Podcast Transcript
Synergize: Unscripted Conversations to Help Guide Advisor Growth
Episode 18: Derek Bruton: Bringing in New Assets Beyond Market Growth

INTRO:
Welcome to Synergize, unscripted conversations where we explore the evolving role of the financial advisor in an emerging AI-driven world. Join us as we bring together thought leaders across a range of disciplines and industry experts, sharing insights designed to help RIAs thrive in the industry of tomorrow.

BILL COPPEL:
Hi, I'm Bill Coppel, Chief Client Growth Officer at TradePMR.

RYAN NEAL:
And I'm Ryan Neal, senior editor at TradePMR, and you're listening to the Synergize podcast.

BILL COPPEL:
Ryan, today we're going to be talking about a topic that I think is very important, and that I believe growth-oriented RIAs may want to stop and spend some time thinking about what the future holds. And it ties very nicely into the real-life issues we recently covered in our last episode with RIA Tim Whitney.

RYAN NEAL:
That's right Bill. Look, the conversation about RIAs needing to grow beyond market returns is nothing new. It's something we've been talking about on this podcast for a while. But it does seem to be getting more attention from the trade publications at least based on some of the headlines I'm seeing.

Maybe that's because the financial services industry seems to be on the threshold of what could be the most significant wealth transfer in generations.

So, some data I have here from our production team coming from Cerulli Associates, $124 trillion is set to transfer by 2048, with $105 trillion of that expected to flow to heirs and the remainder of that going to charity.

Cerulli also reports that more than 50% of the overall asset transfer is expected to come from high net worth and ultra-high net worth households. Millennials are expected to inherit more than $45 trillion over the next 25 years ─ though I'm a little skeptical of how much of that I'm personally going to see as a millennial ─ while Gen X is expected to inherit $14 trillion in the next 10 years.

We're going to drop links to all these sources so our listeners can check this out for themselves into our show notes. But what's running in parallel could be considered an emerging crisis, and that's a shrinking advisor population. That's largely due to the expectation that 37% of advisors will retire by 2032 and combined with one in four of those advisors lacking any sort of defined succession plan.

BILL COPPEL:
Wow, when you put it that way, with this enormous generational wealth transfer on the horizon and the shrinking advisor population, we might define it as the perfect storm. So, with this significant growth opportunity on the horizon, it begs the question, is the industry prepared to capture it?

And are advisors organized appropriately to optimally grow their business during this period? I suggest that a well-developed growth strategy can't be “let's just cross our fingers and hope the market continues to go up” and even if the market does continue to go up, advisors still need to be prepared for what the future holds.

What I'm talking about is they need a succession plan regardless of where you are in your business. You need a strategy. You need to make sure the assets you have, the human capital, your operations are well situated to capitalize on the opportunity that sits in front of us. Our guest today, Derek Bruton, is an expert in this area and he's here to share his perspectives on how we as advisors can take advantage of this growth.

DEREK BRUTON CLIP:
I think the very first thing you should do as an owner and an advisor is sit down with your team and really determine whether you truly want to grow your business. And bear in mind that if the answer is no, you don't want to grow, that's not a bad answer. It's nothing to be ashamed of.

But if the answer is yes that you truly want to grow your business by adding new accounts and new assets and perhaps new capabilities to attract those accounts and assets and relationships. Then sitting down with your team and strategizing, because this is a team effort, it's a team sport growth, and you need everybody with their hands in and willing to go after this. So then sitting down with that group and really understanding what is it going to take to get to the next level?

BILL COPPEL:
Let me tell you a little bit about Derek. He leads the strategic growth consulting division at Gladstone Associates and serves as a Senior Managing Director at Gladstone Group, where he provides M&A advice and investment banking support. To learn more about Derek's background and experience, please refer to our show notes. So, Derek, thanks for joining us today.

DEREK BRUTON:

Bill, it's a pleasure being here. Great friends with TradePMR between our two firms and have known you for a long time and known your team for a long time. So happy to be joining you today.

BILL COPPEL:
Well, we appreciate that. So let me start with this. Given some of the fundamental issues that were mentioned in the introduction by Ryan, these can affect a firm's ability to thrive in what we think is this opportunity that sits in front of us. We've got this shrinking advisor population; we see a lack of succession planning among advisors who are either approaching retirement or even haven't really figured out how that's going to affect the growth of their business down the road.

So, what I'd like to start with is asking what your thoughts are on the underlying growth opportunity that seems to be presented here and what you're hearing and what you're seeing in the marketplace around it.

DEREK BRUTON:
Well, Bill, I've been fanatical optimist for, well, my whole career, 30 years in this business as it relates to what you and Ryan just talked about. That the need for advice, the demand for advice always seems to exceed the number of people and professionals providing that advice.

So, we've been in a bull market for advice for a long time, and that's great for you, me, and other people in this industry, particularly advisors, who are always looking to grow and add more business. There just isn't enough advisors out there, and that's spawned, obviously, other organizations, the Robinhoods that you know really well, and other different types of advice-providing services out there, and so it's all good. I'm very optimistic about that.

I do see, however, in our business, a real inability, and this is backed by a lot of stats including the ones Ryan provided, that advisers are generally struggling with growth as it relates to net new assets, net new account growth, not overall AUM growth.

I'm talking about net new assets. And there's clearly a difference. One is adding new accounts and new assets. And the other is, if you didn't do the former, market performance and market growth in the financial markets can mask any sort of growth or lack thereof. And so many advisors today have been riding this bull market and have seen AUM growth and revenue growth and EBITDA growth that goes with it. And that's all good. But as evidence, as what we saw in 2008, 2009, saw a little blip in 2020, I mean, when the market pulls back, advisors start to look closer at “what have they actually done to grow their business?”

And I suspect that we're going to, you know, depending on market performance in 2025, we may see some of that, you know, introspective thinking in this year.

RYAN NEAL:

So, Derek, let me jump in there because I know you have a lot of experience both in the consulting space as well as M&A, which I know a lot of firms look at as maybe an answer to the growth question or growth problem. You advise firms on how to position themselves to capitalize on the opportunities out there. Can you tell us a little bit about potential solutions to the problem you just laid out and maybe how M&A can play a role there?

DEREK BRUTON:
Yeah, Ryan, M&A has become certainly a route for many owners of RIAs and financial advisory firms out there, that's a route they can take if they believe that they've kind of hit a ceiling, that they cannot figure out, either through hiring of additional personnel or using the multitude of resources that firms like TradePMR and other firms have out there to help advisors grow. Oftentimes, they look at that route of selling a business.

And why? Because valuations are through the roof and still are through the roof on RIA businesses. And it's a good option, particularly if you're at the point in your career where you might recognize that you want to grow your business, but you're not sure if you want to go through what it takes to grow your business.

And that's often the conversation, Ryan, I have with advisors is, OK, now that you've identified either you've got to hire somebody that is growth-focused and will go out there and not just close business, but generate leads, which I'll get back to in a second, I feel is a big issue in our industry. So, they've got to find that person or dedicate some resources, marketing resources, whatever is to it.

But what it requires, Ryan, is time and money, time and money. And oftentimes, when you get down to that topic with advisors, do you want to spend the time, do you want to sacrifice that Friday and focus on growth? Do you want to spend money on marketing resources, on branding resources, on people to do these things, whether in-house or outsourced? When you have those conversations, you start to hear from advisors what their real feelings are about true dedication to growth.

BILL COPPEL:
So, you know, you really touched on an important topic, I think, Derek, which is some of the – I'm going to call them roadblocks for a moment ─ that firms need to really wrestle with and confront in order to take advantage of the opportunity and grow, things like, do they have a succession plan in place?

I've seen things like securing human capital, which is a real challenge today, the right kind of people on the team, finding opportunities to bring in complementary capabilities that continue to redefine and enhance the value of a firm. These are real, real issues. And now you lay on top of that the impact that technology is having and the changing expectations of investors every day presents challenges, to your point, which require a lot of energy and obviously a lot of investment.

As you think about M&A for a moment, in the context of those kinds of assets or those kinds of capabilities firms need, let's say things that can help solve a problem. Can you share with us some observations or maybe a story or some experiences you've had around where a combination of two firms began to address things like human capital or succession planning or adding value to the current value offering that makes them even more attractive to investors?

DEREK BRUTON:
Well, one of the things that, going back a little bit about what Ryan said earlier about some of the observations in the market around the focus on growth. And right now, in the M&A space, and I'm speaking more to the buyers of businesses out there, the consolidators, aggregators, call them what you want these days, but firms especially that are PE-backed, which many of them are, there's a big focus on growth and net new asset growth.

Again, not pure AUM growth, but net new asset growth. And why is there that focus? Well, first of all, some private equity firms and some buyers out there believe that we will see a correction in the market in 2025.

So, that is driving more focus on firms that really can grow and want to grow their business as potential acquisitions. The other thing as well as what we're seeing out there is private equity firms want a return on their investment obviously. They don't want to buy firms who will take that upfront check and see stagnation in their business because that buyer or maybe buying team sort of mentally checks out of the businesses and isn't focused on growth.

So, they want to see a firm that is growing, maybe not perhaps as well as they could if they had more resources, but at least they're showing the desire and some sort of plan to grow. So that's important, too. The other reason these buyers and private equity firms are very focused on growth is because they've acquired firms that have not grown after they bought them.

In spite of what they thought they might do, they haven't grown for a variety of reasons we don't need to get all into today, but those factors are leading people and buyers in private equity firms to focus more on firms that show a knack for growth and have the ability to do that.

Now, that doesn't mean they wouldn't acquire a firm that isn't growing or perhaps even that principal is looking to retire, that's not the case. They'll just pay less for it and de-risk themselves probably in the structure of the deal with longer earnouts or something around key terms like that. So, we're really starting to see a focus on growth.

And so, sellers, on the other hand, are seeing this as well as they put their toes in the water. They talk to people like me, and they're preparing themselves better to go to market and sell their business. That might mean bringing in youth, bringing in younger talent. It kills two birds with one stone in the sense that they're building in a bit of a succession so when that advisor does phase out after they sell, that they can have a younger advisor to take over for him or her. And so that's important.

And secondarily, they're investing in technology and services and other capabilities out there which, as we know, are there's so many out there, it's almost become more tough to discern which are the best ones, not where they are. And so, there's more effort spent on that. And it's also custodians.

And you know, Bill, you're out there talking to these folks. There's a lot of folks that are doing a very good job in preparing advisors to prepare their businesses for sale or for succession down the road. It just comes down to whether that advisor, he or she wants to listen to that advice and implement that advice, which I always find, it's not the issue of the abundance of the advice and the quality of it, it's the actual implementation of what somebody learns and hears.

RYAN NEAL:
Well, Derek, you remind me, I think Rob spoke about this at one of Gladstone's events, and I know it's something Rob and Bill and I have talked about at TradePMR, is growth being really important for both sides of the acquisition, right?

For the advisor that is looking to sell and their succession plan and move on, and then also for the acquirer. If you're not organically growing, bringing in those new assets beyond market growth, the value for the seller and the value for the buyer, that ROI, is going to take an impact. I think that's what you're saying, right?

DEREK BRUTON:
That's correct. Buyers, on the other hand, also need to have a very strong platform. Because when they're out there competing for an acquisition, and I saw this as early as yesterday with one of my clients, they want to join a firm that's light years better than where they are in terms of growth. There's no sense selling yourself to a firm that hasn't cracked that nut.

And to the credit of many good RIAs, buying RIAs out there, there are a lot of firms that have very strong marketing platforms. They find really good people. They use AI and all the newer technologies and techniques to generate leads for advisors. And that goes to what I was saying earlier, Ryan, advisors, in my experience, in 30-plus years in this business, are good closers in general. They can close business.

But they're not really strong, and oftentimes very weak, in generating leads for their business. Oftentimes, their best idea is a referral from a good client. But that's not really an active marketing effort as you know. It's much more passive. And so, there are services. There's a lot of social media capabilities, a lot of digital marketing, a number of good services and good people to deliver those out there. But then it comes back to what I was talking about earlier. That's going to take time no matter what these people do, and they don't come for free.

BILL COPPEL:
Let me follow up with this, Derek. I've heard you say this at conferences, particularly when you're up talking about the M&A space. And again, the topic is organic growth, net new assets.

M&A can play a part in that. But what you like to ask at the beginning of many of your presentations is you'll ask the audience, how many of you want to buy a business?

And my question is, why do you ask that question, and putting on your consultancy hat, how does that inform you or provide you with insight to better understand the mindset of your audience?

DEREK BRUTON:
Well, Bill, if there was a hundred advisors in an audience and I was speaking on stage and I asked that question, who here wants to, maybe not buy a business, but grow your business, either organically or inorganically through acquisition? I think a hundred people would raise their hands.

It's not kosher to not raise your hand. So, they would raise their hands, but when you ask some qualifying questions, and I've done this before on stage. How many folks have set, let's say we're in December of ‘24, how many people have set goals for 2025 in terms of specific net new assets, revenue, and EBITDA, or profitability growth? The hands would come down like crazy at that question. But you'd still have some folks out there.

And then the next question would be, who's built a true platform around growth? In other words, it's not just you deciding to go out there and hit the pavement, but have you put a marketing platform around this? Have you thought about how you're going to scale up this, assuming you do hit those leads, and you do have the ability? Who's gonna work those leads? How are you gonna transition them? And when you start asking these questions, it then dwindles down to a couple of hands.

And what I find, Bill, oftentimes in these conferences, is when people start hearing from those few people that still have their hands up about what they built to support that growth, what they built and the teams they brought in to handle that growth and maintain it and sustain it, they flip their hands to the other side of the house, which is, you know what? That sounds like a lot of work. It sounds like a lot of time. I have neither the time, knowledge, nor inclination to do that. And all of a sudden, buyers become sellers, or at least they start thinking about it.

BILL COPPEL:
Sure. That makes complete sense. And what you've pointed out there with that answer underscores the challenge. And as we sit here today and we talk about what's coming, I think there's a message here that we as an industry and firms that are participating as RIAs have got to stop and seriously take a look at their business is what I'm hearing, and make some tough decisions about what they're willing to do or what path they're willing to follow to take advantage of the situation, if I've got that right.

DEREK BRUTON:
Yes.

RYAN NEAL:
So, what I'm hearing is that maybe M&A isn't a silver bullet for growth. Maybe it's not for everybody out there. I think you would agree with that. What are some other avenues that advisors can explore?

DEREK BRUTON:
Yeah, M&A is definitely not for everybody, Ryan. You're right. And there's a couple questions that my colleagues and I often ask to discern, to really get down to brass tacks as to whether somebody's ready. The question I always like to ask is, so you know you'll be reporting to X, okay?

These folks haven't reported to people in perhaps decades. They're independent advisors. They own their own businesses. They haven't had to report to anybody, although I always say in life, everyone reports to somebody. Somebody always has a boss. My wife is certainly my boss. So, when you ask that question, then you see, you especially want to look at their face on that one, you see the facial expression of, wait, wait, wait a second. I'm gonna be reporting to somebody?

And so that just starts a number of other questions to really discern whether they're ready to sell their businesses. But if it's determined that, no, they're really not a good candidate to sell their business, at least now, then what are the other avenues?

And like I've talked about, if you go to Michael Kitces' technology map, for example, or if you go to any custodian conference like TradePMR's or T3 or some of those, there's just a plethora of services out there.

And it used to be just marketing groups. Now, even within marketing, there's different specialties that people, from a technology standpoint, consulting, whatever it is, there's plenty of help out there to advisors to help them grow their businesses and to recognize the fact that what we talked about at the start of this podcast, which is that the number of people seeking advice outnumbers the number of people providing advice.

So, there is a market out there, but I will say it's become very competitive. And that's a factor and a product or byproduct of all this consolidation we've seen in the industry is the big have gotten bigger, and they've gotten more battle-tested. Their platforms are amazing. You see all the ads. I mean, is there a single NFL game where you don't see a Fisher ad or Creative or Mariner? I mean, they're all out there marketing. And mom and pop advisor with $250 million or $200 million in San Diego, California, who doesn't have that marketing muscle, doesn't want to spend whatever it is for 30 seconds on a Super Bowl ad or whatever it is, they have to think of other creative ways to get out there and get their name out there.

And there's a lot of work in social media. In many ways, it's become inexpensive in some regards to do a lot of these things, but you still need to know how to do them right. You can't send blast emails and then quit after three months because you haven't got a single client.

So, there's an element of persistence that has to go to these approaches. And some advisors, I should have mentioned this earlier, they lack patience, too. So, if it's not working and I spent a lot of money, well, I'm not going to spend any more. It didn't work after three months. So, I think the best thing somebody can do is really saddle up to your favorite custodian, your favorite consultant that you can find through any one of these conferences or online and ask them how they would prepare you to go to market and grow effectively and organically.

BILL COPPEL:
You're absolutely right, Derek. As you pointed out early in the conversation, it's not easy and it requires investment. But you have witnessed and been involved with successful combinations and integrations for a number of years now. And I'm seeing you've seen some good combinations and you've seen combinations that didn't work out quite as well as we would have hoped.

As you think about that, what are some of the attributes that you've seen or the differences you've seen between a positive integration where one plus one equals three and a less positive one where no one's happy at the end of the day? What are the key components that really trigger those attributes to be successful or unsuccessful?

DEREK BRUTON:
You know, Bill, I'm going to answer that by starting at a real kind of 30,000-foot level. And that's that this is a people business. We know it's certainly a people business as it relates to the advisor and their clients. We don't need to really get into that. But it's a people business in terms of who you partner with and whether you're going to enjoy partnering with that person, whether there's a good cultural fit there, whether you see eye to eye and not just on the closing day of a deal but 365 days later.

So that's extremely important. If you don't have that, it doesn't matter what the platforms are, whether somebody has a good platform or not, whether tools and services are top-notch. If you can't get along with the people delivering these things, then it's going to fizzle out pretty quickly.

But assuming you do get along with those folks and there is a good cultural match, and you can work together, then the next thing you really want to be on the same page with with your new partner is what you, as an advisor, assuming you're the seller in this case, what you really enjoy doing.

And that's a question that needs to be asked and drilled down into quite frequently because if an advisor really wants to work with clients and prospects, but really doesn't enjoy the investment management, doesn’t enjoy the managing of the business, per se. Many buyers out there have great platforms to help people with that.

In fact, I talked to a client of mine this morning who, when he sold his business, on an average basis, he was generating about a half a million dollars of revenue per quarter. This was about a year and a half ago. He sold it. Now he's generating $890,000 a quarter. He was very clear when he sold his business that he does not enjoy the investment management. He doesn't think he's good at it. Doesn't really care to do it. Doesn't think that's why clients hire him. They hire him for his overall advice in wealth management. That includes taxes, insurance, estate planning, investment management. And they don't care that he himself does the stock picking or whatever it is. They just want it done.

And so, he's been able, with his new partner, to offload that to them. He's offloaded compliance and HR and finance and all the other kind of shared-services aspects of the business. And that has freed up several hours in a week for him to focus on growth, which he thinks he's very good at.

And in just a short amount of time, 18 months, he's increased his quarterly revenue, on average by $400,000 a quarter. I mean, that's just, that's amazing. And most importantly, though, Bill, he's happy. So I think it really, to answer your question, really comes down to making sure in a partnership that the roles and responsibilities and the swim lanes, if you will, are all fairly defined, fairly well defined at the outset so that on day 365, or in this case, 18 months later, that people are still happy, thriving, and getting out of the relationship exactly what they hoped they would.

BILL COPPEL:
Well, I think the point you're making, which I think is a very valid point and important one I hope our listeners appreciate is the fact that as you decide about how you want to grow, assuming you want to grow, right?

How you want to grow, figuring out what you like to do, what you're good at, where you think your real value is, a transaction or an integration with another organization can certainly fill the voids for those things that you are either not good at, don't like to do, and don't want to spend your time with. And what you've just described with that story is in fact, it's like a jigsaw puzzle, right?

Two pieces came together that benefited both organizations and created that growth. I appreciate you sharing that. I think that's the biggest challenge that we face as advisors today is being honest with ourselves as to what are you willing to sacrifice, what are you willing to change, give up, do more of in order to achieve that objective. And that story really framed it nicely where this individual determined what they were best at and entered a situation to maximize that.

DEREK BRUTON:
Right.

RYAN NEAL:
Great. So, I think I'm going to move to wrap our conversation up. We've talked about a lot of ideas about growth, M&A, where it makes sense, where it doesn't make sense. So, Derek, what we like to do with these conversations is sort of conclude with three actual advice. Something

that any of our listeners can take home with them and implement if they wanna move forward and capitalize on these opportunities.

So, could you share with us three things that you believe firm leaders or advisors out there should focus on to really maximize if they want to go forward and sell and get the best price they can?

DEREK BRUTON:
Yeah, Ryan, I think the very first thing you should do as an owner and an advisor is sit down with your team and really determine whether you truly want to grow your business. And bear in mind that if the answer is no, you don't want to grow, that's not a bad answer.

It's nothing to be ashamed of. You shouldn't be upset about or anything like that. It's just your desire, but it's being true to yourself. But if the answer is yes that you truly want to grow your business by adding new accounts and new assets and perhaps new capabilities to attract those accounts and assets and relationships. Then sitting down with your team and strategizing, because this is a team effort, it's a team sport growth, and you need everybody with their hands in and willing to go after this. So then sitting down with that group and really understanding what is it going to take to get to the next level?

Listen to the ideas from the other people on the team. They've read, they've seen what's going on in the industry, they have friends in the industry, they've gone to conferences. Your team likely has ideas, and some may be shy about sharing those, but really create an openness and a forum to share those ideas and figure out what it's going to take to grow. Do not settle for, “let's see what the market does, and we'll be fine”. That's not a strategy. That's hope, as they say, right? So that's first and foremost.

Secondarily, once you've gotten there, figure out as a team what resources that you're aware of immediately that come to mind that can help you generate new business opportunities, new leads, and also the resources or tech or capabilities that you believe in your business it's going to take to get there.

Now, there's plenty of people out there, both of you, myself. There's consultants out there. There's people at your custodians, there's a number of people within the product sponsors of the firms that you work with out there. There's no lack of resources that can help you determine how to build this roadmap for growth.

And then thirdly, importantly, because those first two things don't even matter, if you don't hold yourself to an implementation plan, and don't set goals, and hold yourself to those goals. The rest of the planning is not gonna matter if you don't execute.

RYAN NEAL:
Fantastic, thank you Derek. So, I'm just gonna recap, I'm gonna boil those down even quicker, and first, so number one is, be honest with yourself. Know if you do wanna grow, sit down and

strategize how you could do it, and if you really don't want to grow, that's okay too. You don't have to, but if you do, have a strategy in place.

Number two, have that strategy in place and figure out what resources you need to enact that strategy. There's plenty of them out there. Go out and find what it's going to take to generate new business and find new leads.

And number three, set goals and hold yourself to those goals. If you don't, none of the planning, none of the resources in the world are going to help you get there. Does that sound right?

DEREK BRUTON:
That's a much shorter and more concise way to say it. Bill knows that the word “short” is not in my vocabulary with my height, so you said it much better than me, Ryan. Thank you.

RYAN NEAL:
Well, thank you very much for joining us. And for everyone listening, we hope you enjoyed today's conversation. If you like what you heard, please take a moment to subscribe, like, follow us on social media, all those great things. It helps get the word out there and we appreciate you.

BILL COPPEL:
And I'd like to add my thanks, Derek, for you to spend time with us today and sharing your insights and experience, particularly as it relates to this whole topic of organic growth and how M&A can address a lot of the challenges that face that for folks. And I also want to thank our listeners and advise you to please watch for our next episode where we'll bring you even more insights and actionable ideas to help you grow your business. And remember, the challenge is yours to capitalize on what the future offers.

OUTRO:
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