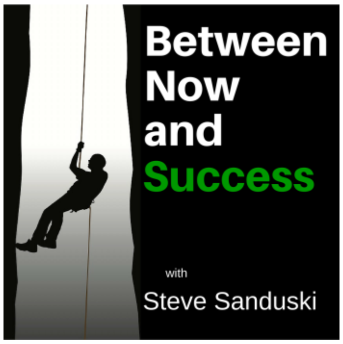
belay advisor

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski



Savant Capital's Brent Brodeski On Going From $0 to $5 Billion in AUM

Between Now and Success Podcast
Published on January 31, 2017

Steve Sanduski: Hello everybody and welcome back to Between Now and Success. Steve here and we've got another great show lined up for you today, and my guest is Brent Brodeski. Brent is the CEO of Savant Capital Management, which has multiple offices throughout the upper Midwest region, headquartered in the great state of Illinois in a wonderful town/city called Rockford, Illinois. I happened to drive through there many times on my way to Peoria. Brent, it's great to have you on the show.

Brent Brodeski: Thanks. I've been looking forward to it.

Steve Sanduski: All right. Well, you guys have, what, about $5 billion in assets under management now?

Brent Brodeski: Yeah, it depends on the day, but we're within striking distance.

Steve Sanduski: Okay, well, with the way the market's going here with the Trump rally, you should be there any day.

Brent Brodeski: Yeah. Yeah. Maybe by year end or I think we're about $100 million away from $5 billion last I checked.

Steve Sanduski: Okay, well, Illinois of course was the one state here in the upper Midwest that did not vote for Trump.

Brent Brodeski: Yeah, no. Illinois always tends to do its own thing, it seems.

Steve Sanduski: That's right. Okay. So we're not here really to talk about politics. I want to talk about your business. You guys have had unbelievable success over the years. Let's just start with the origin story. To me, it's always fascinating how firms like yours go from zero to multi-billion in assets under management.

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

So just give me a quick rundown, how did the organization get started, how did you get involved with the company, and just tell us a little bit about that origin story.

Brent Brodeski: Yeah, sure. So, the predecessor Savant was started by my business partner Tom Muldowney, who incidentally just retired at the end of September. He had spent 12 years selling insurance and solving all the world's problems with insurance. In 1986 decided to go fee only, and this was before it was in vogue, and really the focus was writing financial plans by the project fee or by the hour, but didn't implement any of the investments. So, it was not managing money in the early days.

My history is a bit shorter. I got a finance and economics degree and while working on my MBA learned about modern portfolio theory, and efficient market theory, and really the way some of the big pension plans were managing money, and had written a business plan during my MBA for what we're doing today. So, finished up with school and went knocking on doors, this was '92, and share with Tom the business I had put together to build a fee only investment advisor, and he had been doing a fee only financial planning. So we co-founded the current company at the end of '92, and spent a number of months building it out, and packaging it up, and we got our first client in mid '93, and have grown it ever since.

Steve Sanduski: Now, when you started in mid '93, was it at zero, or did you have some existing business from what Tom had started?

Brent Brodeski: No, it was at zero assets under management. Of course, Tom knew some people that he had in his performer life sold insurance to, and also had written financial plans for people. I guess the analogy I would use is, it was kind of like, prior to Tom and I connecting, it was kind of like going to the general practitioner, get a checkup, and he wrote prescriptions and sent people on their way. So we know, sometimes people don't fill the prescriptions, and if you're ... Imagine the world as it was back then, you hand them a prescription, and people take that prescription and imagine the pharmacist saying, "No, I'm going to sell you this wonder drug instead. It's more expensive and doesn't really make you better." That was the problem, the clients had a prescription for one thing and they often were getting something else.

So, a lot of his planning clients saying "can't you", can't you fill the prescription, can't you build a pharmacy next to the doctor's office, with the idea of really having you guys implement the plan as well. So, he'd been getting inquiries about that. I had really come at it from the angle of building an investment business focused on index funds, and asset class

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

funds, and asset allocation, which was pretty strange back in '93, nobody was really talking about that. Now, of course, it's all the rage, but back then it was different. So, yeah, we were doing fee only financial planning and doing asset allocation, efficient frontiers, and index funds before it was the popular thing in the world of RRAs.

Steve Sanduski: So you start at zero, and was there an inflection point in the business where you went from say, $100 million to $500 million in like two years? Or, was it just steady growth and you've been at this for over 20 years and it's just compounded growth over the years, or was there a point where you said, you had some formula or some marketing strategy that lead to a big jump in the business. Was there anything like that over the course of the past couple decades?

Brent Brodeski: Yeah. When we first started, it was a matter of getting enough clients to pay the bills. After a few years, my partner Tom pretty much was a sales guy, and I did everything else, after a few years we realized that really, we both needed to be out there developing business. 1998, we brought our third, what we refer to as our co-founder, in, Richard Bennett, and he had come from the banking world, we were about $110 million at that point. I remember him saying, he was running a $400 million trust company and the name of the bank had changed four times in five years, and he said the trust is out of trust, and wanted to work for two fiduciary firms. So, he joined us '98.

I think that was one inflection point where we were really ... We brought somebody in that had some real business experience. Tom and I were just maverick entrepreneurs that had never really worked for anybody before. Dick had worked in the real corporate world. From that point, from '98 to, there's not a magic date, but 2001, 2002-ish, we were sort of like three family doctors practicing in the same office, but we had a common investment approach, but outside of that, our styles are very different, the types of clients we worked on were very different, our processes around financial planning were very different.

The inflection point came when we realized we were getting ... The phone was ringing a lot, the questions were getting more complicated, the opportunities were bigger. We sometimes didn't even understand the questions, let alone have the answers that people were asking. We kind of were at that point where we said, one of two things. We've either got to close the doors, have a nice practice, nice lifestyle, or build a real business. For a variety of reasons we said, let's build a real business. So what we did is, at that time, we said, we need sort of framework for this, how do we think about that.

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

None of us had been to the Mayo Clinic, but we learned about what was successful with the Mayo Clinic from a few clients that had gone there. There was really two things that were unique about Mayo. A, they recruited some of the top talent and B, it wasn't about any given doctor, it was rather about the process and the experience that they delivered to patients. They worked as a team, said differently, and they somebody's got a health issue that's stressful enough, so what was unique about Mayo was is they had took a team approach to really better diagnosing issues and creating, in so many cases, better treatment plans. Did they guarantee people got better? No, but it differentiated Mayo.

So we really said, why don't we build a planning and investment firm that followed the same principles. It wasn't about Brodeski, Muldowney, and Bennett, it was a firm, an institution, and it was not about a particular doctor or advisor, it was about having a team that could create better outcomes and better collaboration, and create a better experience. So that was, we really at that point said, okay, we need to start hiring specialist. So we hired insurance specialists, we hired trust specialists, we hired tax specialists. We really started building out a team of specialists and built processes that allowed those professionals to collaborate to create robust outcomes. Both from an investment and a financial planning perspective. I think that really allowed us to continue to scale.

The early days, it was kind of three great warriors on the front lines, and we built a team behind us so we could fight more enemies. Probably seven or eight years ago is kind of the next inflection point. What we realized was, is that there was only so many clients that the three of us could sell and service, as we kept adding clients, we actually had a team and a business to manage. We really had to transition at that point, we had to make a decision as to, did we want to continue to be great advisors, or did we want to build a team of people that could get clients and manage relationships? For a variety of reasons, at that point, we said, let's do the latter. Really, again, evolved sort of the processes, and how we hired advisors, and how we supported advisors, and the processes we put in place to really evolve to where next generation advisors really went to the front lines, both to get clients and create great outcomes for those clients.

Really allowing the founders to ... To this day, we still take care of individual clients, but for the most part, my clients have become the advisors at this point. We're in the business, I mean, first and foremost, it's our team are our clients, and those team members are the ones that take care of the end-paying client, so it's a little different. It's common to hear about client first, well we agree with that, but my clients are my advisors and my advisors, if I take great care of them, they're going to take great care of those people that pay us fees.

Steve Sanduski: Right. Yes. That saying that the way you treat your employees is the way that they'll treat your clients.

Brent Brodeski: Yeah, that's right. That's right. Again, once upon a time, if it was the three founders on the front line, yeah, client first meant the people paying us, and our team second because they were supporting me, who'd take good care of them. There was just not enough of us to go around, to deliver that client experience effectively, let alone continue to scale that.

Steve Sanduski: Yeah.

Brent Brodeski: What we learned is by changing the focus to creating a company that supported great advisors and help them deliver wonderful experiences, frankly, that next generation of advisors that really drives Savant today, they frankly have more capacity and they can do a better job taking care of those clients and can bring in more clients than the original founders could.

Steve Sanduski: Yeah. I want to ask you about getting the clients. So I hear you talking about two keys where you mentioned the Mayo Clinic and what you learned from them was one, is they recruited top talent, they had the top doctors there, and staff. Then second, you said it was about the experience, about the process, about the team approach, so I would call that, let's call that the back office, for lack of a better phrase. Now, it's not a situation where if you build it, they will come, I don't think. So what did you do from the revenue standpoint, did you have certain marketing programs that were working for you? Were you doing center of influence marketing, were you doing seminars, did you have deals with CPA firms? There's got to be something in there on top of client referrals that is bringing in what is now billions of dollars.

Brent Brodeski: Yeah. Our headquarters is in the great metropolis of Rockford, Illinois, which is 150,000 people, if you include the suburbs of Rockford, it's 250. So, in many regards, the disadvantage is, unlike some firms, we couldn't say we're going to specialize in orthopedic surgeons, because you couldn't build a business around a particular niche, for example. You didn't say, I'm only going to accept clients that are $2 million and above because there weren't enough of those to build a robust business. So, I think what's a little different is, we kind of bring it all.

So I think we were very effective at creating value proposition that delivered great outcomes for people with $250,000 or $10 million. So, for one thing,

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

that kind of broadened the opportunity set for us. I think the advantage that we had of being in a smaller community is we could be the big fish in a little bowl. If we had been in New York, or LA, or even Chicago, you're a small fish in a big bowl. In Rockford, we could become the dominant player. So, we aggressively use marketing but we did all the above. We worked the centers of influence, we did identify some niches like the arts, and focused advertising dollars on the symphony, the museums, and such.

Steve Sanduski: How did that work for you? I'm just curious. With advertising in the arts area, did you put ads in like the programs for the symphony and that sort of thing, or how did that work out?

Brent Brodeski: Yeah. So we always sponsored the symphony, and we did ads, and you come out and do the announcement before hand. There's a series, The Broadway at Coronado. Coronado is a 1920's beautiful theater in Rockford and they bring about seven or eight different Broadways shows in, and we would open every one of those, so we were the headline sponsor. Something we could afford to do because it was a smaller venue. As we know, usually somebody doesn't become a client after they hear about you for the first time. Rather, it's after they've had two friends mention you, and their accountant's mentioned you, and they saw your ads here, and they saw you got some great press. It's usually 10 or 12, or 15 different touches in one form or another, in which case they're inspired to call you. I would say our main strategy was cold-calling, but not in the traditional sense. We've never called and asked anybody for business, but they cold-call us. I say that somewhat sarcastically, they cold call us, but it's by creating a brand and a buzz by being a big fish in a small bowl, we were able to create those 10 or 15 touches that caused them to call us.

Then, once they called us or referred to us, of course we were able to do our magic and lay out the value proposition. Then of course, as most advisors will tell you, most of their business came from referrals, and that's the case with us as well. I think we've been very good at building a brand and making it easy for the centers of influence, and making it easy for our clients, to refer people to us, because if you establish credibility and you kind of create a perception, and reality, that you're the best in the market, that's going to attract a certain amount of clients. You're not going to get them all, but you're going to get enough to build a nice business.

Steve Sanduski: So, a couple of things here. So, you talked a lot about brand. Now, the name of your company is Savant Capital Management, so I think of that and I think a money management firm. I look at your website, I see a lot of stuff on there about evidence-based investing, which to me is code for what? DFA?

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

Brent Brodeski: DFA, Vanguard, ETS, yeah.

Steve Sanduski: Okay. So, do you view yourself as an investment management firm? Do you view yourself as a wealth management firm? First question.

Brent Brodeski: Yeah. So, the reality is investments are commoditized. I think they have been for a long time. I don't know that clients always know that yet, but the reality is, if all you're doing is investments, at some point, the marketplace is going to realize you can get that for 30 basis from Vanguard, or for 25 basis from Betterment. I would say 15 years ago, we made a strategic decision to say, let's just fess up, investments are a commodity. Therefore, why is that important? Because if we admit that they're a commodity, that means we need to deliver significant value beyond that. We want to charge 1%, and someday maybe we'll be the high fee, but we want to be also the highest value. So, at the end of the day, investments are important, but they're only about 10% of the equation. We do something called the Ideal Futures Health Assessment, it's a cool technology we developed where clients can, or prospects, can log in and it's about a 12-minute survey, but it comes back and gives you a score of 1 to 100, and there's a certain score where it's green, all is good, and then there's yellow, warning, then there's red, you've got problems. That's an overall score.

The other part of it is, there's 10 different areas that range from retirement to goals and visions, taxes, charitable, and so on. We capture a score in each of those 10 areas. If 9 or 10 is green, and a six, seven, eight is yellow, and five or below is red, and what that does is, it allows us to quick ... It's like, again, going back to the doctor and you take different tests, and now we can come back and say, you're doing this right, you're doing that wrong, and we've got to work on such and such. So that really helps us, and helps the client, get clear on what they need, what's important, and really that's the focus. Investments is one of those 10 areas that we regularly look at, and it's obviously an important part because the money has to grow in order to accomplish what you find to be important in life, but it's really a means to an end. So I think at the end of the day our motto is, building ideal futures, that's our vision statement, it's on all of our collateral, and that's the business we're in. We're not in the investments, or the financial planning, or the tax business.

Steve Sanduski: Right.

Brent Brodeski: Yeah, clients need those, but it's really about building ideal futures.

Steve Sanduski: Here's the rub I see, one of the rubs I see in the industry, and that is, I agree with you 100% on what you're talking about there as far it's about the

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

planning and it's all the non-investment stuff is just so important today, and the investment piece, there's a lot of digital ways that we can take care of that at a very low price. The rub is that, historically, clients have paid their fee as a percentage of assets under management. So, I see on your website, we are compensated based on how well we manage your assets. So, how do you make the switch, or do you make the switch, when you're talking to a potential client and you say, we're going to charge you, I don't know what your fee schedule is, but let's say it's 1%. We're going to charge you 1% on the assets that we manage, but you just said to me, maybe that's 10 or 20% of the value that we provide, and the other 80% is all the non-investing stuff that we do. Yet, we're billing you 100% based on the piece that's 10 or 20% of the value. Do you see that as a long-term strategy continuing with the AUM model, or there's a lot experimentation going on in the industry right now about these different pricing models, I'm really curious about your take on what do you see as the ideal pricing model in the future.

Brent Brodeski: Yeah, so I think, as I kind of started out the conversation, if all one's doing is investment management, the reality is, I think fee compression will happen. Now, we've been talking about this my entire career and it's not happened so far, but I think it is coming. I think technology is in the Vanguards, and the Schwabs, and the Robos, they're making it more obvious to clients that asset allocation investing is worth less than 1%. So, I don't know, if we go off of Vanguard, and Vanguard charges 30, but you're getting somebody on a phone that probably still has pimples, is an experienced advisor where you can meet with them face-to-face, I don't know, it's worth more. Is it worth 50 basis points, 60? So the question really is, if you want to get to 1%, what are you going to do for that?

I think fee compression, not in the way we think about it traditionally, but it's already happening. What's happening is, is you need to deliver a lot more for the same 1%. That's what I'm finding. Once upon a time, just merely consolidating mutual funds onto a single statement and telling them what their performance was once per year, that was pretty unique, and that was valuable. Nowadays, you can get that for free. You can go to personal capital or any of these kind of aggregation sites, Mint.com, and get that anyways. So, I think the reality is, is at some point 1% is going to be the high fee. Many will have to go to way less than that. I think those firms that are going to be able ... If one just keeps charging 1% and doing investments, you're going to find that your business attrits ... First of all, it's going to be harder to grow, and then eventually it's going to attrit.

In contrast, I think if one can deliver complex estate planning and philanthropic and business succession planning, and if one delivers and integrates their taxes, and their insurance, and does that easy button around everything related to their finances, and most importantly, delivers great outcomes, great life, and ideal futures, to that end client, as MasterCard would say, that's priceless. It's not a commodity, it's priceless. Now, to your question around, is the asset based fee flawed? It's probably not perfect, on the other hand, reality is, is that there is a correlation between the size of the account, and the amount of work, and the amount of value, perceived and real value proposition. As people get larger assets, frankly, it's more valuable to them to delegate. Early in my career, would I have hired Savant? Maybe not, because I had plenty of time and didn't have a lot of money. As you create more significant wealth, I think it is valuable.

Some of these other models, certainly they're interesting, and we're paying attention to it. I think the part, for whatever reason, people are wired to where they're comfortable paying a percent, it's kind of like sharing the milk. Yeah, okay, we're going to milk this cow, and Mr. Advisor, you're going to get part of the milk. Where I think charging fixed fees, or retainer fees, that aren't tied to the investments, sometimes feels like maybe butchering, I've got to the cut the leg off my cow and hand it to you.

Steve Sanduski: Right. Now Brent, are you charging any separate fees or financial plans, or do you wrap that into whatever your AUM fee is?

Brent Brodeski: Yeah, we wrap it into the AUM fee.

Steve Sanduski: So even if you have like a multi-million-dollar client with a complicated situation, that's all included in the AUM fee they're paying?

Brent Brodeski: It is. It is.

Steve Sanduski: Okay.

Brent Brodeski: Yeah, I mean the reality is, it makes sense too, because if somebody's got $10 million, they've got a lot more complexity, they need a lot more complex estate tax, insurance, asset protection advisory. So there's a lot more to do for that type of a client. Yeah they're charging a lot more, but there's a lot more to do. For somebody that's got $500,000, they don't need nearly as much. Maybe doing some retirement projections and helping them on a little cash flow planning, and asset allocation is really all they need. So yeah they're paying on a percentage basis, they're paying less but they're getting less, they don't need as much.

Steve Sanduski: All right. So, you talked about the brand, we talked about that a little bit here. The other piece that I want to ask you about here as it relates to marketing. So you talked about some of the marketing things that you were

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

doing. How about in the last few years as the opportunities to do digital marketing have arisen, are you guys taking advantage of some of the opportunities in the digital space to do digital advertising, or I know you guys have your Savant online program, so I don't know if you kind of built your own robo, or just how that works, but I definitely want to explore that, as well. So, first question, are you doing any type of digital marketing?

Brent Brodeski: So, we're doing a lot of organic search optimization. So, we spent quite a bit on having the website come up in search, and we spend a lot to make it once they come to the site, they can very quickly get up to speed on what we do. It's interesting, nowadays, when somebody comes in for an initial meeting, more often than not, they're mostly sold because they've read the website. That wasn't the case before. So in a sense, part of the sales process is delivered electronically. I will say we're getting a lot more clients that find us on the website than before. I mean, if you asked me five years ago, it would have been nobody just found us. They might have heard about us and went there deliberately, but nobody found us through the web.

Now we are finding a percentage of the business is finding us. As it pertains to the robo or the eSavant, early on, robo, people hadn't even heard of them. We did, for a period of time there, we decided to launch a robo, and we came up with our own offering. It was, I could call it a lower tech robo. What we realized very quickly was that's a whole different business model. We, after about three months of spending a crazy amount of money on online ads, we realized it was like taking a vial of food colors and squirting it in the ocean. It wasn't going to have a lot of impact. If you think about it, you see the Betterments, and you see they've got ads on taxis in New York City, in Las Vegas, and ads on TV. They're spending an obscene amount of money to bring clients there. That's a whole different business model.

We actually moved away from proactively trying to attract clients that just interacted with our website. Again, we did that briefly. We did bring some clients on, but just concluded it was a great experiment, I guess what we got out of it was we got some cool technology to service clients remotely, and we also built a pretty nice website. In fact, our eSavant website was way nicer than our main website, so we retrofitted that, and that's the current website.

Steve Sanduski: Okay.

Brent Brodeski: Yeah, I think at the end of the day, I've got robo accounts with all the robo advisors, just kind of my Brent acting as a spy. I don't find that it's all that impressive. They've got an easy way to sign people, and an okay way to

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

view my account, and a couple little calculators, big deal. I think it gets a lot more press than it really deserves.

Steve Sanduski: Yeah.

Brent Brodeski: Certainly, using technology to interact with the clients is going to become an increasingly ... It's going to become table-stakes. It's almost table-stakes already. So, I think that whole movement has caused us to think about how we interact and deliver information electronically. I think that was a good outcome from our experiment, but we certainly don't want to try to compete with the Wealthfronts and Betterments.

Steve Sanduski: Right. I had Ric Edelman on the podcast and I was asking him about his Edelman online service. He had some interesting insights about that. One of the insights was that the reason why people were using the online, was simply for convenience.

Brent Brodeski: Exactly.

Steve Sanduski: It wasn't that, oh we thought this is a better way to manage money, it's just that ... He gave an example of a doctor, and this guy apparently had like $10 million. He said, we could never get the guy to sign up with us using our regular human advisors because he couldn't take the time to come meet with us, but once we rolled out our online service, boom, he was one of the first people who signed up for it because it just fit his lifestyle and it was convenient for him. Rick also had couple other interesting observations. One was, the average age for his retail clients, working with a human advisor, was like 57. He said the average age for their online clients was 54. So there was barely a different between the ages there, so one of his conclusions was, the robo thing is not just a bunch of millennials that want to manage their money through their phone.

Brent Brodeski: I agree totally. I mean, we've got a number of existing clients, but we've gotten new ones that don't want to come to the office. Frankly, the traditional model just doesn't fit their lifestyle. So, do they want to investments? Yes. Do they want advice? Yes. To your point, in the old days, it was okay, we're going to drive to your office, we're going to sit across there, you're going to remember what sort of cola I liked, and that's going to make me feel good. Well, guess what? For many of our clients, their time is really valuable, and if they've got to get in the car and drive here, it's time, they're not functioning as a doctor, or increasingly, just children and family demands make it difficult. So, yeah.

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

I think having a good online interface is going to be critical. The more tech savvy middle aged people, but the next generation of course, this is how they want to interact. My kids, they don't even call each other, they text, right? I think in many regards, that same sort of mindset where they don't necessarily want to have a formal meeting, they just want to go on and get what they need, when they want it, on their terms. I think the robos have identified that part of the market. I think if we can steal some plays from their playbook, I mean we're doing that.

As part of rolling out this eSavant, we invested a significant amount of money in a very robust video conferencing software to where it's a high definition, high quality. It's great because that was a byproduct of this failed eSavant. Now, we'll have a planner in McLean, Virginia and we'll have myself in Rockford, and we'll have a junior advisor in the Chicago area, and the client is in California, and we all join together, and gosh, that's really efficient. You can pull people from different places and by the way, the husband's in his office, and the wife just dropped the kids off from school, and walked in the door, and they're at their computer. The technology, interestingly, it's making it a lot more efficient for us and cost effective to serve clients, but they're getting it on their terms, too. So it's a win-win, costs us less and it fits their lifestyle better.

Steve Sanduski: Yeah. Let me connect a couple dots here. So, you mentioned a few minutes ago how a lot of the clients or prospects that are coming to you today who spend significant time on your website, so that by the time you do have that first meeting with them, they're already halfway sold. In fact, I've seen some data that suggests upwards of 60% of the decision to hire someone has already been made by the time they reach out and contact you, because they've been doing their homework, they've been doing their due diligence, they've been checking out on the website. So, having that amazing online presence today is so critical, because certainly, I think that number's probably even going to go higher down the road. So allowing people to really get to know you online is important, so that's kind of one dot. Then, the second dot that you were talking about was how a lot of your meetings now, and you've got this robust technology where you can do video conference and remote meetings, and I think, then kind of throw the robo advisor idea in there, and trying to take Silicon Valley thinking and wrapping that into the financial advisor/client experience.

So if you kind of wrap all those or connect all those dots, what I think it really leads to is that there will be a lot fewer in-person meetings, but in order to make that work, you've got to have a couple of these other things in place. Number one is, you've got to have a robust digital presence so that the prospect can feel like they really know you through your website, and on top of that, things like podcasts. So, I work with a number of financial advisors who are doing podcasts, and we've got people who listen to that podcast for a year, and then the timing is right for them to want to have a financial advisor, so they come in and they have that first meeting with the financial advisor and they say, hey, I feel like I already know you so well because I've been listening to your podcast for a year now, and you've been in my ears. Which is kind of an intimate experience.

So, a robust online presence and then having some type of educational outreach, whether it's podcasting, whether it's webinars, things like that, so clients can get to know you. So that's key. Then, also, being able to allow people to have that 24/7 access to their information. I think you do those things, and then the ability to work with clients remotely is going to be effective.

Brent Brodeski: Yeah. So, the way I kind of described to my advisory team and to our technology development team, the vision, is I point to TV shows. One goes a ways back, to the Six Million Dollar Man. You may recall Steve Austin.

Steve Sanduski: Steve Austin, oh yeah.

Brent Brodeski: Yeah.

Steve Sanduski: Lee Majors.

Brent Brodeski: Yeah. In today's dollars the Six Million Dollar Man would probably be a Fifty Million Dollar Man, but nevertheless. What was unique about Steve Austin? Well, he wasn't a robot. So it wasn't a robo, he was a person, but he was enhanced by technology. He had technology that allowed him to run faster, they made him stronger, allowed him to leap tall building in a single.

Steve Sanduski: We have the technology, we can rebuild him.

Brent Brodeski: That's right. So, he was kind of a superhuman. In that regard, I think about bionic advisors, right? So, how do we take advisors and make them really effective to deliver more value, faster, and are more branded, in a high-quality manner. So that's the Six Million Dollar Man. You made the comment 24/7. This is the TV show 24, you know Kiefer Sutherland, right? What's the storyline there? Well, they were always on. There was no preparation, there was no follow up, nobody went to sleep, they just went, right? As I think about clients nowadays, the old model of okay, we're going to come in, and then we're going to talk to you. Then we're going to have another sales meeting. Okay, now we're going to give you all this data and have an audit. Okay, now we're going to come in and do some preliminary

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

analysis. Okay, now we're going to build this three-inch plan. It might have been 10 different meetings over six months.

Well, in today's day and age, clients don't want to make that investment of time, and the three-inch plan, that collects dust anyways. So, I think where it's going is 24, it's real time advising, and the technology, and the packaging, and the tools, the bionic toolkit, if you will, is what allows the client to come in, and we're going to spend an hour and a half, whether it's virtually or it's in person, to solve for your retirement. There's not going to be a lot of work on the front end, there's not going to be a lot of work on the end, because when we get done, we're going to hit a button, we're going to email it to you, we're going to put it in your portal, and we're off to the next phase.

So, that's kind of the way I'm thinking about this, is the next generation advisory firm, they're going to have super advisors, with great people process technology and branding around what they do, and they're going to be able to deliver visible and perceived and real value proposition to the clients on an ongoing basis. It's no longer a product, or it's no longer a one-time deal, you're going to continually triage and say, what does that client need and how do we move them in the direction of their ideal future.

Steve Sanduski: Well, let me ask you a little bit more here about the technology side of this. How do you go about making your technology investment decisions? Let me give you an example here, I had another gentleman on my podcast named Michael Schrage, who is a ... I think he's one of the world's foremost experts on innovation. He said the way that he thinks about it, and he's not in the financial services industry, but he's done a fair amount of work in our industry. He said, the way that he thinks about technology as it would relate to our business, for a financial advisor for example, he said, think about technology that could do three things.

Number one, you can use technology to augment what you currently do, so that kind of gets to the idea of the bionic advisor using technology to turbo charge the human. The second thing is, you could use technology to automate. So that could be a robo advisor, it could be using software to automate something that you used to have to manually do. Then the third was, he said you could use technology to segment and personalize. So maybe getting into the big data, business intelligence, data analytics type thing. So, kind of using that, perhaps, as a frame, how do you go about deciding how you're going to make an investment in technology? Do you separate it in terms of, this is going to help with the back office, or this is going to help make the advisors more productive, or this is going to help

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

improve the client experience? Do you think of it in those terms, or how do you think about your technology investments?

Brent Brodeski: Yeah. So, a lot of people make the mistake of buying technology and then they use 2% of the functionality. It sits in the box. I mean, classic thing, you've got a CRM and it could do all these different things, but you use it as a way to keep track of addresses. I think it comes down to people plus process plus technology. Then, having a branded experience all around that. Again, the difference between a robo and our vision is, a robo, it's just automated. Okay, the problem is, you're not going to be able to, at least for the foreseeable future, answer the complex estate and business succession issues. Robo isn't able, maybe someday with artificial intelligence they'll figure that out, but at least for the foreseeable future, you need the human part of it. I think, yeah, the technology is to augment and create efficiency. Part of our vision is, three years from now, how do we deliver twice the value proposition at half the cost? Okay, because if we can do that, if we can deliver twice the value proposition, A, they're going to be comfortable still paying us our 1%, and at half the cost, our margins expand.

Now, if there still is fee compression, well the good news is, even if revenues go down but my costs go down, we still maintain our margins. So, I think as it pertains to how do we make technology decisions in that construct. If we're trying to increase the value proposition and reduce the cost, the good new is, there's a lot of great technology today that has been, or is being, developed in our space. That wasn't the case five years ago. Five years ago you had to go and built it all on your own, because there was Advent and there was Portfolio Center, for all practical purposes, that's what you could use five or seven years from now. Now there's an abundance of portfolio management, CRM, planning, and other technologies.

So, the way I think about it now is, if I want to augment, and I want to create efficiencies, and I want to create better value proposition, I want to buy the stuff that I can buy off the shelf, but then there's those unique aspects that are proprietary. That are proprietary to our process, and so we want to build those, okay? Kind of a core and satellite. The core is, I don't want to recreate portfolio management, I'm going to license that, because that's kind of a commodity, but as we build out ideal futures health assessments, and create different experiences for our clients, that needs to be proprietary. We're not buying an off the shelf portal, we're building a portal, but we're not taking that portal to deliver off the shelf account aggregation.

I don't want to create an account aggregation engine, that's too expensive. There's a number of people that do that well, but I want it to be my

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

wrapping paper around that account aggregation. I want the piece that's truly unique, and proprietary, I've got to build that, I've got to program that, I've got to own that. The commodity aspects of technology, shoot, we use Microsoft Dynamics, others use Sales Force. The gabillions of dollars that Microsoft and Sales Force put in their ... As advisory firms, we couldn't replicate that if we wanted to. So we don't try to build our own CRM.

Steve Sanduski: Yeah. I think this whole technology thing, it's going to be very interesting to see where this is heading in the next five to 10 years because everybody is talking about technology, technology, technology, and you've got to use technology to make your business more efficient. I agree 100% with that. I'm not convinced though that by using technology, it's going to enable you to expand your ... When I say you, I'm just speaking generically. That technology is going to allow firms to significantly expand their margins. I think about the manufacturing sector today, and the number of people in the US, the number of people employed in the manufacturing sector has gone down dramatically in the last 20 years, but the output of these manufacturing firms has about doubled. Yet, the profit margins, I don't think, have expanded dramatically for manufacturing firms here in the US.

I think about years ago, when I came out of college, my first job was working for Caterpillar Tractor Company, and I wanted to get into the financial services industry. Back then, this was the mid 80's, I thought, okay, the big thing was you've got to get an MBA. So, I went to grad school, got an MBA, and the connection here is that, you mentioned the word table-stakes earlier, to me, me getting an MBA back in the mid 80's to try and get a job on Wall Street, that was table-stakes. That's really what you needed. In financial services today, the technology is table-stakes in that-

Brent Brodeski: I agree.

Steve Sanduski: Everyone, you have to do it, just to keep up. It's not that it's necessarily going to expand your margins, it's just going to allow you to keep up with the next person, because we know that with the more stuff becomes automated, the cheaper it gets.

Brent Brodeski: Right.

Steve Sanduski: You look at the robo advisors, I mean Schwab is giving it away for free, for heaven's sakes.

Brent Brodeski: Right.

Steve Sanduski: So, I think one of the keys that ... This is some of the things that I'm working on, is trying to provide financial advisors with tools and resources that will enable them to deliver the stuff that is uniquely human that people will pay for, that doesn't' have to rely on technology. Because if we automate more and more of our business, again, we've got to do that at some base level, but ultimately, as technology continue to progress, robo advisors are not a big threat today, but the technology with AI coming, and machine learning, it's only going to get more ... They're going to take away more and more piece of what financial advisors get paid for today. I think this is what I was hearing you saying, when you talk about your ideal futures health assessment, that that is providing a service that is uniquely human, and that is something that humans will continue to pay for, and can only be delivered by a human. So, I think that is such a key thing for financial advisors who really are serious about making their business last for the next 10, 20, 30, 40, 50 years, is to really focus on those things that are uniquely human and are not going to be commoditized by some kind of algorithm or AI, or machine learning.

Brent Brodeski: Right. I think you're right. I agree 100%. I got really thinking about this about two years ago. Again, I've always talked about fee pressure, but it's never really happened. Then I started thinking about other industries. You think about a Blockbuster, I mean, what happened to them? Well Netflix came along. What happened to the record stores? Well, iTunes came along. What happened to Yellow Medallion Taxis? Well Uber came along. What about Kodak? Well, again, you have Facebook and you've got Instagram.

Steve Sanduski: Instagram.

Brent Brodeski: You've got Apple, again, right? What about the buggie whip? Well the Ford came around. Typewriter, or World Book, or I mean, you can go over and over it. The interesting thing though, is when the disruptor came to the table, the size of the market expanded dramatically. In every case, if you think about the Wikipedia, there's way more content than before. If you think about photos, there's exponentially more photos taken today by more people than they ever did back when Kodak was dominant. There's way more with Uber, there's way more ride-sharing, if you will, than there was when it was just taxis.

So, the interesting thing is, is when these disruptors come in, what it actually does is, it expands the market dramatically, but those that rest on their laurels, that did it the old way that might have been at the top of the game, went out of business, or were materially pushed off to the side. So I think as advisors, we've got to think about what is it that ... How do we learn from Uber? Uber figured out a way to take normal people, to cut through

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

the bureaucracy, to take normal people who were looking to work a few extra hours a week, leveraging the cars they already had, and creating less expensive, more pleasant experiences with driver that didn't stink. You know? Cleaner cars. So, that's value proposition. Now, is Uber a technology company or is it a people company? I would contend they've used technology to create bionic drivers. So how do we do that in our industry? That's what I'm trying to figure out.

Steve Sanduski: Yeah, and Uber is such a great example. Now, but think about Uber though, they're losing hundred of millions of dollars, and while I think it's a phenomenal business, I've used it many times as I'm sure many of our listeners have, but we've got to think about, does the business model work? You mentioned the drivers of Uber, well, they're going to be out of a job probably within the next 10 years because all the Uber cars are going to be autonomous cars.

Brent Brodeski: Exactly.

Steve Sanduski: So, the drivers are going to be out of business, and of course that will create some new opportunities for people to make autonomous cars or whatever. It definitely is just a continuous growth curve when it comes to technology, and I think kind of the key point here ... I know we need to be wrapping up here, I've got another question or two I'd like to ask you. I think the key thing is, technology, it's a given, it's table-stakes, but to me, the key is, we've got to figure out how can financial advisors deliver value that is uniquely deliverable by human beings that people will continue to pay for, and use technology to augment that, but still not take the human out of the equation.

Brent Brodeski: I'm all the way there. Like I said, 24 and Six Million Dollar Man.

Steve Sanduski: All right. There we go. Now you've got me excited to turn on Netflix and see if I can find the Six Million Dollar Man. Hey, let me ask you this. So as the CEO of the firm, are there certain metrics that you monitor? Whether it's organic growth, or profitability margins, are there two or three financial metrics that you monitor for the firm?

Brent Brodeski: Yeah. So, I did a number, years back, I went to Harvard for a ... It was a managing professional services firm, and they talked about the importance for professional services, and this is not just advisory firms. It could be accounting firms, or law firms, or investment banking firms, but the importance of having a 15% growth rate. The reason for that is, is if you're not growing 15%, then you're not able to attract and retain the top quality next generation talent. Therefore, you end up stagnating, and your value

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

proposition stagnates. So, we've long been focused on growth as a metric, and there's, in fact, our bonus program that from the secretary up to me, the person answering the phone up to me, is we call, Team Savant. It's based on achieving a 15% year over year growth rate. We think about that in three regards.

There's profit growth, which bottom line growth. Revenue growth, top line growth, and then that new asset growth, which is really new flows from existing and new clients minus lost clients. We don't incorporate client consumption because that sort of is offset by market growth over time. So, those are kind of the three that we focus on, and in fact we incent our team achieve a 15% growth. Now, some years it's beyond that, particularly if the market wins are at our back. Years like this year is a little tougher, but we think if we can, say over five-year window, if we can … achieve 15% growth. Now, is 12% successful? Yeah, I think most would say that's successful, but we're shooting for 15%.

Second metric is retention. If we look at 13 to 14 years of data that we've got since we've been tracking it, it's about 2% of clients we lose a year. Usually about 1% is due to death, and 1% is they just weren't a good match. Bad if we're following years where the market was really bad, maybe we only have 97% retention, or if it's following really good years in the market, we might have 99% retention. I'm paying attention to that 98, and if it deviates from that, I want to understand why.

Then I think a third metric I look at is new business, specifically from existing clients. So, said differently, wallet share. It's always great to go get a new client, when we do that, but when you get new business from existing clients, that's highly profitable because you're adding revenue without adding an equal amount of work, but also, that's indicative that they're happy with us. It's correlated with if they're adding new business to their accounts with us, there's a good likelihood that they're referring clients to us. So I think it's growth, retention, and wallet share, in my mind, really give us a good pulse on if we are delivering on our brand promise which is to build ideal futures.

Steve Sanduski: Well Brent, this hour has flown by, and I've got a whole lot more questions I'd love to ask you. We didn't even get to talk about the $50 million capital raise that you did, and perhaps we'll be able to save that for a future call, but before I let you go, two quick things. One is, what would you do over? So knowing what you know now, if you could do things over again, what would you like to do differently?

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

Brent Brodeski: You know, I think a couple things I've learned, in some cases the hard way, is as we've built our team, only hire and associate with the best people. When I say that, there's kind of two aspects of that. There's integrity and there's competence. You never go wrong, sometimes you've got to pay extra, and sometimes you have to do things to not only attract, but retain those people, but it always pays dividends. My co-founder Tom who recently retired, I remember him saying, "Brent, we always have to hire people smarter than us." The first time I heard him say that I'm like, you know, we're pretty smart, but then he was right on. It was the wisest thing he ever said. If you hire only the smartest people, people better than you, you never have to say sorry.

I think the second thing is, put aside integrity and competence, in any organization over time, sometimes you get swamp monsters. You've got the cape flag carriers, the Kool-Aid drinkers that are all positive, and then you've got those that are kind of neutral, and then you've got the swamp monsters. The people who want to suck you in and suck the life out of you. A healthy culture is where you call the swamp monsters and the flag carrier, Kool-Aid drinkers, tend to pull those people that are maybe otherwise more neutral in their direction. The problem is, if you keep swamp monsters around, they tend to taint the well, if you will. They tend to create negativity … life is just too short.

Steve Sanduski: What you're saying is, you need to drain the swamp?

Brent Brodeski: You've got to drain the swamp. We started out on politics, I guess we're-

Steve Sanduski: That's right. We'll end on politics.

Brent Brodeski: Here's the thing, if you get people that are high integrity, and high competence, and you drain the swamp, it puts you in a place where you can delegate more, faster, which is not only good because it allows you to get more done through other people and that's efficient, but it allows you deliver a better experience to your clients. There's only so much of, if you're an entrepreneur and an advisor, there's only so much of you to go around. If you truly want to be excellent, and you truly want to create something that is going to last a long time, you're going to have to do that through other people. So if you get those best people that have integrity, competence, you're getting rid of the swamp monsters, and then you delegate to the rock-stars that you have, you're going to have a good life, you're going to be profitable, and you're going to deliver great experience to the clients. As we say, you're going to build ideal futures.

Steve Sanduski: All right.

Phone (262) 241-8745
Email ssanduski@belayadvisor.com
Twitter @stevesanduski
LinkedIn www.linkedin.com/in/stevesanduski

Brent Brodeski: Our clients, our team, and the communities we serve.

Steve Sanduski: Well Brent, is there anything else that you want to add here that I haven't asked you yet?

Brent Brodeski: Like you said, we could go on for another two hours I suspect, but I think your audience would lose interest, so we'll just have to do this again and cover some of the other ground.

Steve Sanduski: That sounds great. Well hey, this has been amazing. I really appreciate it. Lots of great ideas, and thoughts, and experiences that you've shared with us.

Brent Brodeski: All right. Well I appreciate the opportunity and I look forward to talking to you again soon.