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RISKALYZE WHITE PAPER

The Billion Dollar Formula

The Path to a Billion-Dollar RIA

The billion-dollar RIA is both a standard of success and an educational model for advisors of all stripes. The reputation of billion-dollar firms is well-earned, and hitting this milestone is a testament to hard work and vision on the part of the advisors that reach this goal. Luck alone will never create a billion-dollar RIA.

For advisors wishing to achieve the billion-dollar RIA, their measure of success has been defined, but the strategy on how to get there is less clear. Research on the subject, up to now, has been largely anecdotal, focusing on one-off examples or generalized, common sense advice. The path to a billion has several moving parts that must be adapted or changed at different phases, and the journey to a billion can look very different advisor-to-advisor. Is there no tried-and-true way to reach a billion in assets?[1]

If there is no map to success, surely there is another way to learn by others' examples? We looked for patterns and like characteristics between billion-dollar firms to see if there was a winning formula. Using our data, we were able to identify nine traits these RIAs have in common and how firms can utilize them on their path to a billion.

WHAT ALL BILLION-DOLLAR RIAs HAVE IN COMMON

Billion-dollar RIAs have to offer a unique value proposition and an exemplary experience for their clients—just like smaller firms. What differentiates large firms from smaller ones is that they can grow using a formulaic approach and share these traits:

Growth that is predictable, measurable, and acceptable

Becoming less reliant on individuals and more on processes

Mechanisms in place so that the firm can grow even in times of market volatility

The ability to bring in new customers at a gradually faster pace, while still meeting the needs of existing clients

Tools and methodologies that provide unique value propositions to clients

The ability to innovate as the industry changes

Flexibility to change strategies and adapt to challenges

Dedication to firm culture and values, and using those values to influence mergers and acquisitions

Aggressive investments in infrastructure and long-term solutions

[1] There is! Turn to page 3.

Billion-dollar RIAs on the Rise

In 2012 there were 436 billion-dollar RIAs, a number that grew to 687 by the end of 2016 with 99 of those surpassing $5 billion in assets. Billion-dollar RIAs grew 9.8 percent annually from 2012 through 2016. RIAs with $250 million to $500 million in AUM grew 11.8 percent, and firms with $500 million to $1 billion AUM grew 10.6 percent, according to the report. The seven RIAs with $10 billion or more at the beginning of the five-year period grew only 6 percent.[2]

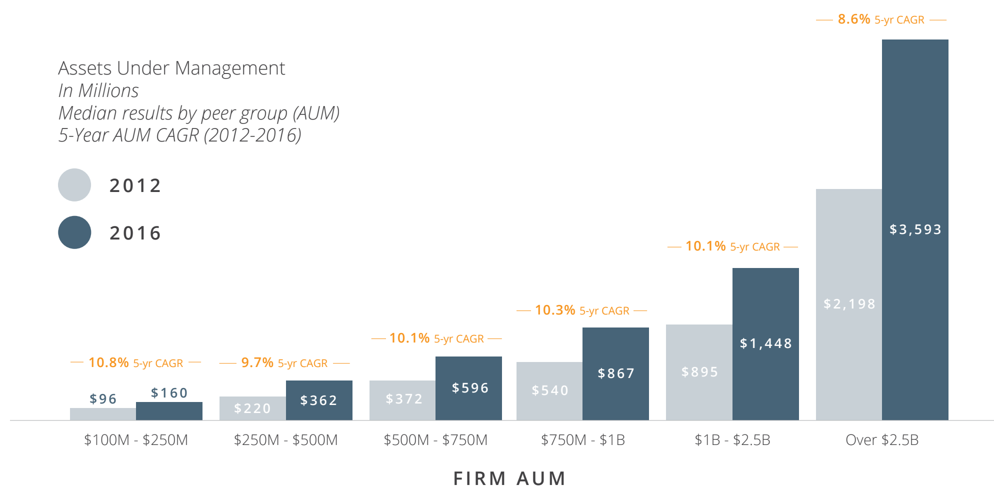
The 687 businesses with $1 billion or more of AUM account for just 3.8% of retail-focused advisory firms, but they collectively control $2.4 trillion, for a 60% market share.[3]

Advisory firms face similar challenges as they grow. One challenge is a capacity wall since, as human beings, most financial advisors simply can't handle more than about 100 clients without sacrificing the quality of those relationships. In order to grow beyond the assets of these 100 clients, advisory firms have to bring on additional advisors, increasing the overhead costs of the firm and/or splitting its net profits, which in turn reduces per-advisor take-home pay.[4]

In the decade following the crash of 2008, RIAs have found themselves growing at rates that effectively double the size of their firms every three to five years. Besides the capacity challenge, advisory firms also have to face increasing costs for advisor talent, which is also in double digits (10%) year over year, which crimps profit margins even further.[5]

Having acceptable and predictable growth is an essential part of knowing whether a firm is on the right path. The current rate of doubling every three to five years can provide a baseline for tracking the firm's assets, and isn't unlike the ways we track a Compound Annual Growth Rate (CAGR). What all billion-dollar firms have in common is that they treat the firm as an investment in itself and measure their growth in these terms.

In a 2017 Benchmarking RIA Study, Schwab looked at 5-year CAGRs for firms of all sizes and saw strong, consistent growth across the spectrum. Firms that have high aspirations for growth track their progress aggressively and look for year-over-year improvement.



For the sake of objectivity, some firms insist that it isn't necessary to set such specific goals. Cresset Wealth Advisors, a firm that recently crossed the $3B AUM mark, doesn't focus on the timelines. "Cresset does not have a specific market value goal. Having a target AUM five years from now puts the focus on us and not our clients," says Cresset CEO Doug Regan. "A lot of firms put a number out there, but we are focused on the client. Our goal is just to work with as many clients as Cresset can possibly serve."[6]

Cresset's stratospheric growth occurred in one year, and while they may not look for an AUM figure within a specific timeframe, they will surely be tracking their growth to make sure it continues and will realign their efforts if they see a lack of progress. Whether it's an end goal or a steady climb, all top-growth firms use data to make sure they're on track.

ORGANIC VS. INORGANIC

Organic growth strategy seeks to maximize growth from within by increasing outputs and sales internally. The ability to generate consistent, sustainable growth organically is a key component of all top-performing firms.

McKinsey analyzed how successful companies pursue growth along three strategies: investing in existing high-growth activities by reallocating funds from a variety of sources; creating new products, services, or business models; and performing better by constantly optimizing their core commercial capabilities, such as sales, pricing, and marketing.[7] The most successful firms were shown to use multiple strategies, taking a diversified approach to their organic growth.

Investing: looking at products or services that have shown successful growth in the past, and where future investment can show growth in the future. If planning services have been a source of AUM for the firm, increasing funds to building those efforts and making them better should theoretically make them profitable in the future.

Creating: offering new services and expanding the scope of your efforts to reach new sources of revenue. If a firm doesn't offer planning services, they may create this in an effort to reach a new group of potential clients and increase growth in that way.

Optimizing: improving core capabilities not necessarily tied to one particular service and renewing focus on prospecting efforts, community outreach, operational efficiencies, or costs.

Organic growth is a diverse path. When it comes to generating new business, some firms leverage business development officers to foster new relationships, and then transition them to advisors. Others find success involving advisors in client relationships from the starting line. When it comes down to it, there won't always be a "one size fits all" solution. Leveraging skillsets appropriately is key.[8]

MERGERS AND ACQUISITIONS

Inorganic growth is achieved through mergers and acquisitions, which has its own benefits and downsides, just like any growth strategy. M&A adds AUM and continuing revenue going forward, and also give access to clients and resources a firm might not have acquired otherwise. As a firm continues to grow and offer new services, there often comes a time when looking externally is the best way to meet client needs and achieve firm goals. There are many reasons a firm might consider an M&A strategy: succession planning, acquiring talent, filling a niche need, and improving the firm's offering. Having a targeted approach and making sure to find the right cultural fit is an essential part of a successful M&A.

M&A PROFILES

Alex Chalekian

Alex Chalekian is the founder and CEO of Lake Avenue Financial, and he's used M&A to increase AUM since 2008, acquiring six practices to date. One of the biggest things he looks for is how a firm manages their clients, before and after transition. After one recent acquisition, the previous owner still meets with clients and manages those relationships. "He wants them to be taken care of, and that's the kind of advisor you want to work with when doing an acquisition," says Alex.

Relinquishing control can be difficult, especially for advisors that have run a practice for 20+ years. For Alex, keeping this in mind is part of a successful transition. "Put yourself in their shoes. If you were the advisor selling, how would you want this run?"

Alex believes that learning about the advisor selling the practice is important, and it's hard to gather how good an M&A will be without meeting them. Listings don't highlight potential conflicts, which is why having face-to-face meetings are so crucial.

CONTINUED

Alex Chalekian

"I want to look them in the eye and have this conversation. Why do you want to sell the practice? What are you hoping to get out of this transition?" Doing the due diligence, before acquisition, makes sure that both parties feel confident in the decision.

Throughout his acquisitions, Alex says that using the Risk Number® has been a game-changer. Many of his new clients have only ever been stereotyped with subjective semantics like "conservative" or "moderately aggressive," so he sits down and explains his approach to quantifying risk. He'll perform a risk assessment with them then analyze the risk in their current portfolios, and the new clients love the dialogue and the new technology. The only problem? "You don't want to make their old advisor look bad," Alex says. One of the ways he combats this is by going over the technology with the old advisors as well.

For more insight on how Alex uses the risk-first approach in mergers and acquisitions, you can watch his interview with Riskalyze CEO Aaron Klein **here**.

According to Cerulli Associates, the average age of advisor-owners is nearing 60, and there are currently more advisors over the age of 80 than under 30.[9] M&A is a common element of succession plans, which means that those looking to buy are in a great environment to use it as a growth vehicle.

Industry experts suggest that firms under $200 - $300 million in AUM may not be sustainable over the long run and will need to seek out a larger partner.[10] Scale is becoming critical for RIAs to be able to continue to invest in their businesses, so they can build out centralized infrastructure, deploy the latest operational technology systems, hire professional management and embrace a digital client service experience to match the most successful firms. As a result, many larger and more established RIAs are now actively pursuing inorganic growth strategies to take advantage of this industry consolidation movement. Ron Carson, Founder and CEO of The Carson Group, puts it this way, "It doesn't always make sense to build your own battleship every single time. Go find a battleship somewhere."

Being a successful buyer is not a simple matter. In fact, if done incorrectly, "buying badly" has the potential to derail firms from their stated missions, distract them from their current business of serving existing clients, and unnecessarily increase financial and compliance risks that are often unknown until after the deal has closed. An inorganic growth strategy should be a thoughtful process after firms have shored up their own technology systems, infrastructure, workflows, and service models so they have both the management and operational capacity.[11]

Maintaining good organic growth, in addition to expanding through M&A, is a best practice for achieving scale and indicative of a practice's health. A billion-dollar firm with an organic 10% CAGR is going to be "healthier" for the long term than a billion-dollar firm made through a $750 million AUM acquisition that had a -2% CAGR prior to the acquisition. Not all billion-dollar firms are alike, and even with acquisitions that bring up overall AUM, having a positive growth rate is essential for long-term success.

How to have a billion-dollar RIA in 24 hours with no experience:

1. Secure about $30,000,000 in liquid capital.
2. Find a one-billion-dollar RIA that A) has an operating margin of no higher than 27%, B) CAGR of at least 10%, and C) is willing to sell.
3. Congratulations, you now have a billion-dollar RIA!

You can become a billion dollar RIA in an instant, or you could do it from scratch one client at a time. The reality is: most billion-dollar RIAs are doing something in between.

TRUSTING IN PROCESSES

As an advisor today, there will come a point where you will have to make the transition into a leader tomorrow. The evolution of leadership is a universal truth in the path to a billion. Either you or a hired CEO have to step in and become—in title and in practice—the CEO.

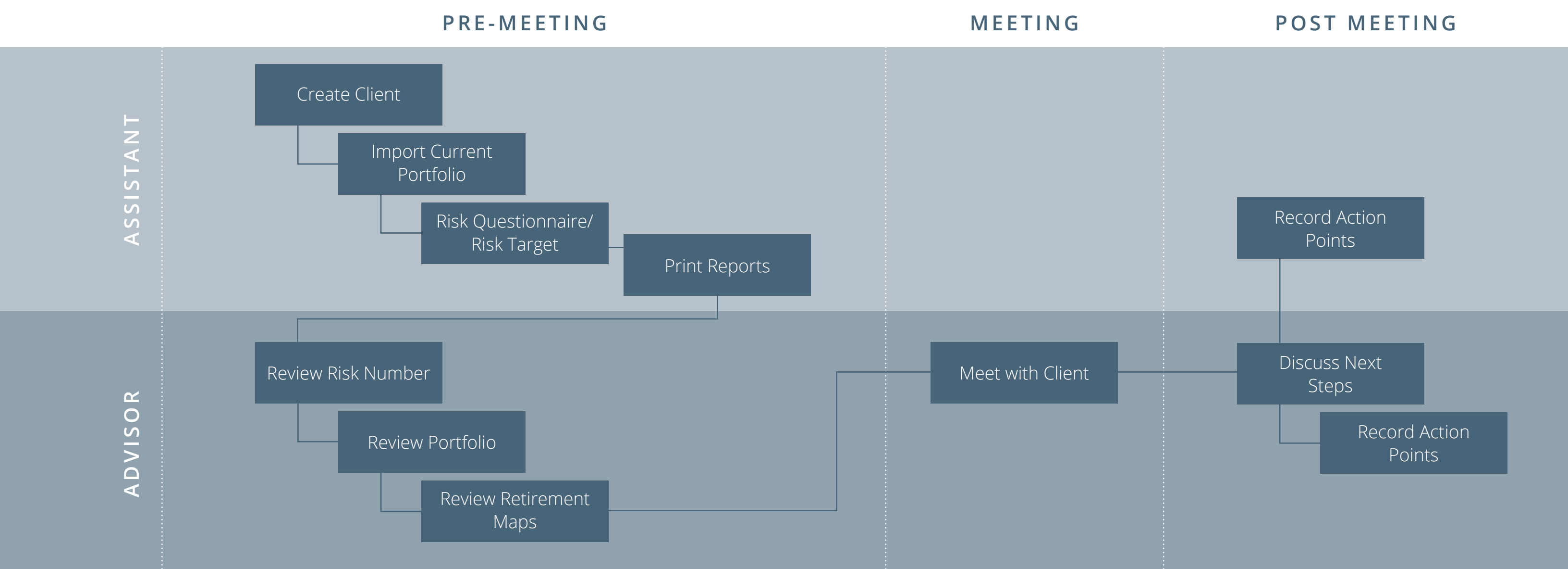
Most financial advisors love working with clients, and helping people achieve their financial goals has been a primary motivator. But if an advisor ever hopes to achieve the billion-dollar goal, they'll need to dramatically reduce the time spent working on the "plumbing" of the business and increase the time spent on the "poetry" of the business, as James March wrote in his book, *On Leadership*.[12]

Having executives for big-picture planning also helps identify and eliminate inefficient processes. When starting as a solo advisor, or even as a small team, it's normal to take on many tasks in order to reduce overhead or simply because it's much easier to do in the short term. As needs change and more clients require more attention, inefficiencies in processes can prevent upward mobility. For example, if an advisor is meeting with clients, then entering trades on the back end, prospecting for new clients, and also handling billing—there will be a cap on the number of clients they can have and still maintain exceptional service. For the sake of keeping costs lower, firms can jeopardize their ability to capture AUM or have happy clients.

In one example, coordinating the handoff between client intake, client meeting, and client follow-up is a process that can get complicated for smaller firms. When preparing for a client meeting, it can be easy for each team to be confused or overwhelmed.

> *Who will make sure that all client information is up to date in our CRM and other software?*
> *Who will print the reports and when will they be handed off?*
> *Who will enter action items following the meeting?*
> *Who will follow up with clients in different contexts?*

Instead of assuming task ownership, flowcharts for each stage of the process reduces friction and alleviates stress points.



Prioritizing tasks and handoffs, as well as creating workflows that better serve clients, are processes that must undergo consistent reevaluations as firms grow larger. While executives are captains, there are still many moving parts that must work together in order for a ship to sail. Getting off the deck and into the bridge can help firms see their potential, and identify processes that are holding them back.

A large advisory firm isn't structured too unlike a large corporation, or even a broker-dealer for that matter. Building out this structure and creating fluid processes gives the firm the foundation it needs. To plan for a billion, don't just build up, invest internally and build out. Firms can organize these processes in two ways: investing in technology solutions that can accommodate more AUM as they grow and creating an organizational structure that allows individuals to specialize.

LARGE RIAs BY DEPARTMENT

GROWING WITH (AND DESPITE) THE MARKET

In the past ten years, the number of billion-dollar firms has risen substantially, and we have a strong bull market to thank for that. With markets doing well, clients are more eager to invest, and more investors and booming markets is a recipe for supercharged AUM growth. But what happens when the markets go bearish? Will billion-dollar aspirations have to wait for another bull market?

Growing with, and even despite, the market is going to play a big role in consistent and predictable growth. Firms will need to diversify offerings to offset falling returns and bad market sentiment, and adopt behavioral finance principles that combat these challenges. Quantifying risk and understanding investor psychology will ensure a firm's longevity long after the markets stop playing nice.

CONSIDER THE ALTERNATIVES

When markets are booming, there's no better environment for aspiring billion-dollar RIAs. But when the glimmer fades, what happens to growth models? They sputter. Whether it's through diminishing returns, or clients selling off assets (or leaving altogether), market downturns can derail even the best-laid plans. Having options to counteract these effects before they happen is a hedge against market volatility.

Portfolio managers at large RIAs account for these shifts through diverse portfolio offerings that go beyond exchange-traded funds. Alternative investments could be a solution, but firms have been historically bullish on the subject.

According to a survey released by iCapital network, 34% of financial advisors currently have at least 5% of client assets in private equity funds, and 27% have at least 5% of client assets in hedge funds. The majority of respondents said they planned to maintain or increase exposures to alternatives, motivated mainly by potential investment returns and diversification goals: 87% to private equity funds, 61% to hedge funds and 93% to private direct deals.

"Technology, new product structures and education are removing many of the barriers associated with investing in alternatives, but certain characteristics inherent to alternative investments that drive performance, like longer investing timeframes, will remain," says Tom Fortin, managing partner and chief operating officer at iCapital. *"This places a greater emphasis on portfolio construction expertise for advisors seeking to reap the return and diversification benefits of alternatives."*[13]

With spiked volatility in February and October 2018, there has been renewed interest in absolute return strategies, but exploring these options aftermarket events is "tantamount to shopping for a seat belt after a crash," says wealth strategist Vance Barse.[14]

Asset minimums and illiquidity have been barriers to the democratization of alternatives, but in order to properly serve high-net-worth clients that will sustain aspiring billion-dollar firms even through volatility, having access to these investments should take priority (before a downturn happens).

ON YOUR BEST BEHAVIOR

Investing for the long term is the best strategy for all investors, that's already well-known. Short-term market events are temporary and the key to being a wise investor is to just stay invested and ignore volatility. The problem? Humans are completely incapable of following that advice. We've seen short-term market events kill long-term financial goals.

Any advisor that has worked with clients in bear and bull markets can attest that irrationality is not resigned to one or the other. Investors often see themselves in a "winners or losers" cycle with the market, their portfolio, and other investors. It stems from basic fear on both sides: the fear of losing too much and the fear of missing out. Biologically, this kind of awareness is beneficial to us in times of feast and famine, but financially it makes us vulnerable. Dr. Daniel Crosby, New York Times best-selling author and Chief Behavioral Officer at Brinker Capital, argues that humans are innately incapable of being good investors and the only way to break through our natural-born bad habits is through methodologies that A) acknowledge these behaviors and B) overcome them.

For decades, investors have been lumped into stereotypes based on their age: conservative, moderate, or aggressive. Looping investors into stereotypes or general categories only reinforces one thing: natural biases. Every investor has their own risk tolerance and a different amount of resources to put toward their goals. A one-size-fits-all, "aggressive" approach for every 25-year-old isn't going to be an effective plan. In independent research, 52% of 20-29-year-olds don't actually fit into their "aggressive" stereotype. The news only gets worse for older folks—53% of 70-79-year-olds didn't fit into their "conservative" stereotype, either. What happens when more than half of all investors are invested incorrectly? They panic during market volatility. Some feel greedy and buy; others sell out of fear. Both reactions might negatively affect their long-term goals. This cycle repeats itself until they eventually change their investment strategy, fire their advisor, or both.

For billion-dollar firms, curbing this behavior before it has negative effects has to start at the beginning. What fintech based in behavioral finance principles does, and what more large firms are beginning to see in their clients, is that treating investors as individuals with unique risk tolerances keeps them invested for the long haul. To keep AUM, and continue a firm's growth trajectory, investing in tools that account for investor psychology is essential.

For a deeper dive into behavioral finance principles every advisor should know, as well as more in-depth discussions from Dr. Daniel Crosby, read our ebook **Behavioral Finance for Financial Advisors**.

BETTER CLIENT ACQUISITIONS

Building AUM organically requires an investment in more efficient client acquisition and business development strategies. Marketing and prospecting, unfortunately, are often skills learned the hard way through trial and error. Finding and attracting prospects, communicating the firm's value proposition, and doing that process all over again, takes up valuable resources. And yet it's the most important element of building a billion-dollar business.

According to the 2017 Schwab RIA Benchmarking Study, comprehensive marketing strategies supercharge growth: The fastest-growing firms tend to use comprehensive marketing strategies to attract new client assets at 2.4 times the rate of other firms.[15] Systematizing a firm's marketing strategy results in faster growth—so why aren't more firms doing it? Truthfully, they just might not know how, or have resigned themselves to referrals in the hopes that providing good service will make up for a lack of marketing (it won't). Word-of-mouth only travels so far.

> *"The biggest problem with growth rates being market-driven is that they tend to cause firms to not invest the right amount of time, resources and efforts into a strategic marketing plan to sustain their growth long term,"* says Megan Carpenter, CEO of FiComm Partners, a leading wealth management marketing, branding and public relations firm. *"From benchmarking data, advisors are only spending 2% of their top-line revenues on marketing, which includes business development — a sales function — and when we back out business development, that means that advisors are essentially spending nothing on marketing...there is a real missed opportunity in wealth management for advisors to fully take advantage of their growth opportunities."*[16]

Creating a budget for marketing efforts, and using it, is something all large RIAs do, and while their budgets are markedly higher, that doesn't mean smaller firms shouldn't follow that example and operate similarly. But where do firms start? As AUM and revenue grow, more resources can be devoted to client acquisitions. In the meantime: set a budget, use it, and recruit people and resources to improve ROI.

THE MARKETING TOOLKIT

A website's importance can not be overstated. As more prospective clients go online in search of advisors, a professional-looking website is no longer an option—it's a must. To see how firms are utilizing their website to its full potential, we put together **15 Examples of Great Advisor Websites** that includes the three things every website needs in order to be effective. There are also companies like **Advisor Websites** that specialize in the creation of lead-generating, compliance-approved websites for financial professionals.

Utilizing social media is especially important in promoting a firm's value proposition and raising awareness. For billion-dollar firms with big names, the general public will already recognize their name and what they offer, which is why smaller firms need to be especially diligent in targeting prospects and using social media channels diligently. **The Social Advisor Guide** shows the different platforms advisors are using, and where to attract ultra-high-net-worth prospects.

At Riskalyze, we provide all of our advisors with an **Advisor Marketing Kit** designed to jumpstart success. We include a slideshow presentation, press releases, a client-facing video, a web and social media guide, and a lead generating questionnaire that turns a website into a prospecting machine.

THE RIGHT TOOLS FOR THE JOB

If a firm hopes to actively manage thousands of clients and billions in assets, having the right tools is going to be essential. But starting out with billion-dollar tools (before you've reached a billion assets) doesn't make sound financial sense. Technology needs change and evolve, and with fintech innovating year-over-year, solutions of 2009 might not meet your needs in 2019. The advisor technology landscape is vast, and with so many options, where does an aspiring firm start?

When considering the tools to manage clients, achieve scale, and improve efficiency, consider both the short and long-term:

> *If my firm keeps growing at a predictable rate, will this technology need to be replaced before I have the budget to replace it?*
> *Will this technology integrate with tools I'm already using?*
> *Does this technology meet a need?*
> *Will this tool improve the client experience?*
> *Will this tool give me what I need to grow?*
> *How long will it take for users at my firm to understand and use this product?*
> *Does the technology empower me to incorporate my own capital market assumptions and/or brand?*
> *Does the technology appeal to both sophisticated and non-sophisticated clients?*
> *Will the tool tie in with my marketing and prospecting strategy/process?*

A downfall for some firms is either not investing enough in their tech stack and sacrificing growth because there are too many inefficiencies, or choosing solutions that don't have enough customizability to accommodate the firm's needs. Competition in the marketplace means that advisors have the freedom to choose what's best for their business at a price point that's sustainable, without sacrificing essential functions. Another thing to consider—is this software **revenue-generating or an overhead expense**? The more revenue you can generate, the more a (slightly) higher cost may be worth it, especially if the features serve the firm well.[17]

Advisor technology should be able to meet these criteria and answer these objections:

Suitability: does it meet the needs for the firm and its clients?

Scalability: will it be viable with your current growth model?

Price: does it contribute to growth, meet your budget, or both?

Efficiency: does this solution work with tech we already love and use?

Collaborating with other members of the firm ensures that technology solutions are given the right consideration and implemented to offer the most value to the most people. Having organizational structures and assigned decision-makers is an important step for bringing in new tools. Taking too much time to implement solutions just increases practice inefficiencies.

Those looking to build a billion-dollar firm are often faced with a tough question: do we just implement an expensive, all-in-one solution that takes care of everything just okay and locks us in, or do we adopt multiple products and hope they talk to each other? Truthfully, it's a little bit of both.

Several billion-dollar firms have TAMPs that manage a lot of core functions, but they also utilize other solutions and niche products for certain segments of their business. In order to become a billion-dollar firm, you'll have to work with many different clients ranging from ultra-high-net-worth to young professionals. Technology that utilizes bps pricing and platform fees won't always make sense for a $25K client, and flat fees or other low-cost options are a detriment for $5 million clients. Using the right solution for the right client adds to practice efficiency, so utilizing multiple products isn't a downside. Being agile enough to know what strategies to use is a key trait for top-growth firms.

Portfolio management is often a high-stakes task that can make or break practice efficiency. A significant portion of advisors (21%) continue to create custom portfolios for each client instead of building model portfolios that can be modified. Unfortunately, creating an individual portfolio for each client is a time-consuming process that can impede the ability of the advisor to manage an efficient, scalable practice.[18]

For the advisors looking to maintain the discretion of Advisors-as-Portfolio-Manager Programs, adopting model marketplaces can offer the ownership they want at the scalability they need. The flexibility of model marketplaces also opens opportunities for advisors to accommodate a wide variety of clients, as they can utilize the strategies of renowned asset managers at little upfront cost, rather than creating portfolios from scratch.

KEEPING UP AND EXCEEDING EXPECTATIONS

Advisors on the path to a billion have challenges and stiff competition: billion-dollar firms continuing their own growth trajectories, self-directed investing platforms, continued fee compression, similar firms going after the same investing pool, and internal limitations. Breaking through these barriers means that advisors have to diligently research trends, anticipate challenges, and keep up with industry and client expectations. Billion-dollar RIAs have mastered this art, and smaller firms will have to master it too if they want to keep up with the competition and exceed expectations.

Tech surveys from industry leaders can provide valuable insights to advisors on where they can focus their efforts. A 2018 Tech Survey from WealthManagement.com and F2 Strategy found:

Having an online portal is probably one of the ways these advisors demonstrated their value and grabbed the larger market share. Giving clients real-time access goes a long way in improving client communications and is one of the bigger trends in advisor technology today.[19]

Another trend mentioned in the survey regarded digital experiences and what clients expect from all tech they encounter.

Liquid Expectations is the assumption that all digital experiences should be just as predictive and effortless as the best of them (Amazon, Apple, Netflix, etc). We've become accustomed to this kind of digital experience, so when we encounter something that is complicated, or time-consuming, or just not as good, we have a visceral reaction to it. That doesn't leave a good first impression of the experience or the company. Current clients might be a little more accepting of certain inconveniences because they've already established a trusting relationship, but future clients won't be as forgiving.

Looking at Liquid Expectations as an indicator, intuitive technology isn't innovation—it's just keeping up. As more consumers expect this level of sophistication in every digital experience they have, how will advisors rise to the challenge? In order to stand out from competitors and continue growing, think about what you can offer that meets their expectations, and how you can demonstrate value better than anyone else.

Today, clients expect their advisors to have all the great tools the robos have AND the winning personality to sell it. It's not enough to say "trust me"—and we think that presents a great opportunity for advisors. In the age of best interests, firms must prove value conclusively and easily. Client-facing technology that simplifies complex ideas, provides a seamless user experience, and stands up to liquid expectations is going to be a key factor for advisor growth. The ability to relate visually is one of the most significant advances in fintech of the past ten years.[20]

THE JOURNEY TO A BILLION:
AN INTERVIEW WITH

Ron Carson

Ron Carson is the Founder and CEO of the Carson Group, which serves financial advisors and investors through its businesses including Carson Group Coaching, Carson Group Partners and Carson Wealth. The Barron's Top 40 RIA Firm manages $15B in assets across 92 partner firms in 37 states nationwide.[21]

As an entrepreneur from childhood, having his own popcorn company as well as owning an auctioneering company later on, he had big aspirations from an early age. Working on a farm, his earliest goals were a bit modest. "I just wanted to wear a suit and tie every day," he laughs. In high school, he decided to become a financial advisor.

He started out at small advisory firms in Minnesota and eventually moved to LPL in 1989. His growth really skyrocketed when he started his coaching group in 1993. "It was this thinktank of people that had this insatiable appetite to grow, and we learned from each other. I just facilitated that coming together of thousands of financial advisors."

In his over 30 years in the business, he has seen a lot change. His 2005 book with Steve Sanduski, Tested in the Trenches, has been essential for many advisors aspiring to grow their business, but even he acknowledges that things are changing. "In the book, I remember saying "don't take small accounts." These days, you better be taking small accounts! We have the technology to bring them on now. And better digital experiences? We didn't even mention that."

Having a seamless experience, and providing leadership for a new generation, is how Ron believes advisors can achieve scale, but many dramatically underestimate the work it takes to get there.

CONTINUED
Ron Carson

> *"I spoke to a firm that had invested millions of dollars over the past few years and they'd bought Salesforce and Orion and all these great technologies, and they just said, 'Ron, we don't know what to do with it.' What these technologies do is they give you the paint, but you still have to go out and paint the masterpiece. There's still a lot of legwork involved."*

While that firm was eventually able to turn around, he invested considerable resources into making that happen, and stresses that every acquisition deal should be thoroughly worked out ahead of time. "Don't ever say you'll worry about it later. It's easy to get into stuff...it is very hard to get out of it."

Can one become a billion-dollar RIA without acquisitions? "You can! And it's more possible today than it's ever been." He stresses that there are more advisors over the age of 80 than there are advisors under the age of 30. Creating partnerships and training this next generation of advisor will have to be a part of that growth plan.

For the next generation of advisors that will be overseeing the wealth transfer in the years to come, and trying to create their own billion-dollar firms in the future, he offered two pieces of advice:

1. **Credentials matter.** "Without credentials, you'll never be able to reach that sophisticated client."
2. **Don't associate with partners or platforms that have not evolved.** "If they're trying to mix old legacy systems with the new, you're going to have cybersecurity issues and you'll have integration issues. Whoever you partner with, make sure they have technology that is adaptable to the future."

KEEPING UP WITH CULTURE

"Culture eats strategy for lunch," says Ron Carson, and that's one component of growth that gets overlooked. We've already discussed strategies, but why should others join you on the billion-dollar journey? As much as advisors have to show value to clients, advisory firms also have to demonstrate value within the firm. If it's just about growth, and nothing else, then it's not a worthwhile reason.

Culture is more than just perks, it's about demonstrating a philosophy that guides decisions, that assures others in the firm that decisions are made for a greater good. There are many people involved in the creation of a billion-dollar firm, and creating a unified mission and set of values is a building block to greater success. It's the "why" that motivates everyone.

At Riskalyze, we implemented mission and values training from day one.

"I honestly thought it was a little silly. There were six of us in the room," says Dan Cunningham, VP of Product. "But looking back, I'm so glad we did that. It's added so much to the culture here."

Having a solid mission for the business, and values that guide that mission, are the unsung heroes for achieving scale. Culture is about creating a long-term vision for not only the company but the individuals that make this growth possible. Culture is the engine that powers your strategy forward.

As firms get bigger, culture gets harder. It's hard to develop culture and closeness across vast geographies. Even after so much growth, large RIAs still have to nurture teams and individuals, make clients feel well taken care of, and promote a unified vision for future scale. That job never, ever stops. When you can no longer walk the halls and know everyone by name, creating a cultural identity keeps people invested.

Check out our **Mission and Values** page to see how we run as a company, and how we come together to empower the world to invest fearlessly.

INVEST IN THE FUTURE

According to the latest benchmarking research sponsored by Pershing and data from wealth-management-focused investment bank Echelon Partners, the RIA industry is in a strong growth mode, with double-digit year-over-year growth in both revenues (11.7%) and assets (20%), up dramatically from the previous couple of years as the industry continues to migrate away from commissions and sprint toward fiduciary-driven fees.[22]

The Department of Labor (DOL) Fiduciary Rule, despite its demise, continues to influence business practices in the managed account space. A majority (55.6%) of managed account executives state their firms "are moving to adopt certain elements of the Rule, but [they] are scaling back on other requirements." A sizable proportion (40.7%) "are moving forward, embracing a fiduciary standard as if the Rule were to be implemented."[23]

The future of financial advice is the fiduciary standard, and the large RIAs of the future understand that the industry has shifted from the sales model to the customer experience model, and that means guiding decisions with best interests in mind.

The traits that all billion-dollar RIAs have in common work in harmony with each other: strong, predictable growth is facilitated by executive teams that shore up processes. Investment in organic growth opportunities, such as business development and marketing, is done through investments in long-term planning. As advisors acquire more clients through organic or inorganic growth, they use state-of-the-art technology with a superior customer experience to nurture these relationships. These moving parts add to the "poetry" of the business, and they are what make billion-dollar growth possible. Getting these tasks right isn't easy, which is why billion-dollar RIAs have to be admired and why they continue to be a standard of success today.

Not everyone wants to be a Ron Carson, and we think that's okay. Advisors become advisors because they love working with people and helping others achieve their financial goals. If becoming a CEO of a firm is less appealing than managing a solo practice, then use these ideas to further your own ambitions. It's all about giving clients a better experience and doing what we can to empower the world to invest fearlessly.

Now that's a billion-dollar idea.

Interested in seeing how the Risk Number can help you scale your business and keep clients invested for the long term?
Take a **personal tour** and see for yourself.

Special thanks to Ron Carson for speaking with us for this white paper.

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