolved over the last 10 years is these entrepreneurs are showcasing and saying we're business folks.

[00:13:33] There's there's talent here. There's people there's process. There's a lot more value than just a Rolodex. And that's the mindset shift that you're talking about here. That's that's fascinating to me. I think that that's exactly what we are going to continue to see, and it's great. It's healthy for the industry.

[00:13:50] And the difference between having that book, that list of names versus a business is, is that a business [00:14:00] is investible. A book can be purchased, but a business is investible. And that is what exactly what we're seeing. We're seeing equity, private equity capital coming into the marketplace, not just investing in mega acquirers.

[00:14:17] They're actually putting money into what would've been termed in the past medium to small. Are IASS, but ones that have built businesses and have promised for growth. It also means when you have a business you're investing more in your infrastructure in order to build it, your technology, your marketing, your you're marketing, you're branding, but most importantly, you're investing in your people.

[00:14:51] Now as you invest and your business grows, is there a point, is there a threshold you think that the growth minded advisor [00:15:00] needs to be at?

Is it, is it a $500 million firm? Is it a billion dollar in AUM firm? You know, when you look at the ones that succeed and ultimately continue to, to surge and grow, is there a threshold that you advise them that they need to reach here?

[00:15:18] Is a, is a little bit tricky question to answer, but let's go back to what let's, let's go back to that crisis point because that's always, when you pressure test what's going on, we find out what's really what's really happening during that period of time. The smallest practices, I E those with a value of less than a couple million dollars had.

[00:15:46] Had the went down the farthest in terms of the, um, of, of their growth rate went negative and they were slower to recover. Those that were [00:16:00] just a little bit larger. In other words, I would call it the threshold of a business. So the threshold of a business means that revenues of the firm are in of the practice are in excess of.

[00:16:19] These are random, but maybe let's call it a million and a half dollars where we're starting to hire more than just helpers for a single advisor. We're actually starting to put in place a service manager. We're starting to think about having somebody in charge of our marketing. As those happened, those were more robust businesses during that period.

[00:16:45] And they came out of the shoot scream. They were at the top of the growth curve. So I would say that if you wanna take it not to a U M but look at it as [00:17:00] revenue that getting up over that 2 million threshold is important to turning yourself into a business. Here's the good news. Most of the businesses that are out there can get there.

[00:17:14] And if they don't think that they can get there by themselves, They can get there by. So, do you think we're gonna see even more of that consolidation happening amongst some of these small RAs? I absolutely do, but I don't think it's going to be the way that we are hearing about in a lot of the industry media, the industry media has focused a lot of attention on the large aggregators and the large aggregators, the people who are out there that that are in the market have done a great job.

[00:17:49] Great job. And they've built some terrific, terrific businesses, but they're not the only story of aggregation. [00:18:00] There is also for every, for every business that we might sell to a large aggregator, five are sold to small or local firms that are also starting down that same path. Remember that a cap trust or a, um, or a savant or a beacon point.

[00:18:26] Started as smaller businesses as well, and through terrific management added and continued to add and have gained momentum. So I think what we are going to see is that you will, that, that there will be a continued merging, which is the sign of a healthy and robust market. We did 135 transactions last year.

[00:18:55] Which was a lot, but here's the interesting [00:19:00] takeaway. 50% of those were mergers. And many of those mergers, I would say the majority of the mergers were mergers among equals. In other words, it was not a giant firm merging with a tiny one as a, just a type of AC, a type of acquisition. Instead, it was really.

[00:19:21] Colleagues coming together in the marketplace saying, Hey, we could do better together. It was oftentimes older merging with younger where younger became their succession plan. It was east merging with west to create a larger geographic footprint. And it was mergers of similar types of approaches to managing portfolio or to planning.

[00:19:50] Concentrate resources. Look, that's what makes this interesting. There are lots of different ways to succeed in this [00:20:00] marketplace, getting bigger, whether that is a matter of organic or acquisitions or finding the right partners should be part of everyone's goal, but always back to the, what you said, find the end of the maze first and build it intentionally.

[00:20:18] That intentionally is so important. And it's the word of the day that I'm taking away from all this is thinking and working intentionally. And it's so interesting. Cause you mentioned this merger of equals happening, them finding talent, finding success, finding that next step with each other when it comes to hiring though and adding talent from the hiring direction, are these small RAs able to compete, against some of these large other players that are out there that might have bigger checkbooks.

[00:20:46] Yeah. Yeah. Boy. Now you've hit a you've you've hit a hot button topic for me. The question that you ask implies that we have a single candidate and we're gonna comply for that [00:21:00] candidate between the large RIA and the small RIA for you IA for years, the market, this industry has looked at how do we take talent from someplace else?

[00:21:16] It was the first large portion of the industry for our, of our industry. It was built on poaching. In other words, we took people that might have been with the bank and brought them over into an, in, into our independent practice. Or we took people from a smaller practice and moved them to a larger one.

[00:21:37] I'll come back to your question, but here's where I really think we need to focus as an industry. We need to make more pie, not take pieces of somebody else's pie. Why? When we have grown wealth in the United States by almost [00:22:00] $25 trillion, 22.8. Trillion, I think can see it a better, a better number since 2020, which was more money than it.

[00:22:10] It previously, it took us all the way from 2014 to add that much wealth. We're now managing one $120 trillion of household assets. According to the federal reserve. And yet the number of licensed advisors has gone down, not up. Why is that? The reason is, is that the industry itself has been looking too much inwardly for its recruiting and not outwardly.

[00:22:50] We need to be looking outside of the normal channels. We need to be attracting people from other disciplines, other [00:23:00] industries. We need to be chasing accountants and attorneys, but more than that, we need to be chasing restaurant tours and hotel years, and people from manufacturing and from retail. Maybe even from psychology, we need to attract the kind folks into our business who can provide episodic advice to families into the future through good times and bad times.

[00:23:32] And that means what the small RIA should be saying is if I'm looking at the same person as the large, I may, maybe I'm looking in the wrong place. Maybe I should be recruiting somewhere else. And that's really the mindset change that I'm hoping will happen. I, I couldn't agree more. I think sometimes there's that sports team, uh, mentality where it's like, Hey, [00:24:00] we're just gonna keep signing free agents, but eventually.

[00:24:03] That doesn't necessarily lead to success. You have to kind of grow up from that farm system. You have to build your own town. You have to be willing to kind of go out there and, and train your own folks and, you know, build that culture that way and not just rely on free agency. Free agency is great for patching a whole, anybody that knows sports knows that, but.

[00:24:22] If you really wanna build from the ground up, I mean, I'd look at what the Houston Astros do with baseball. It comes down to kind of growing your own farm system. That's critical in kind of this race for top talent. I couldn't agree more with you. That's exactly right. And to do that though, to do that, though, you have to be a business.

[00:24:41] You have to be a business. You can't be a book. In other words, you can't be, you can't be asking talent to come on board and say, Hey, come to my PO, come to my, come to my shop and bring your own clients that doesn't work.

Instead, what we need to be thinking about is [00:25:00] come to my business as an employee, and we are going to teach you this business.

[00:25:09] That that's critical. We have to change that thinking we have to get that to happen. And that is a lot of the work that we have done at FP over the last 10 years is taking what on the surface looks like a very successful RIA financial advisory. But they're not a firm. They're not even a business.

[00:25:34] They're a collection of partners who each has their own individual books who has not welded it together to create that business. Those are the, those are the models that we'll be in trouble. The models that can create bottom line that have professional compensation systems that have systems of profit sharing, and ultimately have a [00:26:00] career track that lead employees to become owners.

[00:26:05] Those are the models that will succeed and they will compete just fine. Thank you very much against the largest who are out. So will this movement. Continue. What does the future look like to you? I mean, I think everything you said, uh, I you've got me leaning in, I totally see where it's headed, but there's always that moment in the back of my head that thinks about an aircraft carrier and can these big mega firms come back, you know, that aircraft carrier mentality takes a long time to turn around an aircraft carry, but if they can shift things the right way, they do have a, a huge arsenal at their disposal.

[00:26:45] What do you think. Absolutely. Well, first of all, I think that those, uh, I think that those old aircraft carriers are obsolete, uh, and they, they are not going to, they are not going to fit through the narrow passages and the twists and [00:27:00] turns, uh, that we have, that we have ahead of us, or are demanded by.

[00:27:04] Clients as well. Quite frankly, those old bank models were built with their competitive advantage was their access to resources that independent. Practices independent firms couldn't get to. In other words, they had access to proprietary technology. They had access in a way to talent because they did have, uh, training programs, et cetera.

[00:27:33] They had, they had access to private markets and they had access to marketing, which was unavailable to the others. All the level, the playing field got leveled on all of that stuff. It all got leveled. The information is now broadly spent out there. So the, the, the bank. Analysts [00:28:00] have no better access to the information than the than, than independence can as well.

[00:28:08] Technology technology has been commoditized in our market, but continues to grow and continues to evolve in a way that no single firm could build by themselves talent. Well, we've already talked about that, but we think that independent firms that ultimately can offer equity to their best and brightest talent are in a far better place to continue to recruit and grow people and access to alternate markets.

[00:28:38] Uh, I'm gonna bet. I'm gonna bet strongly on independent, robust, nimble advisors to be able to open up those markets much faster than any bank. I don't think that we'll ever see a resurgence of the large aircraft carriers. Now the interesting one is what will [00:29:00] happen with. Large aggregators, those aggregation models.

[00:29:07] I heard recently one of the, uh, CEOs of one of the aggregator models said that it was his vision that 20 years from now that there, or 10 years from now that there would be 20, 25 national brand firms, which would have the majority of the assets in the market. You know what I say to that? Great, good luck.

[00:29:35] Good luck. And I think, I think it's great. I think it's great that they say that that's aspirational for their firm and they've done a super job. That's the end of the mains for them. And they are building intentionally toward that. But do I think that that'll be the outcome? No, I don't. I think the twists and turns of the [00:30:00] market and the resilience of independent practices will continue to outrun them.

[00:30:06] We're not an industry which benefits consumers by aggregation. We claim some of the players will claim that, but gosh, that's difficult to defend. And so until we have a model which outstrips independence as a better solution to clients, I come back to what I said before. Closest to client will win every.

[00:30:40] Amen. Amen. That was fantastic. I'm really, really excited for this. This conversation was just amazing. Now I always end my podcast the same way, and it's interesting. You've been talking about entrepreneurship and bringing people from other fields I always end my podcast with a question from my 10 year old son, CJ.

[00:30:58] And when I was telling him all about you, [00:31:00] one of the things I did tell him about you know, is how we built this great relationship over this past year. And you know how I really always enjoyed chatting with you, but I also told him that you owned and still own a sandwich shop up in the Boston area.

[00:31:11] And CJ asked, Hey, what's the best lesson you learned about business from your days as a sandwich shop owner that you still think about today? ATP transitions. Oh, that's a great question. Tell CJ. He's you're you've got somebody who's got a who's, uh, gonna make a run for your job, man. Oh, he's really good on camera.

[00:31:33] You don't even wanna I'm I'm I'm I'm gonna be, uh, seceded by a really excellent interviewer when, when his day comes and it's coming soon. Well, let me tell you that my, uh, my, my, uh, my time in the, uh, the business I'll put in my own little plug here is called Philadelphia steak and hokey, and it is one of the food stalls inside Quincy market.

[00:31:59] Fan [00:32:00] home marketplace in Boston. And it, which was one of the oldest food courts in the country. So if you haven't visited there, you'll have to do that and you'll have to stop and get a Philadelphia cheese steak from Philadelphia steak and Hoy. I. Bought that business. When I had been running a financial, a, uh, brokerage company and, uh, the brokerage company was sold and I was between jobs and I still had to, uh, still had to make my mortgage and I bought that.

[00:32:30] Small business thinking that that would be something easy to run. And, uh, about a month into it, I found myself behind the counter saying, would you like fries with that? And saying, I might have made a wrong turn somewhere along the line. I had a ball in that business for about a year until we reestablished other directions and other things happened with my career, but I learned a tremendous amount.

[00:32:57] I hired a young man at that time. [00:33:00] And his name is fared Noy, and he is now the manager of that store. At the time that fared came on board, he had, uh, come here from north Africa. He had a sixth grade education and he had nothing except enthusiasm years later 20. Nine years later, now far owns 40% of that store.

[00:33:28] He owns a house he's married. He has kids. Uh, one of them has just recently graduated from college. And at the end of this year, Farid will be the 100% owner of that store. That's succession. And we try to, I try to at least drink our own Kool-Aid, but that's what makes it fun. It's having, bringing on talent, allowing that talent to grow, [00:34:00] become a part of the enterprise and ultimately its leader and its future owner.

[00:34:07] We believe that. It's amazing little enthusiasm gets you a long way. I tell the kids that, um, I, I run a youth group here in town and I tell the kids all the time, it comes down to three simple things, show up, show up early, show up, ready to work with enthusiasm. And if you do those things, everything else works out from there.

[00:34:27] Uh, Brad, this has been a great conversation, man. Thank you so much for making some time to chat today. This has been. Matt. I always love our conversations. Thanks so much for inviting me and thank you to our audience for joining us has been another great episode of perfectly integrated, uh, hope you'll join us next time for integrated partners.

[00:34:44] Uh, Matt Ackerman.

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