DAN HUNT

Top Mistakes Advisors Make and How to Avoid Them

TIPS

1. Falling for too-good-to-be-true lead and marketing programs
2. Chasing better returns, lower fees or both
3. Becoming too transactional
4. Neglecting to look and act the part
5. Operating as a lone wolf
6. Selling your business
7. Believing what got you here will provide future exponential growth

Because I believe it is critical to understand how we got somewhere before we can exponentially grow, I'll give you the shortened version of what started me on the path that I am still on.

My mother was the female version of Warren Buffet in that she believed in buying as much of a company's stock that you can afford and never selling it. I recall her broker calling her repeatedly, begging her to sell everything during that week in 1987 when the market crashed but she refused. A few months later, her portfolio was like nothing ever happened. Fast forward to 1997. The market was revving up as the dot com wave was gaining steam, my full-time job in technology was going very well, and the family was growing with the recent birth of my second son.

Then my mom called with the worst news I have ever received. Two years later she was gone.

I was the executor of her estate, a tranche of mostly liquid assets not protected by a trust, ready to be taxed and spent. All of those decades of incredible investment discipline were gone instantly. I was the very person advisors and brokers loath. For no good reason at all, I moved it all, risked it all, and almost lost it all until a hand reached out and snatched me out of the quicksand. It was a stranger's hand and that stranger led me to a life and health license in 2004. The timing was perfect. The market had just crashed so selling asset protection was like shooting fish in a barrel.

Falling for too-good-to-be-true lead and marketing programs

If you have been independent in this industry for any length of time, you know exactly what I am referring to. We hear a new incredible lead generation story and we believe this marketing shortcut can lead us to substantial new clients. It costs us a few hundred or thousand dollars sporadically, with payments that are small enough that we feel comfortable paying, until we get sucked deeper into the abyss. Folks, that's how they do it! They take small bites that are just enough to make themselves money while not killing your business too fast.

The Advisor Shortcut Syndrome catches a lot of us. For those of us lucky enough to survive, we have undoubtedly moved into a marketing strategy that is much more realistic, albeit more expensive. There are marketing strategies that work very well, but you must prepare mentally, physically, and financially to grow into them.

The action item here is to lay out all marketing you do on a piece of paper, what it costs per month or year or lead, what each has produced, and typical business plan statistics. If it's not close to what you want or expect, throw it all away and start from scratch with a real plan. Our Advisor Transition Blueprint is a good read to begin anew and from there I can point you to resources to get you on the right track.

Chasing better returns, lower fees or both

Recall that I said to find out how to differentiate yourself from those around you? This is a great place to start. I can spot advisors who are real competitors and others whose process for determining value are misplaced or worse. Focusing on returns, fees, and a myriad of other statistics can easily get us in a position of weakness. We don't see this during a prolonged bull market when everything seems to be working everywhere. However, when the machine breaks down and all those stories, promises, processes, and products that you sold will come back for reckoning.

Our platform has been dealing in the ERISA (retirement plans) space for years. This is an environment that saw fee compression to the extreme; lawsuits have been initiated purely based on one fund's fees being a little higher than another fund in the same asset category. With this in mind, many retirement plan advisors and providers are sensitive to what can happen in the world of fees.

However, that does not mean that the service for managing a fund lineup (essentially what advisors do with retirees) needs to be free. There simply needs to be a well-documented and followed process. Fees can be fair if the process is good.

Returns are another benefit that advisors chase all the time, which can lead to all kinds of problems. Again, these problems don't occur on a day when the sun is shining but when there are high winds, lightning and rain. Advisors who over-sold returns will face the equivalent of running blind-folded, backwards, at night, and during a hailstorm. No wonder they tend to dodge client calls when things get tough.

Becoming too transactional

Advisors that have operated in the wire house arena for many years typically maintain solid client relationships. The book of business is valuable to both the advisor and parent company, so incentives are aligned to keep clients satisfied. Insurance agents operating as planners or advisors can fall into the transactional trap where, after years of good sales volume, they may not really know very many of their clients. If the agent wants to expand into offering Investment Advisor services an ideal way to get started is to approach every insurance client with a new and exciting integrated service offering. You would be surprised to learn how many insurance agents and brokers we've approached with this idea that have not moved forward for various reasons. When I first became an IAR I could not wait to call every single client we had to move them to this next level of service. It worked better than I expected, and it can for you as well. So, if you find you don't know very many of your clients, make that your top priority. Go out and shake hands with them or hold a nice event to get to know them again. If you fix this, you can then enhance your business by adding recurring services such as investment advice and financial planning.

Neglecting to look and act the part

Could you imagine going to a custom suit shop and the tailor is wearing sweatpants? Would you hire a personal trainer that was out of shape? Similarly, how many annuities do you own? How much of your own money resides inside the managed portfolios you are selling or even in the market? Everyone asks me, "What does a fiduciary really do?" I think our industry has gone off the deep end on this subject and suddenly everyone's a fiduciary. It has gone so far off the rails that you can apply for a fiduciary credential, having no securities or investment advisory license at all.

All that aside, actions are all that really matter. I think that true fiduciary behavior is a combination of two primary actions: 1) providing for what clients, individuals, families, or business owners really need, and 2) providing for what your own family, employees, and business really need. This means you will be leading by example, the trait I look for in any professional I work with.

For example, how can you tell a family they need principal protection when your family has none? Take the leap and practice the strategies you are selling. In the early days, I was living outside and below the image I was attempting to convey. Once I decided to really live and act the part, things got so good, I termed the experience “Expotential.” Anyone can do it; it just takes the commitment.

Operating as a lone wolf

This job is difficult to do properly by yourself. If you are the chef, server, and dishwasher, your restaurant will likely fail. It is ironic that as advisors we are trying to grow and protect our client’s financial assets while we simultaneously spend as little as we can growing our businesses. We end up doing everything ourselves, driving all over the country, and spending little time with family and friends.

Thankfully, I learned this facet of this business early on. To give you an example, we use an indicator we created long ago called, “investor personality.” The purpose was to triangulate data (risk questionnaire and existing portfolio statistics) with the human personality we learn by interacting with the client. There are many ways to do this, and many tools to use, but we had our own formula. To give you an example, if someone shows you a portfolio that's been very conservative in target date funds for 20 years and they score 'maximum aggressive' on your risk test, could it be there's a personality mismatch? You bet there is!

This is also true with me. I discovered that when it came to servicing, nurturing, and responding to clients' needs, I didn't get excited about that at all. Let's say half of you are nurturers and the other half are hunters. Regardless of which side you are on, many clients need the ongoing support from both sides. If by your own personality you cannot or will not do it, that's an opportunity to fix. When I implemented a front-end support service (at our shared executive suite in those days), our growth trajectory changed for the better.

Selling your business

If you are 70 years old and have a succession plan in place, then you have done it right! If you are 37, have a great book of business, and a check for a few million looks enticing, you are not alone. I cannot say emphatically enough, "avoid the temptation for quick windfalls." Entering deals like this will give you a short term feeling of euphoria with a high probability of something going wrong in the coming years. The only way I could rationalize this approach is if either you are in a desperate financial situation or the pressure of controlling your own business is too much. It could be that this temporary fix will work but I would urge you to step back, weigh out all the benefits you hope to gain, and talk to peers who have done this before. Even better, get a business coach to help you assess such a decision.

Believing what got you here will provide future exponential growth

This one is my favorite. Like many of you I have been a victim of incorrect assessment. Reeling from the pain of too many horrendous decisions after I left my full-time employment, I was determined to find a path and stay on it. So that I would not get too out in front of my skis, I decided to go slow in what felt like an organic growth trance. You find a rhythm and stick with it, even if it means nothing big or significant seems to happen. Some people liken it to risk avoidance. While that could be part of it, I believed my personality as a risk taker could not be allowed to take over. For me, the attitude was to maintain slow and steady, stay under the radar, and don't make any waves. Then one day I woke up and found that we had ample working capital, credit, experience, goodwill, and credentials to step it up even further. I met others just like me who were taking bigger and bolder steps to set themselves up for exponential growth while making a huge impact in their communities. If they could do it, so could I. Years of experience have allowed me to set the company up for significant growth while maintaining what we can afford in regard to finances and time management.

Action Plan

The bottom line is, in order to grow at an exponential level, (which I define as two to four times your current size in five years), you should begin by contrasting how the public around you perceives you compared to your competition. A great way to place yourself on the good end of the contrast is to first determine which issues listed here might apply and then prioritize which ones you plan to solve and by when.

If you want to go big or go home, this list will help you begin the process of establishing big goals. I am happy to help you based on your setup, goals, and personality. I also developed a plan for you called "Advisor Transition Blueprint." If you want to download a copy for free, please go to https://advisortransitionblueprint.com/. Also contained on that site is our interview with Kevin Harrington.

I graduated from Tulane University with a BA in Economics and a minor in Computer Science in 1984. I started my career in technology development for the oil and gas industry. I helped to develop several companies, the most notable of which was Harmonic Systems, a collaboration of Exxon, MasterCard and Sprint. The company was sold to Alliance Data Systems in 2000. After successful projects including restaurants and my invention of CashPump, a bank ATM system intended to run at the gas pump, I began the design of a financial planning company in 2002, teamed up with Norman Strom in 2004, and Hunt and Strom Financial was born. In 2005, I learned about a highly rated stock and option trading platform called Thinkorswim (acquired by TD Ameritrade in January 2009) and integrated the solution into our financial practice. The purpose was to bring institutional quality money management to mass affluent clients at a reasonable price. Other advisors wanted the same for their clients, and that need created the formation of Redhawk Wealth Advisors, Inc. in 2008.

I reside in Tulsa, OK with my wife and two dogs. My two sons are grown and live in Colorado. I coached baseball and football for 12 years and served on the East Tonka Little League and Bennett Family Park boards. I also served 10 years as a Captain in the US Army and Reserves on the executive staff of the 486th Civil Affairs Company, 321st Special Operations Forces. I currently serve as a director on the Campbell-Lepley-Hunt Foundation Board of Directors, a charity organization that helps those in need all across the state of Oklahoma.