Four Big Mistakes Hurting Your Firm's Growth

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by Damian Ornani

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One of the biggest challenges for Registered Investment Advisors (RIAs) is balancing the desire to grow while maintaining high quality for clients. After all, RIAs are businesses, and healthy businesses grow.

Growth for an RIA usually means boosting assets under management and/or client count. However, this presents a problem for the diligent RIA: How do you responsibly grow your firm without jeopardizing quality – and, with it, the existing client relationships you cherish? The answers could fill volumes. Avoiding these four big mistakes is a crucial start to grow while maintaining quality.

1. **Running your firm like a "practice" instead of a "business"**

Many RIAs run their firm like a doctor's office; the principal practitioner is extremely hands-on, and growth is limited by how many clients the principal (or perhaps team members) can see in a day.

My advice: Think differently. Start implementing *role specialization*, creating niches for employees so they can gain deep expertise. Whatever the function – operations, research, analyzing clients' portfolios and needs, trading, client service or sales – create positions focused on one specialty. This not only frees your time, permitting your firm to add clients, but it can also raise quality! David Ricardo's theory of comparative advantage extends beyond macroeconomics. Focus where you have the biggest advantage. Hire others to do the same, and you'll service more clients better. It can be hard to accept, but you can hire folks who are better at various tasks than you. Passing the baton allows you to build scale with quality.

2. **Overlooking the importance of service**

From a marketing perspective, many firm founders err by focusing solely on performance. While performance is important, it shouldn't be the only reason someone hires you. Service is an overlooked differentiator.

When I say "service," I don't mean walking your clients' dogs or inviting them to a special, clients-only booth at the local PGA Tour event. Offer those things if you'd like, but they are unlikely to benefit your clients or your firm in a meaningful way.

“Service” is *coaching* and *educating* clients.

Outstanding performance doesn’t matter much if your clients don’t experience it. Time and again, experience and studies like DALBAR’s *Quantitative Analysis of Investor Behavior* show that investors need help sticking with a long-term investment plan. (A fact illustrated again early this year when volatility led some robo-advisor-based firms to pay humans in call centers to talk to clients.**[i]**) When markets get rocky, nervous investors tend to bail at the worst time, selling after big falls and often missing out on the ensuing rebound.

Similarly, when markets surge, investors flock toward hot investments, a story that rarely ends well. Consider just these recent examples: The investors who unwittingly eschewed diversification by loading up on energy master limited partnerships in search of yield, or those who gorged on gold and silver in 2010 and 2011 after a big run up. Service, particularly when delivered with a personal touch, helps your clients avoid these mistakes. Retaining relationships is foundational to AUM growth.

3. **Telling your clients what they want to hear, not what they need to hear**

Many RIAs mistakenly fear they’ll lose clients by giving them tough-love advice: Telling clients they can’t afford that new vacation home, that their withdrawals are too high or that liquidating investments to avoid volatility may not be wise.

I won’t sugarcoat this: You will lose an occasional client by giving tough-love advice. But it is your duty anyway. You can’t be a yes-man and an advisor.

If behavioral finance has shown anything, it is that financial-advice customers aren’t like the customers of many other businesses; they aren’t always right. Always listening to clients is crucial. Always agreeing with them is wrong. In time, your best clients will appreciate that you are looking out for them. Delivering the hard message is difficult, but the trust it builds has deep value.

4. **Overestimating the importance of face-to-face interaction**

While most robo-advisor-based firms underestimate the importance of service, one thing they do get right is that in-person interaction can be overrated, not to mention limiting. Face-to-face interaction is a powerful means of communication, but if this is the only way you educate or share information with your clients, you’ll never be able to build scale. You simply can’t see enough people in a day, even if they’re all coming to you. Add in travel time to visit clients in remote locations, and your leverage diminishes even further.

Technology, when used appropriately, places you in front of your clients much more easily and with a multiplier effect. Americans of all ages increasingly use tablets and smartphones. They are wired and connected. They are used to interacting over email or talking with their grandchildren in a videoconference. Holding webinars or publishing blogs with daily commentary increases your ability to be “with” your clients, often many of them at a time, even if that “with” is virtual.

Efficiently building an RIA firm is a big challenge that all advisors face. Done properly, there is no reason you can't grow your firm and deliver a quality service that will make you and your team proud.

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[i] "'Robo-Advisers Try to Calm Investor Nerves," Ben McLannahan, *Financial Times*, 2/1/2016. http://www.ft.com/cms/s/0/3a44af14-c6ec-11e5-808f-8231cd71622e.html#axzz40MdVYonU

