# 5 UNTOLD TRUTHS OF ACTING IN YOUR CLIENT'S BEST INTEREST


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## FOREWORD: What does acting in your clients' best interest mean to you? When was the last time you challenged that thinking?

Going beyond top-of-mind responses like compensation, investment portfolios, and consistent, clear communication, you'll find that truly acting in your client"s best interest is much broader than you think and leads to more fulfilled employees, happier clients, and a more successful, resilient business. To get there often requires a mindset shift and an abundance mentality, meaning that once you've committed to thinking and doing things differently, everyone wins.

This won't happen overnight but it's an outcome worth investing in as it'll shape the future of our industry. As important as quarterly investment reviews and annual compliance requirements are, making time to regularly and thoughtfully pause from working in the business to ensure you're always working on the business is well worth it. Part of that process is challenging your thinking to continually innovate, which is crucial to the ongoing success of any organization. It's also what's in your clients' best interest.

– Kate Holmes
Innovating Advice,
FOUNDER & CEO

## 5 UNTOLD TRUTHS OF ACTING IN YOUR CLIENT'S BEST INTEREST

1) Create a resilient enterprise
2) Focus on your employee experience
3) Prioritize education and lifelong learning
4) Grow the organization
5) Don't just invest with the herd

As financial advisors, we often hear—and even say—the phrase "we are fiduciaries." What we are conveying when we say this is that we put our clients' interest in front of our own—an all-too-important distinction in an industry that has spent the last 20 years trying to rebuild its reputation. However, the truth of what it actually means to act in the best interest of a client is rarely explored, and, in fact, this phrase is even sometimes used solely as a marketing tactic. If a financial advisory firm were to truly act in its clients' best interest, it would go far beyond the investments it recommends or planning strategies its advisors propose, but also focus on the enterprise it is creating. We believe this begins by focusing on five untold truths of what it means to act in a client's best interest.

## Untold Truth #1: Create a resilient enterprise

As a service-based industry, our people are our most important assets. Most registered investment advisors are not selling products, but rather asking our clients to trust us—our people—to manage their wealth appropriately. To continue to do so, we need to ensure our company can stand the test of time and thus we need to think long term. Consensus thinking around how to run a successful business, though, is to set clear goals that can be measured over specific time frames. Metrics such as gross margins or revenue per employee are measured on a yearly or even quarterly basis, with success being defined as consistently improving on these numbers. But what if these "truths" around running a business are simply arbitrary metrics and, more importantly, this focus on short-term goals affects our ability to build a lasting, resilient enterprise that will serve our clients best over the long run? To be clear, we are not saying that these metrics are not important and that accountability to these metrics should be ignored. But putting too much emphasis on these shorter-term measuring sticks can often result in strategic decisions that conflict with truly putting a client's best interest at the forefront. Simply put, we believe that there are untold truths of running a successful organization that should be more focused on the long term.

This means we need strong infrastructure, processes that will create efficiencies and scale, and effective management of our profits and losses so that our company will not be lost to the whims of the markets. After all, you cannot take care of your clients if there is no one here to take care of them.

To that end, the first step in creating a resilient enterprise is to create an infrastructure that can withstand significant challenges. We can look to the restaurant industry as an example of well-designed infrastructure (as well as an industry that has had to display a level of resiliency during a pandemic environment). Think about the key players—chef, sous chef, kitchen staff, expediter, servers, bussers, host/hostess, and manager. Each person plays a unique and specific role and, in truth, none of them could do their job without the other. After all, a server cannot serve food without a chef to prepare that food. This is similar to a well-run financial advisory firm. A resilient firm focuses attention on the activities that need to be accomplished [i.e., financial planning, investment research, portfolio management, client servicing, business operations (compliance/finance/HR), relationship management, and business development] and team members are dedicated to their role and specialty. The resilient firm also leverages marketing to engage with their client communities and technology for effective and efficient communication. If you can create an infrastructure that is resilient to the challenges the firm might face, you have accomplished the first step in establishing a long-lived enterprise.

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The second step is not only to create efficient processes, but to document them as well. Every single one. Do you know how many steps it takes to onboard one new client with three investment accounts and a financial plan? Around 250 steps. It would be unfair to expect your team to execute processes if they are not documented and expectations are not clearly set. This is a daunting task and usually one of the first items to get pushed to the back of the to-do list. But business owners do not have to do everything. In fact, it would be best to collaborate with a team member regularly doing these tasks so that they can set up a process by which they and anyone who joins after them will be successful. Remember that an employee is acting on behalf of the client, so a successful employee will create the best possible client experience. If the firm has detailed processes, as well as an excellent communication plan where a client is updated regularly on progress, clients will have more confidence in the advice they are given.

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And the third step to setting up a resilient enterprise is to manage profits and losses with the utmost thoughtfulness and care. This means that the management of revenue and expenses is more than a task for the person in charge of finance. In fact, the P&L statement should be treated in the same way as you would a client's nest egg. It is just a much bigger balance sheet. The expenses (human capital/compensation, rent/office, technology, marketing, etc.) are investments and revenue is your return on investment. As we all know, to get a return, we must invest and take on financial risk. But we should not take on too much risk (i.e., dig into our profitability safety net) because we would not want a market correction to cause us to lose our ability to effectively serve our clients and act in their best interest. If we invest thoughtfully, however, the results will be a more efficient infrastructure, scalable processes, and an excellent employee and client experience.

## Untold Truth #2:
## Focus on your employee experience

It is not uncommon for any firm to obsess over its client experience, whether that includes the services it offers or the way it differentiates itself in the market. However, it is far too often overlooked that the employees are the ones actually providing this experience. The truth is, if your employees are not happy, it is a guarantee that your clients will eventually not be happy. The employee experience encompasses all of the following aspects of a business: culture, career pathing, compensation philosophy, resources, talent management, education, transparency, trust, respect, values, meaningful/fulfilling work, and an empowering leadership team.

Oftentimes, we mistake a positive culture with an organization where people get along and like working together. This definition of culture is too limited because it only focuses on the employee-to-employee dynamic and is frequently too reliant on people being physically present with one another. While there are immense benefits to people physically working together, they need to be connected beyond the four walls of the office to have an enduring positive culture. This lasting positive culture starts with the leadership team and their ability to create an environment where people feel truly cared for beyond their work output. Think about the way we as humans maintain any kind of long-distance relationship, like with family or childhood friends—it is not always possible to be physically present, but it is possible to show that you care.

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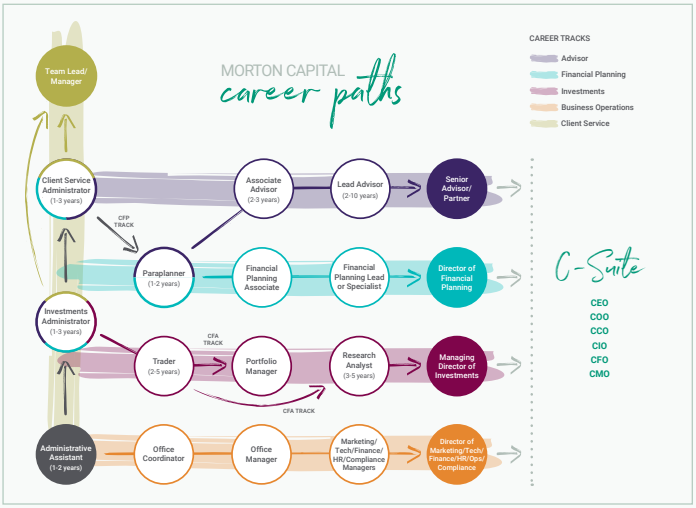
In advisory firms, this care can be displayed through the ability of the organization to offer career growth opportunities, allow team members to build personal wealth with transparent compensation plans, and listen when team members articulate what would make them most fulfilled in their work (see exhibit below).




Leaders and managers should be empowered and trained to prioritize personnel growth and empower them to achieve success in their careers. If an organization focuses on its employee experience, the team members will bring their best selves to work each day and the employee, the firm, and the clients will all benefit.

## Untold Truth #3:
## Prioritize education and lifelong learning

Our clients are the beneficiaries of our knowledge. This could be factual knowledge, like investment research or financial planning strategies, or intuitive knowledge, like goal setting or behavioral finance. In either case, the truth is that the only way to ensure your clients are getting the best possible advice is to reject complacency and encourage continuous personal growth. Our industry has many resources available, including financial publications, webinars, conferences, and programs and credentials like the G2 Leadership Institute or CFP® certification. However, it is not enough for firms to send their team members out for education outside of the four walls of the organization. There also has to be a purposeful program within the organization so that everyone knows that learning and education are cornerstones of the firm.

This focus on education could look like accountability groups, study sessions, education sessions with COIs or other experts, employee-led case studies on investment and planning topics, or even life skills (e.g., how to keep your inbox from overwhelming you). Oftentimes, firms are reluctant to form mandatory education programs for fear that they will take away from the actual work that needs to be done or business development activities. But, if you are one of those firms, have you asked yourself the question about what happens if you do not invest in education? If not, you may not want to know the answer. If you instead ask your team members to spend 2–3 hours per week investing in themselves, the result will likely create a more fulfilled team member with better and more effective work habits. If clients are to truly get our best, we must ask our people to adopt an attitude of lifelong learning and continually strive to grow.

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## Untold Truth #4:
## Grow the organization

Some clients fear firm growth because they think that will mean you are less dedicated to them. This is understandable, especially if you are running a silo practice where you are "the person" to whom they go for everything. However, the truth is, if you are a founder/principal of an organization, it might actually be in their best interest for

you to have another advisor take over as their dedicated relationship manager so that you can grow the business. If you grow the business, you will have more resources for better research, technology, financial planning tools, talent acquisitions, support positions, and leaders/managers. These additional resources can translate to more services that will solve client problems and give advisors more time to focus on client strategy and goals.

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In addition, if you are to truly create an effective enterprise, those clients will be better served by a specialist who is dedicated to investment advising and financial planning and not distracted by running a business, trading, or filling out paperwork. Appointing dedicated leaders who focus on growing (and running) the business will create more time for client-facing personnel to spend with the client. And as the firm grows, there will be more talent with whom to collaborate to solve client needs and create strategies and plans on behalf of the clients.

Growth is also important to your ability to keep talent. If you grow, more employees will be able to move forward on their career path, building knowledge that will enable them to face and conquer more challenges. In addition, you will attract those who are trying to create a future for their own families. Ideally, this growth will create multiple owners in an organization, which will establish more resiliency and strength. These talented team members will partner with you to continually expand the company and help serve more clients.

## Untold Truth #5:
## Don't just invest with the herd

It is easy to invest alongside a benchmark (e.g., the S&P 500 or Barclays Agg). However, there are thousands of businesses that make money outside of public companies or public bonds. Aren't we doing a disservice to our clients if we do not look at every possible opportunity? Yes, it is true that it is much harder to seek out investments that add value beyond the traditional markets or to find cash-flowing

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assets in a world with all-time-low interest rates. However, I believe it is also true—and absolutely necessary—that you should do so (when appropriate) in order to act in your clients' best interest. If you do not utilize alternative investments when appropriate for clients and continue sailing along with only stocks and bonds, you will eventually subject your client to more physical (and emotional) volatility than any plan can handle.

Truly diversifying your clients' assets must include an analysis of risks and purposefully putting "risk eggs" in different baskets. This might mean investing in stocks (subject to market risk), some bonds (subject to interest rate risk), real estate (subject to market, idiosyncratic or leverage risks), and other alternatives when appropriate (subject to other risks not correlated to the markets). However, many clients only have exposure to 75% of these categories, all of which can suffer in a nasty market. The truth is that it takes hard work, dedicated resources, and a willingness to look different that pushes some advisors to look outside of the box for alternative investments and veer from the herd. We believe it is a risk to not hide behind a benchmark and use the excuse that "the market is down, which is why your portfolio is down." However, it is a risk more advisors should take if they want to do best by their clients. If they are willing to source non-traditional investments, they can then say to their clients, "Even though the market is down, we have you allocated to a diversified pool of investments. Some of these are not subject to

the risks of the stock market, which we believe will help keep your portfolio afloat and increase the likelihood of reaching your financial goals." The second answer is not only powerful from a performance standpoint, but also from a behavioral finance perspective.

When a client defines the purpose of their wealth, it provides more clarity to the "why" behind the investment strategy and ultimately protects the client from their own emotions.

Advisors often encourage clients to align their investments with their goals. But do you know why we do that? Because defining purpose = protection. It is paramount that advisors dig deep and truly understand how the client will react in order to build a solid investment strategy (one that includes emotional behaviors). Sometimes advisors do not insert emotions into the equation, but emotions show up whether you address them or not. Genuinely understanding the purpose behind someone's wealth and the emotions tied to their goals will increase the client's success rate. Research shows that negative emotions (such as fear) hit us with an intensity that is two and a half times stronger than positive emotions because they signal a disturbance that we should do something. When a client defines the purpose of their wealth, it provides more clarity to the "why" behind the investment strategy and ultimately protects the client from their own emotions. If we are to truly act in the best interest of clients, we cannot only focus on the specific investments, but also need to understand emotions and help define the purpose so that clients have more confidence in the end result.

## Concluding Thoughts

It is important that advisory firms recognize that their ability to service their clients is contingent upon the strong foundation of the business (including the resiliency of their investments) and the happiness of their team members. If we put thoughtful energy into the business, inspire and empower our employees, and care for our clients, we will then be able to truthfully say we are acting in our clients' best interest.

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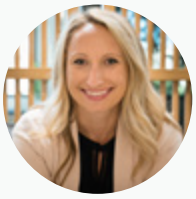

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Stacey McKinnon, CFP®, is the Chief Operating Officer and a wealth advisor at Morton Capital, an RIA with over $2B in AUM and more than 45 employees. She is passionate about creating environments where employees and clients can thrive and has dedicated her professional career to spreading the message of positive leadership inside Morton Capital and throughout the financial services industry. Being from Lake Tahoe, a small town in Northern California, she takes this same passion into her personal life with the goal of creating an environment where her family can thrive. She enjoys paddle boarding, skiing, hikes with her pup and husband, and most other outdoor activities. The "pursuit of being better" is her personal mantra and is the underlying theme of her papers, podcasts and public speaking engagements. Learn more about Morton Capital here.

## Kate Holmes, Innovating Advice, FOUNDER & CEO

Kate Holmes, CFP®, is the energetic and passionate founder of Innovating Advice, which provides coaching, consulting and community for forward-thinking financial advisors and financial planners. As an advocate for propelling the global financial planning profession forward, Kate has had the pleasure of speaking, consulting and working with financial services professionals in over 35 countries and territories. She is the host of the first globally focused podcast, *The Innovating Advice Show*, and, having worked virtually throughout her 15-year career, she can often be found traveling the world with her pilot husband or enjoying the sunshine at home in Las Vegas, Nevada. Learn more about Innovating Advice here.