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The four fatal assumptions we've heard in 20 years of practice management

We've focused so much on practice management at Russell Investments for the last two decades, that we're sometimes better known for that—the way we support advisors in running successful advisory practices—than we are for the products and services we offer—that are designed to help investors reach their desired outcomes.

Over those 20 years, we've learned some remarkable truths in what may help advisors succeed. But today, I want to focus on the dark side—on four of the most shortsighted assumptions we've personally seen advisors make—assumptions we believe prohibit advisors from reaching their full potential.

Of course, objectivity—when it comes to self-analysis—is hard for all of us, myself included. So let me be so bold to make a request: As you read each of these four fatal assumptions, try to step outside yourself and look at your practice with as much distance as you can muster. Focus less on what you *think* is true about yourself and more on the *actual activities and results* you see from your practice.

In the spirit of a summer reading list, I would like to recommend a book that's been out for a few years and is worth a read or re-read: Ryan Holiday's, "The Obstacle Is the Way". The book is particularly relevant for our conversation, as Holiday writes specifically about our perception—about how we understand what occurs around us and what we decide those events will mean. Holiday writes, "Our perceptions can be a source of strength or of great weakness."

So keep your perceptions in mind as you review the Four Fatal Assumptions—those that have proven to be major obstacles. We've included some questions to think about to help you with this self-reflection.

Fatal assumption #1: "I'm a great advisor, so I'll be a great business owner."

You may be the greatest financial guru for your clients, directing them toward well-funded retirements and keeping their total financial pictures in mind. They may love you for it.

But what we've found over and over is that some advisors often focus so much on the intricacies of product selection that it jeopardizes their own primary investment—the value of their advisory business. These advisors wake up one day and realize they have an unwieldy product inventory and a slew of individually customized portfolios that bog them down and expose them to risk—particularly in today's world of fiduciary standards.

As I said in my last blog post, time is a fixed commodity and you need to carefully prioritize the ways you spend it. It's one of the key reasons we advocate model portfolios as a key part of your client offering.

We've also found that advisors who link and promote their value as *investment managers* live and die by performance. On the other hand, advisors who position themselves as *wealth managers* focus more on understanding the needs of their clients.

If the value of your business matters to you, we encourage you to focus your precious time on what we call the **Value Framework**, an approach that prioritizes three things:

1. **Current profitability**
2. **Growth**
3. **Sustainability of profits**

The Value Framework: a balanced focus on current profitability, growth, and sustainability of profits.

Think about:

- Is your profitability level where you want it to be?
- If you were forced to sell your practice today, would its market value meet your expectations?
- If you look ahead to your own planned retirement date, will your practice be growing in value between now and then?

Fatal assumption #2: "What got me here will get me to the next level."

If you're like most advisors, when you began building your practice, you took any referral you could get. Maybe you offered free lunch seminars at the local PTA or Rotary about the basics of diversification or coming market trends. Your hard work and hustle helped you build a book of business. And maybe it's even a big book.

But I believe the *number* of clients is the wrong metric to focus on when it comes to building a sustainable business. The real focus should be on the value of your firm:

- Client satisfaction and success
- Current profitability
- Growth trajectory
- Sustainability of your profits.

We believe that for many advisors, 80% of their revenue comes from the top 20% of their clients. And we believe the bottom 50% of their clients generate only 5% in revenue. These statistics suggest that the prospecting approach used in the early stages of building an advisory business needs to be turned on its head for continued success. Instead of hustling for more clients, it may be time for client segmentation and differentiated service models. You may find that over-servicing your bottom-tier clients has two dangerous implications:

1. Those bottom-tier clients may refer yet more bottom-tier clients to you—and they may arrive expecting the same

high level of service and comparatively low fee.
2. Top clients may leave you because you don't spend enough time building deep relationships with them.

Think about:

- What would happen if you focused your servicing and relationship efforts on the top of your book?
- What if those clients—the 20% that may be generating 80% of your revenue—became your primary referral source? What would those referrals look like?
- And right now, today, where could you save time to focus more efforts there?

Fatal assumption #3: "My business is a little different."

After 20 years of data-driven analysis of what makes advisor practices successful, we've learned a thing or two. But when we share those learnings with many advisors, an all-too-common response is, "Well, that may apply to most practices, but mine is unique." No doubt your story and client base are differentiated, but the majority of advisors face the same surprisingly common issues.

Think about:

- Are my revenue-generating costs leaving me meaningful profits?
- How do I generate more profitable referrals?
- How do I ensure the sustainability of my profitability through recurring revenue?

At Russell Investments, we believe in the value of advisors. And I personally think advisor practices are more vital than other businesses, but, at the most basic level, the same principles would be true if you were running a law firm, a resort, or a chain of restaurants. In fact, these principles are even true for asset managers like Russell Investments.

Fatal assumption #4: "Change is easy."

We're in a society where less enlightened people think they can pop a pill, read a book, or go to a seminar and come out changed on the other side. But reality is a tyrant. And reality says that change takes hard work.

So here's my prediction: Most advisors who reads this post will ignore it. A smaller group will jot down a few notes and most of those notes will end up in what we call the *notebook graveyard*. You know what I'm talking about.

That leaves a select subset who understand both how important change is and how hard it is. Real change doesn't happen by reading a blog post. It happens in bite-sized chunks, with articulated goals and sustainable action plans. It happens over the long term.

Think about:

- Are you within that rare two to three percent of advisors who will act?
- Do you have the commitment to keep changing and continuously improving until the value of your practice is on track?
- Do you have the objectivity to think about one low-value activity you could stop doing today, to focus more time on the top of your book?

The bottom line

If you're committed, so are we. Let's talk about how we can help. Contact your Russell Investments representative or drop us a line in the comment box below. We look forward to hearing from you and helping you reach your full potential.

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