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A veteran DFA exec tells what enduring RIA success is made of -- and why the next-gen advisors will not disappoint

Dave Butler's front row seat on dozens of highly effective firms allows him to look past the surface to see what runs deep

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by Guest Columnist Dave Butler

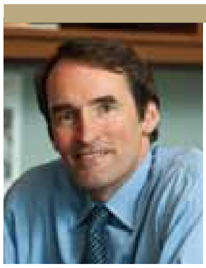
Brooke's Note: When we talk about RIAs in the most positive and classic sense, we are often referring to those humble firms formed in the 1990s that woke up one day and found themselves with $1 billion plus of assets and an unassailable position in the marketplace. An inordinate number of them, we find, have a strong tie to Dimensional Fund Advisors LP. The Austin, Texas-based company seems to have found a way to sell products with the right admixture of portfolio help and practice management expertise to build big, scalable practices. One person who has been at DFA through all of that advisor growth is Dave Butler, who joined the firm in 1996 when it had about $5 billion of RIA assets. That asset total from advisors was $167.9 billion as of June 30. With this success in mind, we were more than pleased when Dave agreed to write this column about a common denominator he finds in that success of his RIA customers.

When I entered the advisory business in the mid-1990s, the advisors I knew were a rare breed. They were committed to changing how people think about investment advice, and their passion helped create a new industry. At the time, few of them could have anticipated the professional and financial rewards that would come with their participation in the new advisory business model.

Despite the progress and change, some things about the business have not changed. Certain principles are just as relevant today as they were 20 years ago.

I was reminded of this recently while speaking at a Dimensional conference. During my presentation, I recognized several people in the audience as children of advisors who have worked with us for many years. I met some of them when they were kids, and now they are adults working in their parents' firms.

They are polished, serious, eager and millennial to the core. As they listened to my talk, they tapped on their iPhones and iPads, checked e-mail and took notes. As part of the multitasking generation, they are obviously at ease with the disruptive technology. They have a different style from their parents', but after visiting with them, I see that they are much like



Dave Butler: 'Aha' moments don't usually come at convenient times.

their leaders. For one, they get it. They grasp the essence of what makes their firms tick.

There's a certain practiced wisdom embedded in these multigenerational firms. The founders created businesses that have long-term value and capacity for new opportunity. Equally important, the kids wanted to join those businesses.

I have been asked before about the common currents of success flowing through great advisory firms. The multigenerational experience at the conference made me revisit this thought. Here's my advice for success.

DEVELOP A STRONG GUIDING PHILOSOPHY

Whether it is a personal philosophy on how to live your life or an investment philosophy on how to approach the financial markets, you need a view. Clients expect an advisor to provide a viewpoint that informs financial decisions and serves as a compass to handle good markets and bad.

Not just any philosophy will do. At Dimensional, our founder and chairman, David Booth, is fond of saying, "The important thing about a philosophy is that you have one you can stick with." An advisory firm's philosophy will affect practically every part of its business, from time allocation to staffing to specifics of its service model. Consequently, forming a sensible, understandable and defensible investment philosophy is a major step in building a great firm. A strong philosophy can be more readily internalized and articulated by employees up and down the ranks.

BUILD YOUR BUSINESS AROUND CLIENT NEEDS

Great firms are client-focused. They think hard about the client experience they want to deliver, and organize their business and service model accordingly. Whatever defines that experience, advisors will devote a large part of their time and resources to creating and communicating a robust and repeatable process to consistently deliver that experience, and then build their value proposition around it.

Advisors with great businesses deliver peace of mind to their clients — and find their businesses growing. Advisors who do not must re-examine their value-add to clients, and ask whether they are spending time on activities that actually add value.

In many cases, I have watched new advisors make this connection and challenge their firm to redefine its value. The questions asked should not just be theoretical, as in, "How do markets really work?" and "How can investors capture returns?" but also practical, as in, "What amount of the firm's weekly billable hours are dedicated to beating the market?" and "How would a philosophical shift lead to more time devoted to client service and relationships?"

FOLLOW YOUR GUT

Building a great firm requires genuine intellectual curiosity and openness to new ideas, which are kept in check by that strong philosophy and client focus. Part of any advisor's value is in staying current on the best financial thinking and seeking the best portfolio strategies for their clients. If they can find something better, they owe it to their clients to make them aware of it.

Being open to change also means watching out for those "aha" moments that can bring clarity and direction to the business. Sometimes these come from your gut instinct; other times they come from clients. But they don't usually come at convenient times.

One of our long-standing advisors, the founder and principal of a multi-billion-dollar wealth management firm in the Midwest, once told me about his pivotal "aha" moment. It came at a crucial time in his business as he was transitioning the firm's investment approach. He was considering moving from traditional active management, but he was not yet ready to go all-in. As a result, he proposed a reallocation to one of his best and wealthiest clients that combined a diversified, low-cost total market strategy with a stable of "best of breed" active managers. His client asked why he was sitting on the fence, and said that surely one of these approaches must be better. Why not recommend that one?

The advisor was taken aback by the simple, yet profound, question. He strongly believed that he needed to transition his investment philosophy, so why hesitate? That "aha" moment led him to revamp his firm's philosophy and build a business around this repeatable approach. He never looked back.

SIMPLIFY YOUR BUSINESS

In a 2012 column on the Harvard Business Review Blog Network, Greg McKeown aptly described how business success often sets the stage for failure. Paraphrased here:

When we really have clarity of purpose, it leads to success. When we have success, it leads to more options and opportunities. When we have increased options and opportunities, it leads to diffused efforts. Diffused efforts undermine the very clarity that led to our success in the first place. So, success is a catalyst for failure.[1]

The possibility of untethered growth is something every successful organization must address at some point. There comes a moment in a prospering advisory firm when the principals feel they are losing a grip on the culture or the client experience.

The prescription is to take something that appears to be increasingly complex and strip it down to the bare minimum. One effective tactic I have seen is taking inventory of the firm's purpose and process. The questions are simple:

- Why are we in the business?
- How can we ensure that our firm has clarity of purpose?
- What repeatable process can best deliver our desired client experience?

Some advisors work diligently on these questions internally. Some will bring in an outside consultant to help explore the questions and crystallize their practice management approach. In either case, a thorough review of purpose and process keeps the best advisors focused on less, which leads to more clients and more business.

FIND YOUR PASSION

A new Cerulli Associates Inc. analysis states that the number of financial advisors in the U.S. is shrinking and will continue to decline through 2016. The analysis states that overall advisor head count has dropped by 1.3% in the past year and projects that 18,600 advisors will leave the business by 2016. These are very surprising projections, to say the least. Why would the profession shrink if advisors have such rewarding businesses?[2]

One explanation is retirement — almost half of the departing advisors plan to retire by 2016. But that still leaves a net departure of 10,000 advisors over the next four years. What else could be going on in the industry?

Perhaps some advisors are leaving the business because they no longer have a passion for their work. Their loss of passion could be tied to the lack of a clear philosophy or personal fulfillment. The best advisors have a clear philosophy that both employees and clients can see and feel. They are in the business for the right reasons — to help clients better their lives. And, finally, they clearly enjoy the work — and find it meaningful.

Advisors who don't feel this way about their profession should reconsider their definition of investment advice. It is clear that the business of investment advice has evolved into wealth management. We all grew up in a business (myself included) where investment advice was limited to looking into the future to deliver client direction. An advisor's value involved looking where the market was going, forecasting what stock would do well in the future or predicting which manager would outperform peers over the next three-year period.

These activities have not proved useful in delivering a consistently great client experience that leads to a great business — the kind of business the next generation would want to own. Advisors who believe these activities are necessary to prove their worth are not giving themselves enough credit for what they are delivering to the client relationship.

In my experience, the truly great advisory firms have their own unique styles and approaches that will pass from generation to generation, but all have organized their business around a philosophy and client experience. What I see at conferences today continues to confirm this observation for me. Across audiences, I see a passion in the faces of the next generation of advisors, and when I think about their visionary parents, I understand the reason. These kids have new opportunities in the business, and they are learning principles and practices that will guide them in the future. No wonder they are so optimistic.

Dave Butler, head of global financial advisor services for Dimensional Fund Advisors LP, brings more than 15 years' experience working with fee-only financial advisors to his role. His responsibilities include developing strategies for people servicing advisors based in the U.S., Canada, Australia and the United Kingdom, and organizing the staff and resources necessary to provide continuing support to the financial advisor community. As a regional director, Dave was instrumental in developing the firm's international advisor business and separate-account strategies for high-net-worth individuals. Prior to joining Dimensional in 1995, he worked for Merrill Lynch in institutional debt sales. Dave received the chartered financial analyst designation in 1998, his MBA from the Haas Graduate School of Business at the University of California, Berkeley in 1990 and a B.S. in marketing and finance from UC Berkeley in 1986.

1. Greg McKeown, "The Disciplined Pursuit of Less," Harvard Business Review Blog Network (August 8, 2012): http://blogs.hbr.org/cs/2012/08/the_disciplined_pursuit_of_less.html.
2. "Number of Advisors Shrinking," Financial Advisor (May 7, 2013), accessed June 20, 2013: http://www.fa-mag.com/news/number-of-advisors-shrinking-14208.html.