

**FOCUSPOINT CASE STUDY #2:**  
**ADVISOR: Fee-only \$15M sole practitioner**  
**GOAL: *Growth without staff***

**BEFORE**

**FPS: Why did you ultimately decide to transition to the independent RIA model?**

CS: There were two things that drove me, actually.

The first and most important thing was that I wanted to be able to provide the high level of service I've always wanted to provide to clients—and be compensated for it with regular cash flow. I've always been focused on a service—not sales—model. I've spent a great deal of time studying what I know makes sense for my client base, not just now but in the future.

I've often asked myself this question: Is it possible to start out as a producer as a fee-based advisor? I always wanted—at least conceptually—a fee-based relationship with my clients.

If I have clients who are appropriate candidates for a fee-based service model in the future, the level of service they're going to require and look for isn't covered by trail revenue. So you're servicing those clients for a lot less money. No other business exists where you would tell yourself, "I'm going to service these accounts at a very high level for the next 2-3 years until I get to \$50 million." The commission-based sales model was never designed to support quarterly reviews. This is fundamental to my thought line.

The other thing—and this really kicked in the last year or so I was on the IBD side—was the whole NASD regulatory environment.

I remember vividly realizing I needed to make a change when I had a new client who had transferred over from a friend of mine. The prior advisor hadn't had his eye on the business in the last year or so he was a broker. My new client owned some extremely poorly rated bond funds by that point—no matter which rating system you use—and I wanted to switch those out for a couple Pimco funds. When everything was said and done, I would have ended up with a 1% commission on the trades. I received an email from my IBD's compliance department wondering how on earth I could have justified transferring from one bond fund to another. Rather than sending something back with some basic reasoning, I put together a 5-page email. In it I explained thoroughly my planning and review process, that if you took any time to look at things you would see the justification.

Don't get me wrong—it wasn't the compliance department at my IBD—it was the compliance environment everywhere. In my view, everything someone did to generate a commission, unless it was coming from cash, was questioned.

**FPS: Was there anything which prevented you from pursuing it sooner?**

CS: I didn't know how to.

I did not have any experience whatsoever with working under the RIA business model. I was very much interested, though, and my idea was that I would have to start working under my IBD's RIA. Then FocusPoint came along and helped me to put together the pieces.

**FPS: What choices did your IBD offer you?**

CS: I was with a regional IBD and they were certainly helpful and encouraging about transitioning to a fee-based model, as in, "We have an RIA and you're welcome to work under that." I was actually doing some research on some outside money managers my IBD suggested, which ultimately led me to FocusPoint. But while they were accommodating, part of the equation for me was something my—or any—IBD—simply couldn't solve—and that was the compliance component.

My OSJ used to refer to me as 'the compliance boy scout'. I like things done properly. I don't like pushing the envelope; it's not worth compromising my business. But at the end of the day, if I'm working with an IBD, I'm operating within an environment which is transaction-oriented.

Maybe if you had a large enough IBD and a compliance dept which really understood the difference, it would be possible. However, I think the reality is that in practice it's going to be an issue anywhere.

**FPS: Did you choose to keep an IBD relationship?**

CS: No.

However, it wasn't because my options were limited. Unlike some firms, my IBD would have allowed me to form an outside RIA—not simply require that I operate under their corporate RIA. And they only wanted 5% of my RIA revenue stream to do that, which from what I understand is relatively low. So basically, they were about as friendly as they could get.

At the same time, in my case, the only reason whatsoever I saw to keep an IBD was to accommodate some small accounts and the odd situation, say, some 529 assets—I probably had a total of 500k-600k in those plans. But that's reaching.

For me personally, I wanted to get myself away from asset management and into asset gathering. Not because I wasn't good at asset management—I think I actually did pretty well, objectively evaluating things—but when it comes right down to it, there are only so many hours in the day, and I did not enjoy it most. I had to look at running the business I was going to be in from a business owner's standpoint.

To me it just made no sense. If I kept the IBD relationship, even once I had the RIA, I'd still be operating under an NASD-, transaction-oriented compliance department.

I tell other advisors, I can't tell you for your practice whether it makes sense for you to keep the IBD relationship. For me personally, I saw no reason to overcomplicate things.

**FPS: What were your main goals for after your transition was complete? Have you achieved them?**

CS: I had two main goals. And yes, I have achieved both of them.

The first part was to get all the elements of my business in terms of client communications in order, and to get everything on the operations management side of things very streamlined. I wanted to make sure my business would be capable of running on a systems basis. If I bring someone new in, I can say, "Here's our compliance manual, here's our CRM, here's how everything fits together, etc." At this point, another person—staff or partner—could very easily come in and understand how things work and run the business.

Today I have systems in place for everything from when and how to send birthday cards to quarterly letter setups to client review months. Before I transitioned to my own RIA, I didn't have any of this in place—but I definitely had a sense of exactly what I wanted to do. Post-transition, there's been a little learning curve in the process of moving everything over; for example going from one CRM to another. I also think one of the biggest inhibitors of running and growing a practice is portfolio management. And now that I'm working with FocusPoint, that really isn't something I have to deal with anymore.

What a new client experiences—thank you notes, any letters, timetables, reviews, holiday gifts, etc.—really getting all of that down, has taken more time than I intended to but it's now in place. I expect my business will always be a work in progress, but I know at this point there are systems in place to run things smoothly.

The second part was making sure I had everything completely transitioned before I started growing again. I recently made the decision to move geographically towards where my ideal clients are located. Right now my emphasis has really shifted to asset-building. I feel like with the systems I now have in place and an operational platform which really runs itself, I no longer have to worry about managing money—I am putting all of my efforts into building business, and I know my systems will be able to accommodate this growth.

## **DURING**

**FPS: What was your biggest challenge as you made the transition?**

CS: Cash flow.

In my case part of the problem was that I had slowed down commission business so much in anticipation of making the transition that by that point I had essentially, for the first 6-7 months of 2005, made no commission transactions. I was doing fee-in-lieu business for most clients at that point because I knew I wanted to make the leap. So it was not at a regular pace by any means. This of course dictated a very quick transition for me.

**FPS: We read all these discussions with industry experts who tell advisors they should have \$50 million before moving to the RIA business model. While we support firms with a wide range of client assets, some much higher than that number, we also know that it can work for firms smaller than that.**

**What are your thoughts on that number?**

CS: Too high. That said, based on my experience, I definitely feel like nobody should be making a transition with less than \$10 million.

Right now my clients pay an average of 1.5% revenue on the assets I manage for them. This includes FocusPoint's portion. I experienced a couple months of revenue shortage, tops.

What I want to add to that is for advisors who keep telling themselves, "I'll make the move once I'm at \$25 million, or \$50 million" is that I think if this is a business model that you know you want, it makes sense to make the transition as quickly as possible in your career. At some point in time, if you know, deep down, that forming your own RIA is what you really want to do, then make it easier on yourself and do it as soon as possible. You'll avoid having to deal with a more complicated transition and many more client meetings.

**FPS: We have dozens of hours of conversation and consulting with advisors considering making the transition. Many times advisors feel like they need to have 100% of their questions or issues or potential client scenarios addressed prior to making the move. But in reality, what we've found is that if you have about 70-80% of your questions answered and you know it's the right business model for you, you're ready.**

**What do you think?**

CS: I totally agree with that.

You're always jumping into any business venture before you feel you're completely ready. It reminds me of when I was a training manager with my previous IBD. The reps I trained who always felt like they had to study this or that or have absolutely everything covered before they got on the phone never made it.

In my case, I started out straight out of college and just went for it. I had a 14k month my first time out (never mind I was only keeping 12% of that at that point). It was interesting because the reason it worked for me was because I went out and met people and tried to do as convincing a job as possible because I knew if they had questions I might not know every single answer. It was just like my transition to doing fee-only work and explaining that to clients.

You've got to just jump in there and start the transition. While I didn't know everything and definitely had questions as I went along, the FocusPoint staff did a phenomenal job of filling in as much as possible.

**FPS: How long did your transition take in relation to how long you planned for it to take?**

CS: I planned for essentially a 90-day transition.

Obviously I prioritized my clients in such a way that my I sat down with my best clients first, and they *were* done in the first 90 days. So, 50% complete. In six months I had about 85% of client assets transitioned. The rest were trickier cases of one sort or another. To get every single client asset moved in, materially everything moved over, took nine months total. But the remaining 15% wasn't important from a revenue standpoint.

A lot of the holdup resulted from paperwork and a couple specialty products here and there—annuities, missing beneficiary information from the previous application they filled out ten years earlier. Things like that.

**FPS: Looking back, what would you tell advisors who want to transition as quickly as possible?**

CS: I would tell them that the job of reviewing assets up front (specific products and compatibility with platforms, etc.) is not easy, but FocusPoint does most of that for or with them.

And I think that doing it alone can be a very complicated thing to do.

While I'm glad I went out and had confidence to meet with clients very quickly, if I had it to do over, I'd spend a little more time up front gathering missing information from clients so that I could hand everything off to FocusPoint on the front end. For example, my transition team did everything they could with the data that was transferred over from my previous CRM—names, SSNs, etc.

When you're dealing with repapering every single acct, had I gotten copies of statements to them in advance, my transition would have been expedited quite a bit.

**FPS: Were there any areas you could have saved more time as you transitioned?**

CS: I think I underestimated the amount of time it would take.

We're talking literally days that must go to something as simple as finding a symbol for different client applications and paperwork. I'd say these inefficiencies here and there added a couple months to my total transition time. You end up spending six hours going through the paperwork you just got from clients, beneficiary designations, etc. These things could have been provided to my transition team in advance. Anything you're trying to track down afterward becomes inefficient.

And unfortunately if you don't ask clients to bring what you need in that first round of meetings, getting these things you need will happen on the clients' schedule—not yours.

You need things to happen as much as possible on *your* schedule. Even knowing there's a hole there and notifying the client to please bring XYZ because we need that for the beneficiary designation on your IRA helps quite a bit.

**FPS: How did/do you handle the compliance aspect of your RIA business?**

CS: A legal firm FocusPoint recommended set up my RIA and compliance manual.

For the time being, I've chosen not to immediately go with a retainer program, considering the size of my practice and my background as a fairly compliance-minded advisor. I occasionally call this firm on an hourly basis when I need something.

It's a reasonable approach for now.

**FPS: Did you make any changes in regards to staff?**

CS: Since I'm a sole practitioner with no staff, there was no need.

FocusPoint's systems will allow me to grow to about 125 relationships or \$35-40 million without needing to add staff. However, in the next year I am considering using a virtual assistant of some kind to help with things like mailings, scheduling client meetings, etc.

That said, I'm definitely forming strategic alliances.

I've read the Moss Adams studies on the value and significance of integrating a tax person and tax work into the practice. I'm getting more and more questions from clients that are tax-related. My biggest competitive concern in the long run is *not* Merrill Lynch; my biggest concern is clients who need an integrated tax practice. I've already talked preliminarily about bringing an advanced CPA into the practice.

**FPS: What was the biggest surprise you encountered during your transition?**

CS: If I was going to name anything, it would be how clients reacted to my new fee structure.

My clients' reaction was extremely positive. At worst, it was, "That makes a lot of sense"; at best, "I'm *really* glad you're finally doing this."

There was essentially zero price resistance.

When I was going through my transition, sitting down and talking to clients about fees and asset management, I was so accustomed to thinking about mutual fund expense ratios and current costs and things in those terms.

I tell people that you need to get yourself out of the expense ratio line of thinking. The reality is that you're now charging a higher price for a *much* higher level of service that you're now going to truly be able to provide. If you're trying to get your clients to understand things at your level, you're doing it wrong.

**FPS: How many clients decided not to work with you under your new business model?**

CS: I had no resistance in regards to fees, besides from two clients, one right away and one about a year later, when she decided a fee-based relationship just wasn't right for her.

In both cases, they just never got over the conceptual hump that they *were* already paying something as commission clients. I think there are always going to be those people who want to stick their heads in the sand and pretend those things aren't there. When I look back, it's probably a good thing to weed out a couple clients. Those are the clients you ought to think about whether you want to work with in the long-term anyway.

**FPS: Knowing what you know now about your clients' positive reaction, what would you tell advisors who might be in a similar situation?**

Sit down with those clients you have the best relationships with first.

Go with smaller clients that you have a good relationship with, then your larger ones. From a cash flow standpoint, you have to move your top 50% in asset size first. After you have a couple of clients who are excited about it, as confident as you were before, you're even more confident now.

Announce it to clients! Make a big deal out of it! When people see you're doing something new and different they tell people about it! They sense your excitement and confidence and they want to be a part of it.

I believe these conversations can actually become a referral campaign if you do it right.

**FPS: What would you tell advisors who are concerned about losing clients because they're now going to be charged a (higher) fee for advisory services?**

CS: For the most part, any concern on the part of the client is a concern that you plant.

Fee discussion is so prevalent in the financial services industry, but the truth is that it *doesn't exist* in our clients' minds. I would never charge this but I could have said my fee was 2.5% and most of my clients wouldn't have blinked.

Most concerns clients have are those that you are *even subconsciously* bringing to the table.

**FPS: It's amazing—we hear that from advisors all the time. Most issues really do exist in our minds and not clients'. What are your thoughts on establishing fee relationships or raising fees in a declining market?**

CS: I started my transition during 2005, a good market. I don't know how much price resistance you might have over, say, the next six months in a declining market.

Being in the business since 1995, what I've found is that if clients, within the first six months, have a good experience, this makes a very big difference in how cautious they are. Because of this, I like to dollar cost average in to reduce the likelihood of clients seeing significant losses in the first few months of working with me.

When things are good and clients are impressed about the returns they've experienced, I make sure to tell them it won't always be like this; we got a little lucky. That way they're not as concerned when it goes down.

**FPS: When advisors are converting to fees, we encourage them to create a new client experience—not just intangibly with their new service offering, but visually. This way, clients can actually see the difference. Do you think it helps to give clients a whole new experience?**

CS: Absolutely.

Visually, my clients are seeing a big difference. From day one, for each account we now have a dedicated investment policy statement—which we didn't have before—as well as our investment philosophy and so forth. I use things like the standards of engagements letter, spend a little bit on professional binding materials or tabs and put everything together in a nice little bound folder.

Every annual review includes the summary report FocusPoint created which has been a huge hit with my clients. They used to ask for something just like this year after year when I was in the commission-based world: "What was my rate of return last year? How much have I contributed to my account since I've held it with you? How much have I redeemed? Am I on target to reach the financial goals you've set for me?"

It seems simple but it wasn't before. Now everything clients want to see each year is on one easy-to-read report. And their reaction to the editable quarterly letters FocusPoint puts together has been fantastic.

During my client transition meetings I showed people a couple sample tax reports. I was able to talk about how previously in our commission-based relationship, I wasn't able to provide this for you, but here is what you're now going to receive. You can *immediately* go to clients and show them the enhancements they're going to now see on a regular basis.

## TODAY

**FPS: How has your profitability and revenue been affected?**

CS: Upward. Definitely upward.

My revenue is considerably more regular. In a nutshell, the heart of my problem was that I was operating in a commission-based world. At the same time, I've always believed in delivering a very high level of service and promised it to clients because I *wanted* to. This level of service was higher than one supported by a commission-based revenue stream.

Essentially I'm even in assets—and growing—but now I'm able to set up systems for everything I need and want to provide to clients.

**FPS: Would you consider going back to your previous business model?**

CS: Never, ever.

I can honestly say I would find a different way to make a living before I went back to the previous business model. It's not that I wouldn't go into commission sales of something; it's that I believe there is no such thing as financial services *sales*.

It's the only business in the world where you're expected to service it *forever* for a very small charge—and be liable for it.

**FPS: What is the best thing about your having made the transition to this model?**

There are really a few things.

For me, after working for ten years on a commission basis, the standardization of cash flow is the best thing.

However, if I look deeper, the real answer is what that allows me to do—things with my practice that I couldn't do otherwise. I truly have peace of mind. I just work better with clients who are looking for more and I like providing more. Any conflict I may have felt before is just gone.

Also, my perception, my gut feeling, is that I am much more proud of the business I have today than I had two years ago, before I went fee-only. I feel like it's a dramatically more professional practice than it was before.

## LOOKING BACK

**FPS: What were your biggest fears about going independent and how did you overcome them?**

CS: Honestly, I just didn't have them; I'd been studying the business model for so long.

I guess there was some fear about the unknown. But as soon as FPS came along and put together some of the pieces for me, everything came together.

In terms of the unknown, during a transition like this, I assumed that there would be questions from my clients that came up that I might not be able to answer right off the bat. But if I could just say, confidently, "I don't know, but I'll find out. That's what you're paying me for and that's why you need someone" I was in good shape.

I think I also still had in my head the mutual fund expense ratio as the guide for services in this business model—and it's just not.

You have to get clear on what you want and accept that you're not going to know *everything* up front. Obviously that depends on your practice and your clients.

Just remember that your clients will reflect 99% of what you put out there.

**FPS: Tell us about the level of your independence today vs. prior to your transition.**

CS: I wasn't coming from a wirehouse; frankly I had a good deal of independence where I was. Besides the compliance side, that is.

**FPS: What advice would you give advisors considering the RIA business model?**

CS: First and foremost, you need to study this as a business.

I think anyone in the sales business as a job has the same issue. You have to start looking at your practice as a business. This can be pretty hard because you get so used to looking at it in IBD terms.

Stop, try to clear your mind, and with a pretty clear slate, try to envision what it means to operate under the RIA business model: What do you want to do for your clients? What do you want their client experience to look like? Do you want them to see newsletters? Do you want a professional website? Do you want to send birthday cards?

And on your end, do you want to be making this much money? Put that down at least in broad terms and then say, "What do I need to be charging? What level of client will I be able to provide this type of service to? What type of clients do I need? Do they fit this business model?"

Get clear and then figure out whether your client base fits into this vision or can be pretty easily modified to fit it. Be organized up front as much as possible but not to the degree that it delays you. Get excited. Don't miss the opportunity to really *make* something in addition to the transition itself; make it a business-growing opportunity.

If you know a fee-based or fee-only model is for you and you keep putting it off, you're also adding to the potential awkward conversations in the future.

Consider that many clients you bring in for the last two years before your transition may have to wait to be transitioned. If you're still doing commission business today, fundamental best practices dictate that the clients you've sold to in the past will have to wait 12 months since you just charged them a 4% commission.

I think if that's the case, you've got a very compelling argument to move forward as quickly as possible. And you don't necessarily need to move your biggest clients first. You will learn things on your very best mid-sized clients which you can then share with larger clients.

Many advisors I talk to who are coming from a commission-based background said they can give it some thought, but that they would have a hard time charging more than 1%. Again, to this I say, figure out the level of service you want to provide.

Some of my clients would easily pay more—and I'm earning it.