XYPN From “NextGen” to the “NextTen:” A Growth Story

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Full Episode Transcript

With Your Host

Maddy Roche

XYPN Radio With Maddy Roche

Maddy Roche: Hello and welcome to XYPN radio. I am Maddy Roche, your host. I'm excited to have Alan Moore and Michael Kitces, co-founders of XY Planning Network on the show with me today. Over today's episode, you're going to hear Alan and Michael reminisce on the starting years of XYPN. From the original emails they exchanged about the opportunity available in the marketplace to the problems that needed solving for advisors like you.

They discuss the actual launch of XYPN and how they decided on their first hire, which is what brought me into the fold nearly 10 years ago. But what I found so impressive during our conversation was their original focus on finding solutions to the problems that advisors were facing. And it was this shared vision that they had together that made XYPN so impactful so quickly.

We navigate our conversation into the discussion around partnerships and how their partnership has been both a mix of luck and a whole lot of intentionality and respect. I probe them a bit and they discuss their own opinions and advice for advisors who are considering partnerships and even give their frank perspective on equity splits and decision making authority.

As we finish our conversation, they talk about the future of XYPN and how our support solutions and the corporate RIA, XYPN Sapphire, are both set to continue to deliver the services and the solutions that advisors like you need. I'm excited to share this episode with you. It was quite fun to record as we approach and have celebrated our 10 year anniversary.

So without further ado, here's my interview with Alan Moore and Michael Kitces.

Hello listeners. Welcome to XYPN Radio. Today is a special day because I have the founders of XYPN on the call with me. Michael Kitces and Alan Moore. Hello, how are both of you today?

Michael Kitces: Happy 10 year. It's a little disturbing. That's that's a long time. I don't think we thought it was going to go this long when we started 10 years ago.

Alan Moore: This business partnership is my longest term relationship I've ever had. yeah, it's been it's 10 years in, which is amazing and excited to be here to talk about it and share some of the journey we've been on and where we hope to go.

Maddy Roche: Absolutely. So good to have both of you. And yes, congratulations on making XYPN 10 years old. I also am just amazed that 10 years has flown by as fast as they have. I think it's important for the listeners to hear some of the original stories, how you two met each other, the problems that XYPN was solving back in 2014 and then we'll take them all the way into the future over the next hour, just about what XYPN is planning to do in the coming year.

Alan, why don't you start us off with, as you thought and created XYPN what problems were you solving for originally in 2014?

Alan Moore: Yeah, I had started my own firm in 2012 with this radical idea that I was going to charge a fee to do financial planning for people in their thirties and forties. And really, at the time, there were only a handful of us that were attempting to do that. And I was in this really amazing study group.

We called ourselves FP Hackers because we thought we felt like we were hacking the industry. And so some well known names Sophia Bera, Eric Roberge. Mary Beth Storjohann, Ashley Murphy and this really amazing group. And they were really my lifeline. They were the only reason that my firm found any success was because I had this just absolutely amazing study group, but we had a meetup in November of 2013.

So about six months before we launched XYPN, and we were just talking about how many phone calls each of us were doing with advisors that were reaching out to us and asking very similar questions. How did you start the firm? How did you do compliance? What technology did you select? How are you getting clients?

Like all of these things and I remember one of them was about payment processing, what are you doing? Like, how are you getting paid? And it was a light bulb moment for me that I germinated on that conversation for about a month before reaching out to Michael. But it was like, OK there's clearly a problem here that needs solving.

I looked back at my calendar and I had talked to over a hundred advisors in 18 months since I had launched my firm, and so I was like OK the clearly there's people are asking the same questions over and over that means it feels like there's a business opportunity here.

But I want to be very clear that the business opportunity we thought was like a little side project while I ran my firm and Michael did his thing and maybe we could help a few dozen or what if one day we could have 200 members or 250 members? Wouldn't that be so cool? And here we are today with over 1800 advisors.

Don't let me fool you into thinking that I had that I knew where we would end up 10 years later when, when we first started this conversation,

Maddy Roche: Oh, that's awesome. So Michael, when did Alan first reach out to you and how

Michael Kitces: So Alan and I had, originally connected I guess probably a year or two before this, Alan may remember like the exact timing better than I do, this was so this was early days of NAPFA Genesis. I was earlier in my speaking career but a point where I was going out and speaking at a lot of conferences. And so I think I was speaking at a NAPFA conference that Alan was at as a part of Genesis. And we, met originally there, I'm going to guess in retrospect that would have been like NAPFA 2011 or 2012.

Alan Moore: actually, I can take you back one step. You may, you may have forgotten this but I was your research associate. That was actually how I originally met you was by being...

Michael Kitces: Was that the original? I thought we met through the conference and then got there but yes, in like the early days for anybody who took like a CE quiz from us back in 2011 2012 or so, like Alan was writing the quiz questions because I needed some help as business was getting busy like you needed some side hustle dollars because that's what we all do in the first year of trying to get the practice going and getting some revenue going.

Alan Moore: Yeah. I remember you, you had posted for the research assistant job and I saw it on Twitter and I'm like, I have my master's degree, I wrote a thesis, I can do this. And it was like, OK I need a 16 page article on the Social Security decisions that couples make. And I was like, Oh my gosh, and I did complete the assignment,

it was probably not nearly the level of quality that you were expecting and that was the last one I wrote. because I quickly transitioned. But yeah, that was actually how we like we originally met on Twitter, I was his research associate for a bit. And then that NAPFA conference with my QR code if you remember, I had on my business card is kicked it off.

Michael Kitces: So from my end, like there were a couple of interesting sort of legacy moments for me leading up to this, I was one of the original four founders of four the number founders of Next Gen now part of FPA but originally an independent group all the way back in 2004. And we'd created this membership community thing, where everybody wanted, everybody was in a similar early career stage and had this need for study groups and peers and camaraderie and just the share, huddle for warmth in the early difficult days kind of phenomenon. And there was an irony to me that Next Gen did incredibly well, it blossomed to forget exactly what the numbers were but like 1500 to 2000 members in about four years, almost all word of mouth. we got going with a conference that we started running and it had all this growth, but at the end of the day, like we just built this thing as volunteers.

And it basically collapsed under its own weight there was no revenue model attached. I in the early days would go out and sell sponsorships to get enough money to run the conference. So at least we could run the conference and bring everybody together and run a break even but there was like, there was no money to hire staff to do anything the other like 11 and a half months of the year outside of conference time and there were so many members and there was just so much to do administratively to keep the organization going that it started to crush under its own weight which is how it eventually folded itself into net into FPA because FPA had National Association staff resources available.

And so to me there were like two arcs that came together for XYPN one was I'd seen there are opportunities where you can build community around advisors in this early shared stage of business. And I knew how to help get that going and what that looks like but it was like, OK but this time it needs a business model like it needs some way that there's revenue that we can reinvest to actually create the infrastructure it takes to sustain this and keep it growing so I was very mindful of that. The other part of it to me was, so by this time Nerd's Eye View as a blog had been running it was originally kitces.com originally was like a white paper newsletter service in 2008, which is how Alan got pulled in and helping us to write and research and make CE questions in around 2011 but the blog itself also launched in late 2010 and into 2011, and so as we got in 2012 and 2013, it was really starting to build momentum, social media was a thing now for people to discover it so I was really immersed in the Twitter. Search engine optimization was becoming a thing, and I got pretty good at it early on and so I started having some people come and contribute to the blog besides just me and in this span of about three or four months Alan wrote an article about how he had launched his practice.

Sophia wrote an article about how she had launched her firm, this like setting up an RIA on less than $10,000 that got a ton of buzz, and then I wrote this article, seeing the firms like Alan's and Sophia's and others bubbling up and saying I think there's this opportunity for these like monthly retainer models to really become a thing and you've got to keep the context here if we go back to 2013, Betterment and Wealthfront and all the robo advisors have just come out over the past 12 months and said, "financial advisors can't serve young people profitably were here to serve the next generation." And that was like the whole conversational arc of the industry was financial advisors can't serve young people, they're all going to go to robos and advisors can have to circle the wagons around retirees. And I was looking at this from the business perspective saying, this is ridiculous, like I'm a kind of a student of math and business, just start charging like a one or 200 a month, you can get one or $2,000 a year per client, serve you're like a hundred clients. You can get like 200 + thousand dollars of revenue. You'd have almost no staff infrastructure, because you don't even need all the investment stuff that a lot of us need if you're just doing financial planning for these clients and a lot of advisory firms were already running with one or $200, 000 minimums, 10 plus years ago, minimums were a little lower.

You all are already running AUM firms for one or $2,000 minimum revenue per client. You can do this for young people. You just have to not do Assets Under Management because they literally don't have assets to manage. Just charge them a darn fee for, the service. And so I was looking at this thing,

I feel like there's a thing here and I still had the, proverbial actual like chip on my shoulder of I think there was a community thing with Next Gen, but it fizzled out, at least from my original vision, because we didn't have a revenue model. And then Alan's doing all these phone calls, I guess probably in part off the article, and sends me an email on December 27th of 2013 that says I have an idea.

Maddy Roche: Alan, what was that idea? How did you pitch Michael?

Alan Moore: Yeah. the original thought was maybe we do, I think in the email I talked about it as maybe a nonprofit or is this an association type model? Like similar to NAPFA Genesis because I'd actually pitched NAPFA on this idea that we could maybe provide some resources to help people start their own firms. And it just wasn't a part of their roadmap at the time.

Michael Kitces: Well notably I had pitched FPA similar thing from the Next Gen, and couldn't get traction there either.

Alan Moore: Which, it's not the Association's job or responsibility to be innovating in our space. It really was, OK there's clearly, they taught us how to do financial planning in school, just like they teach every profession how to do the work but they do not teach you how to run a business, and when you go to start your firm, you do very little financial planning and you do a whole lot of business ownership tasks. And those were the things though that are highly replicable. those are repeatable processes. Those are, why do we need everybody testing 12 different CRMs like I did and finding out that what they said was an integration was just a single sign on and how does the data actually flow and all like, why don't we just make those decisions based on best practices and just give people a platform, and so the original idea was this, OK we have some, of these components and then Michael responded with, an infamous email that we like to show from time to time. And it was very long, I think it was like 5,000 words but it contained a lot of the elements of yes, I've been thinking about this as well I'm seeing some of the same issues and what if we could, in addition to this core providing technology and some of the core compliance services and community, we could start there, but what if we were able, we could provide fractional paraplanners or fractional assistance, we could provide a payment processor that would allow them to get paid for their financial planning, we literally predicted advice pay in that original email.

Michael Kitces: Yeah, we could have a model where they affiliate to us or be independents because, now with XYPN Emerald and Sapphire, it wasn't rocket science like Ameriprise did this like 30 or 40 years ago. There's there's an affiliated model and a fully independent model and so we were just like, all these things should be able to map into, what we're doing, but we can build, but like all those are built in brokerage or they're built around assets and our management models. No one's really done this if you just want to charge financial planning fees and primarily be a financial planner.

Alan Moore: And one thing I do think that I've learned that is unique about the way I think Michael and I appRoche business is that I think most entrepreneurs set their sort of their goal out there and they say in 10 years, I want to own a billion dollar business or I want to own a million dollar business or whatever, they set that long term goal. And they say, and then I'm going to figure out how I'm going to get there. Michael and I have very much had the appRoche of we just wanted to solve interesting problems and we wanted to find problems for people we enjoyed working with solve an interesting problem, and then see, I wonder how big the business could be in that market. Maybe it's small, maybe it's big. We don't really care. We just want to help people. And I think that appRoche, it's so interesting to go back and read that original email. because it was like, it was never about how do we make millions of dollars and have thousands of advisors.

It was just like, Hey, like there's some advisors that need some help. We think we can do it at a reasonable scale. This sounds like a fun problem.

Michael Kitces: And the fun trivia bit to this, like there's a reason I know that Alan sent me the email on December 27th of 2013 it was the day my second daughter was born. As any dads out there know, the process, the day that the baby comes as the dad, is a lot of hurry up and wait activity in the hospital, like I'm, getting ice chips, I'm checking in with the doctor, and then like I'm sitting around for a few hours while labor progresses and does what it does, and I like early days of smartphone, but I'm like thumbing out an email on my smartphone.

So this like 5,000 plus word email was written over the span of a day or a day and a half as we were in the hospital going through the labor process, and so it feel like my daughter shares an indirect birthday with the like mental genesis of where. of where XYPN came from and there's still like we have a handful of baby pictures in the hospital if you glance the background, you can see my phone plugged in because I kept draining the battery trying to write this email with my thumbs during the breaks when there wasn't much else to do.

Maddy Roche: And these are two stories, both with the story of Michael drafting the email and some of the strategic direction from the hospital and Alan's original "Why" and what the problems were that we're solving that we share a lot among our team every year at our annual retreat. And I think it's so important for listeners, just like Alan has alluded to, to identify the "Why" of why you're doing this business because as I coach I do hear advisors lead with the number they want. And that is often a hard thing to admit and something that advisors need to get clear about. But the problems they want to solve and for whom are two of the more important questions that they should start with. Alan, it was only within four months that those emails were exchanged between you and Michael and then the launch of XYPN.

Michael Kitces: It was like three months and a week. It didn't even take him four months, yeah once Alan gets going on something things tend to start moving very quickly.

Maddy Roche: Exactly. So Alan, what were the three months like and what was your plan for who was going to do the work? What was the hiring timeline going to look like outside of you and Michael originally?

Alan Moore: Oh, Maddy, you give me so much credit. I was…

Michael Kitces: A hiring timeline, for those who can't see on the audio, I'm just like shaking my head and like stifling a laugh.

Maddy Roche: Leading question here, Alan.

Alan Moore: Of course, part of it is, we thought, our original projections were OK we're going to try to launch in April we're going to have a founding member class of 20 advisors, and our goal was to get those 20 advisors by August. So if you look at our original projections, it's basically starts in August of 2014 and then incrementally added two advisors a month indefinitely. So 10 years in, we should be at whatever, 200, just shy of 300 advisors.

Michael Kitces: And that was deliberate because this is 2014 at this point, Garrett Planning Network had been around for 15 years. They, Sheryl started in 1999 and Garrett Planning Network had about 300 advisors at the time and so I sure remember as we were like building a certain practice, like Garrett did it in 15 years, we're aspirational entrepreneurs. Like we can do it in 10. and so then that meant two advisors a month for 10 years.

I also underappreciated Michael, Michael's network, my network, the credibility that Michael had built with a lot of advisors and so when we launched on April 4th of 2014, we got absolutely flooded so we hit the 20 advisors I think in three days, again, we thought four, we had given ourselves four months.

Alan Moore: We hit it in three days, and so I talked to Michael and I said hey, instead of 20, why don't we bump it up to 30? And just because we can, we're, clearly in demand. And if I remember right, it was like April 17th. I think it was, just shy of two weeks, that we hit, we actually had 29 advisors and then we had two advisors at the same firm joined.

So we consider that founding class was 31 initial advisors. And then we realized, oh gosh, what have we done?

Michael Kitces: As memory serves, you now sent me a message and said let's expand it to 40. They keep coming. And back then, we were in semester, I think we were on Google Hangouts. I still remember like the green background of Google Hangouts that you were like, let's expand it to 40. And I said something to the effect of, but we don't actually have any systems yet to do the things that we said we're going to do in this value proposition.

Alan Moore: Yeah, it's true. folks signed up because they said hey, we're willing to pay the fee that you've said you're going to charge for a set of services. We trust that you can provide. We're not quite sure what those services are going to be. but those early folks took a real leap of faith with us and gave us their hard earned money, and trusted that we would deliver value.

And we certainly lost some of those early members over the years, because we didn't deliver that value, but for the most part, we were able to build quick. Quick enough, quickly enough in order to build that value proposition and, continue to grow the network.

But, yeah some of these are just like maybe, repressed memories that I want to keep repressed, but in that April, I remember we, with our original press release we ended up getting, on the New York times radar. So Ron Lieber emailed me, who's the senior money editor for the Your Money section and had said hey, we're going to mention XY Planning Network in an article that we're writing where we're talking about how to find an advisor. And so I think I spent three or four days, I barely slept I was up all night building advisor profiles on our Find an Advisor portal because it was all manuel at the time. And I was building them by hand and I'm no coder, so that took a long time and I was just trying to get them built up so that when they mentioned us and these consumers came to our website, they would find something that would find an advisor, even if it was just a handful. And it was in that process that I told Michael, I was like, dude, I can't do this.

Like I got a firm to run. I'm, this is crazy. What are we doing? And , partially, maybe mostly my fault because I do have a, I don't know, compulsion to serve demand. And so I hate turning demand away. It just bothers me. I don't want to be the restaurant that has limited number of seats and only a few people can get in.

Like I want to have a big restaurant with lots of seats and tables and then we'll expand if we have to and so because of that, I put this on myself, but that was the conversation and Michael said, you have, we've got 30 members, they're paying us 300 bucks a month.

You have a little bit of revenue. Do you want to hire? And I was like, Michael, I can't write a job description. I don't have time. I got these other things to do. I don't even know what I would call it. And Michael said, what do you want him to do? And I said, I just, need someone to get shit done right now.

I just need that. And he said…

Michael Kitces: Fine. Then write a job description for the director of getting shit done and post it tomorrow morning.

Alan Moore: And we did. And the rest is history. thank, goodness for Maddy Roche joining the team for that original job.

Michael Kitces: Who is memory serves Maddy. Like your mom or your dad or someone were like, what are you doing? Joining a business with two random dudes from the internet. Again, like 10 years ago, like virtual remote businesses were not a thing. Like we were two random dudes from the internet posted a job.

Alan Moore: And Maddy and I didn't even meet until we were at a FinCon conference, so it must have been, yeah, six or eight months that, I don't think your parents thought we were a real business.

Maddy Roche: No, they definitely didn't. They were worried about if I would ever receive a paycheck and they were very worried about submitting my resignation to my former employer. And I appreciate the Director of Getting Shit Done job title so much. And getting shit done is one of our values here at XYPN, but I do think it's a really beautiful example of Alan felt pressed to get shit done.

And he, took a risk. On a generalist job description and was able to find a teammate that, yes, I was in the CFP® curriculum, I was involved in the industry, but just only getting into it and he took a risk on that, and I also took a risk on this position and it's blossomed into a 10 year long relationship here, but I speak to a lot of advisors about that first hire and they get really hyper focused on exactly what they need.

And I just maybe want to give just a quick credit to the idea of possibly hiring just a top performer that is more of a generalist to let them fit in, would you guys agree on, that topic for, member firms?

Alan Moore: Yeah absolutely And I've made this mistake so many times and so I encourage you to not follow in my footsteps, which is, I've always tried to hire the person who I knew in three or five years was exactly what we were going to need and so it's OK employee number one, I'm going to be sure when we have 10 employees this role is still the right fit but that's not what you need. When you have 10 people, you have very different needs and very different segmentation of work than when it's only, one or two people. And so there's a great book, Michael and I both recently read called The Founder's Dilemma, and there's a lot of, I will say if there's one tip I can give on here, if you are going to get into a partnership with someone, go read that book because Michael and I were very fortunate to have navigated a lot of the challenges that he talks about in there but I can see the pitfalls that we avoided but one of the things they talk about in there is, those early hires are generalists and you go find generalist folks who are willing to do a little bit of everything because when it's just you and one person, you don't need someone who's, only a single tool. You need a multi tool.

And then as you grow, you begin to hire more specialists and your, some of your generalists transition into specialty roles. And some of your generalists leave because you outgrow, the need for that generalist skillset. and so it's a really interesting journey, but I would, I totally agree is you want someone early days who can who's just willing to do a little bit of everything and they'll email the clients and they'll process paperwork and they'll, whatever, they'll clean, up the office, if they have to like, they just do a little bit of everything because that's what it takes to, get through those early days.

Michael Kitces: Yeah. The, the analogy I heard that I always thought was really strong at the beginning, at the beginning, you hire a lot of Swiss Army knives and as the business grows and evolves, you need to hire a lot of kitchen knives, like very specialized kitchen knives to fulfill particular functions in the, kitchen and, Alan, like you highlighted it well it's one of these things like I'll bet I didn't really understand and appreciate until I lived through the growth and evolution of the business and now gone through this multiple times with multiple businesses, that transition as a business from when you really need mostly Swiss Army knives to the point where you mostly need kitchen knives is really difficult because it means most of your people don't come with you, they can't come with you.

Like the thing that made them so incredibly successful in what you need and what the business needed at the beginning, often is not what makes them successful or what the business needs going forward. And not that there isn't some value for sort of Swiss army knife call it just team members who are really good utility team members to do whatever the heck the business needs.

You always need some of that. But the more that the business grows, the more roles get specialized and the problem that crops up eventually is I could hire someone who's a specialist at this that's just going to run circles around the person who's a generalist, but figuring it out.

And it's really hard from the business owner end. When, you hit some of those transitions and realize like people that have been really great fits and really loyal to the business, like they just don't necessarily have a place in where it's going as it evolves and grows.

Maddy Roche: You both did a nice job for some of us early teammates describing that to us and urging us to specialize a bit within the business and deciding which tracks we wanted to focus on. but Alan, I'm glad you brought up the conversation around the Founder's Dilemma and this idea of partnership.

I hear all the time about advisors hoping to hire. I have a couple of people who are unwinding partnerships, but most of the time I hear about advisors considering partnering with other advisors. And I feel, that the partnership between you two is one of the best examples that we have of a really high functioning partnership.

And I'm wondering if you both could just speak a bit to how you navigate and how you navigated early on and maybe how it's evolved over the past 10 years, who makes decisions and as you hire leaders in the company, how do you begin to defer those decisions?

Alan Moore: Yeah. All great questions. I would say that, I attribute at least 98 percent of the success that Michael and I have had to luck. Just we were very lucky to find each other and to both be willing, I think we've both been willing to put in the work to make this work. It's not always been rainbows and unicorns.

It's not always easy. We do fight, sometimes, but in the end, it's about that mutual respect and the leveraging each other's strengths. And so there is the old, there's a Chinese proverb that says, to go fast go alone, to go far go together. And I can't say that I thought oh, I really want to build this huge business.

So I should go partner with Michael Kitces because that'll be great. I didn't have that kind of vision for it but it was more of I saw as an entrepreneur that I had a gap. And what I've learned that gap is called now, is if you go take the working genius or a model from Patrick Lencioni, my gap is what they call discernment.

I'm an ideas guy. I'm an inventor. You give me a problem. I will give you 100 ways to solve it. But you can, we can do anything, but we can't do everything. And Michael, the reason I think our relationship has worked so well is that Michael's strength is in discernment and helping filter the hundred ideas down to this is the next priority. Ideas people aren't great at prioritization. We're great at creating a lot of ideas. It's the discernment folks who are really great at, making those decisions of what's next. And then I'll go get the team excited and we'll get it done because can't sit on my hands. And early days I had the title Director of Speeding Things Up and Director of Slowing Things Down, which I actually think was wrong.

I think it was, I was the director of new ideas and Michael was the director of focusing on what the next idea needed to be. And in those early days, Michael and I made, I would say we were very much in a co-CEO role, where we were both part time because I had my practice, he had Kitces.com, we were, making decisions together. We had a lot of Friday night meetings walking the neighborhood until midnight, making decisions and thinking about things.

Michael Kitces: He is not kidding. Like literally I would throw on a headset and walk in the neighborhood as I talked and we might go until midnight on a Friday night and I would get 23,000 steps.

Maddy Roche: They still do that when they come to Bozeman. They go take walks together all around Bozeman together and have their meetings that way.

Alan Moore: No, it's totally true. but yeah, those early days, it was much, it was pretty flat in terms of hierarchy. We didn't have clearly defined roles. You don't need clearly defined roles when there's just two or three or four people, you just get in and just get it done.

And then member 100, we hit 100 members the next year, the next summer in 2015, and I got a call from one of my clients and I got a call from a member and I responded to the member and didn't respond to my client the next day. And that was my cue that this thing had grown to the point that I was no longer the best advisor for my clients.

And so I sold my practice, to Abacus Wealth Partners, J.D. Bruce, who was the president there, managed that transaction and bought my practice so that I could focus on XYPN full time. And then over the years I'll say there wasn't like a clear time like, I don't even remember when, early days, my title was just Co-Founder.

Like one day, finally I was like, am I the CEO? I guess I'm the CEO. I should probably put that title on here. but Michael and I made a lot of decisions together but I started making more of the decisions because I was full time in the business and he wasn't. And it was really, I think when we adopted EOS, that we got really clear on what are our accountabilities, because Michael and I are both visionaries.

We're both wired to be visionaries, the truth is Michael and I probably can't work in the business together full time, just because we have, we're both You know, we may have competing visions and the question that EOS asks is, OK you can both be visionaries but who is the visionary for this organization?

And Michael was, humble enough and put his ego aside and was willing to say OK Alan, you're the visionary. It doesn't mean I'm always right. It doesn't mean he doesn't have opinions about the vision, it just means in end the accountability falls to me. and the other thing that EOS does really well that I think is really helpful is they call it, they show the accountability chart which is all the different functions in the organization and who does what job, and then off to the side, there's a box and they call it the owner's box.

And Michael and I live over there as owners of the company, and we have certain accountabilities, which are things like, we have the right to hire and fire the CEO. We have the right to approve the budget and the strategic plan for the company. And we're entitled to distributions if there are any, and other than That's all we get.

The rest of it is up to the organization and putting the right people in place. And so I would say over the years, it has evolved from a co-CEO model to where I'm very much the CEO. Michael is very much the Executive Chair of the board but, we've, we have continued that working relationship where Working Genius calls it the ID Loop, the Invention Discernment back to invention, back to discernment.

We do that still to this day. And that's how we, I think we've been able to make some really good decisions, and, be able to avoid some of the pitfalls.

Michael Kitces: I would, echo, a few things there as well. There is a complimentary skill sets thing that I think to me is the most overt direct aspect of that was just sheer dumb luck. Like I'm wired how I'm wired and Alan's wired how he's wired, and it turned out these lined up really well together.

Alan had mentioned Working Genius. I'm also a really big fan of Working Genius and, Working Genius kind of lays out how projects get done or how things get done across these six domains. Someone has to wonder the idea. Someone has to invent how they, how it's going to get done.

Someone has to discern which of the many ideas to pursue. Someone has to galvanize the team to get them fired up. Someone has to enable the team to get the work done. And someone has to have the tenacity to see it through to the end. And when you go through those six. I am wonder in discernment, Alan is invention and galvanizing.

Like we complimentarily are like the first four perfectly lined up in like a jigsaw puzzle that fits together perfectly kind of thing. And and then neither of us want to actually do the implementation part to get it done, which was why the first thing we did was take a hundred percent of the revenue and hire Maddy to actually get shit done because that was not the part that either of us revel in Alan loves the idea space. I love to be that filter and focuser. And then Alan was so good at getting the team fired up, which I have no interest in doing, I'd rather hang out in my hidey hole and read another book or article. So I think a big piece of it was complimentary skillset, but what I would highlight going along with that is having respective self awareness for the both of us for realizing that.

And figuring that out early on. And I think there was some kind of "figure outing" that's probably not a word. Like figuring out about what that looks like and getting comfortable with that because I remember early on right? I'm the focuser and I'm having these second thoughts of oh my Lord.

What have I've gotten myself in a business with someone who like, can't shut the fricking idea factory off, oh my gosh. Like it's, we're going to spin off the rails. It's going to be horrible. Those scripts are running. I still remember a time. I do not remember. I wish I could remember what the thing was,

I don't remember what the thing was but, I had thrown into our Slack channel some thing that I was ideating on. because I live at the wonder level, like sometimes I tend to look at him like hey, I think there's a gap in the landscape out here. And then Alan's I know exactly how to solve that, and he starts running and inventing, creating ideas. So like I had thrown a wonder idea out. I feel like there might be a gap in this area. I think this is something that we might pursue next year, as like a new initiative for the business. And then a week later Alan and I came together for one of our quarterlies for EOS.

And I brought up, do we need to put this on what EOS calls the VTO Vision Traction Organizer, which is your like your long term parking lot of ideas. And Alan's oh, I already did it. I'm like, I was thinking about that as an annual initiative for next year. You did it in the intervening week between when I mentioned it and threw it out there because I was just trying to seed the discussion so we could talk about it more meaningfully at the meeting we were coming together on and Alan had done and implemented the entire thing in the intervening week, which on the one hand, I was like, I wasn't even that sure about the idea myself yet.

I was really just throwing out there for discussion and I thought this was going to take a year and you did it in a week. And so then there was a party was like, I have to actually be careful now of what I say, because he's going to just shoot off to the moon and do it. and so there were some challenges for that early on.

It was like, gosh, do I have to like filter myself in what ideas I throw out there? And it took a while to find this back and forth. no, but there's actually a strength here because I see gaps, but then Alan's really good at figuring out how to operationalize it, like we can actually do this, and gets to a game plan incredibly fast. I'm like, but actually you came up with three game plans. All right, let me come back in with the discernment end of, OK I think we could filter these three down to this one. I think this is really where we're best to put our chips. And then he goes off and gets everybody fired up because he's got this gift of galvanizing.

And we found this back and forth, but I don't remember exactly when it was, but I want to say it was a solid three or four years before really feeling like we found those respective roles in just not even roles within the business. Like just how we interacted effectively with each other as business partners in part because we didn't do the pre work of let's go through and do some assessments to understand how we're going to work together.

We created a thing that seemed neat. And then the darn thing grew really fast. And all of a sudden I was like, I guess we're joined at the hip now. because this thing's growing and we had to figure it out later.

Maddy Roche: I'm so glad you guys talked about that. because they're the theme of what I heard through both of you is a level of respect and respect one for each other but respect for the lanes that you're in. And I've witnessed that. That is I've worked among both of you and I know lots of our listeners would love to be a fly on the wall on one of your meetings and hear you both disagree on a topic but also land eloquently and gracefully on how to proceed.

And I think it does take a level of self awareness and respect that both of you have embodied over these years. So listeners, those are two qualities we're going to want you to have, if you ever dive into a partnership and maybe we'll have a separate episode to discuss partnerships. But, I would like to Alan, you want to have comment on that?

Alan Moore: I was just going to say, yeah, if you're thinking about partnering, just remember that it is a lot easier to get divorced from a spouse than it is to break up from a business partner. So Yes, seriously. that's not a joke.

not at all. that is real life. as someone who has gone through the divorce process, like it is, it is messy to split up a business partnership and so you do need to take it slow and it needs to be thoughtful, way more thoughtful than our original days were, we did get very lucky.

Michael Kitces: The one other piece I would highlight to that, though, is it's like partnerships come together for a lot of different reasons, right? Sometimes it's just, I got all these expenses, you got all these expenses and they're they're duplicated, maybe we could part together and share some of these overhead expenses or like the loosest version of a partnership.

But frankly, like that's what I see for a lot of advisory firms and like nothing wrong with it. Just hey, we split some rents and we get some bargaining power because we buy three licenses of the software that has diminishing costs. But basically like I run my thing and you run your thing.

We're not running a shared thing. We just split some overhead. The next version of it is when we start wanting to be in business a little bit more directly with each other. Like we want to partner together because it's lonely building business alone. And frankly, that's where I see most partnerships blow up in catastrophically bad fashion.

what I needed was a friend and a study group member and what I created was a business partner that is very, messy to extricate myself from because we do things together and the darn thing ends up growing and it turns out we didn't actually share a vision for what we were creating.

Like we didn't do it because we wanted to create a shared vision, we did it because we were lonely and wanted to do it with someone else. And then later figured out we didn't actually share a vision of what this thing was going to become. You wanted it to be more planning centric, I want to be more investment centric.

I wanted it to be high touch, you wanted it to have high reach. I wanted to build a thing we could sell in five years, you want it to be in this for life. You want to run it for income, I want to build enterprise value. there are so many different ways that you can ultimately end up with misalignment because you didn't actually come together to build something with shared vision, you came together because you were lonely and wanted someone to be with, not that I want to be negative of yes, entrepreneurship is very lonely, but if you're trying to solve for loneliness, like there are study groups and other mechanisms to go about this. It's not a great basis to build a business on.

And, I think the one thing aside from, we got lucky. That the, personality and work styles were complimentary so we ended up really creating something better together than either of us could have alone. I saw the vision for what the opportunity is but I thought it was going to be one seventh the size it is today from the business projections that I made, and I could never possibly have grown it at the pace and depth that it was without Alan steering it because he initiates faster than I do, which is part of the strong complimentary skill set. So we got lucky that the skill sets complimented so well. I think that's part of why it, it ran as far and fast as it did but I think the core of why it worked is that we did have a shared vision around what we wanted to create, we didn't get together because we thought it would be neat to make a business together. We got together because we both saw this gap that we thought we could solve in the, marketplace in the world. And said, if you want to make this thing and I want to make this thing, why don't we make this thing together?

Since we're, we want to make the same thing and we had a lot of alignment at that most fundamental level about creating a shared vision. So then when it turned out the personalities also had a complementary skill set, it ended up going and growing pretty far. But that distinction of, are you creating a partnership because you're lonely and would like camaraderie?

Or are you creating a partnership because there's actually a shared vision of what you want to create? Shared vision partnerships are hard enough. If you don't go into it with a shared vision. At best, they tend to separate apart over time and the bigger they get before they separate the messier it usually is when you get there

Maddy Roche: Great points, Michael. Thank you for bringing that up.

Michael Kitces: Not to be a downer. I feel like that was a little bit of a negative rant on partnerships. Like I have seen so many blow up in our advisor space. So many blow up and it's tough because we don't talk about the blow up. He ones we talk about, like the successful ones that we put up on the pedestals.

But, they're really hard even when they go well as Alan highlighted around roles, responsibilities the majority of my net worth is tied up in something that

Alan runs every day. that takes a lot of time to get to that level of trust because I'm not in the business day to day.

We chat almost every day, so he gets two cents through me from time to time. if we want to run an effective business, we can't treat the business with a mom and dad scenario where the team gets directives from me and gets directives from Alan, because then nobody knows who's the right, who makes the decisions around here and how stuff gets done, which is why we got very intentional as the business grew around roles and responsibilities, raise Allen high, like someone's got to be the CEO.

Someone has to be the CEO because otherwise the team doesn't know who the decision makers are and nobody knows who's really accountable for what and that means, if you're a co founders, like someone has to make the decision to not be the, to not be the CEO.

Maddy Roche: Does that mean that there, among partnerships, that a 50 50 split is not the best way to go?

Alan Moore: Yeah, I do not often see 50 50 splits working. it's good in theory, I've got my half, you've got your half and we come together. But maybe I should say this. There is a difference between ownership and ownership percentage and decision making authority. And ownership generally dictates who gets to make the decision.

So if you're the majority shareholder, you get to either make the decisions yourself or, delegate to, if you own a company, you can hire your own CEO and delegate decision making authority to them. But in the end, you've got to get really clear of just what are your lanes. And so if, it's two of you and you want to say just the two of you for the rest of your career, that's totally fine.

You can, make that work in a 50 50. It just gets hard as you grow. But even when it's just the two of you getting really clear on here's my lane and here's your lane. Just so we're clear on what we can do and what we can't do, but when it's just two of you, you can make a lot of decisions by committee.

You can have a model and Michael and I did early on where we made decisions collaboratively. I didn't make a lot of decisions just off of my own. Okay. As we have grown and as the decisions have gotten more complex and there's more layers and more context and more data, then we've got, we had to get clear on decision making authority.

And again, I don't know what percent, but t's not the super high percentage of times, Michael agrees with the decision that I make. There's a lot of times we disagree. But he's empowered me with a role. And, at some point, he and I can fire myself. if Michael ever tries to fire me, I'll just agree with him. If it's not working. And that's just the reality of, partnership at different stages.

Michael Kitces: So the other thing I would note about this dynamic of equity splits is ours literally has changed within XYPN. When we launched originally I was cognizant that, I was not going to be day to day. I was bringing some of the initial marketing and launch. I did put in some of the initial cash to like seed the bank account and get it going.

But I wasn't going to be, I wasn't expecting to be as active in the business. And so we had originally set it at a 40, 60 split. Alan had the greater share. Then as it grew and at least from my end is like the vortex sucked me in and all of a sudden I was spending so much more time on the business than I had, expected and anticipated and was putting more of our platform resources towards trying to grow it.

I bought 10 percent of the shares from Alan to equalize us at 50 50. And then a few years later as the business continued to grow and I would, I was less of a day to day. Activists in the business only because it was getting much larger Alan very formally took the CEO role at a point where he had dozens of employees.

And that was a much weightier, title at that point to say, now if he's the CEO and I'm the board member, active board member, but still ultimately a board member and not, deemed the decision making authority. I effectively need a compensation plan for my CEO that if Alan just up and quit and said hey, I'm going to join you on the board, let's go hire a CEO for our, shared company.

we would be paying some equity for that. And so at that point, we developed an equity, what essentially was an equity compensation plan that shifted some of my shares back to Alan. And so Alan does own. neither of us actually on 50 percent now because we also have an employee stock ownership plan.

So team members have some shares, which is a whole other discussion, but Alan now again owns a higher percentage of the business than I do as we've adjusted it. And so those relative equity splits also shift as the business grows and dollars get higher and while it gets harder to shift shares back and forth, but also the amount you would pay to anybody coming in from the outside starts to look different as well.

as a CEO comp is different for a company that's got a million of revenue versus 10 million of revenue versus 50 million of revenue and such. But, that equity setting doesn't necessarily remain fixed either. It can change as roles and responsibilities in the business change.

And to me the sort of the biggest key to that is just really recognizing and understanding and owning that you have to get clear about what everybody's roles and responsibilities in the business are, and then ultimately make sure equity reasonably aligns to what that looks like. And in the state of the business.

Maddy Roche: Great dialogue. I'm glad that we dove into that. And those listeners who are tuning in today and maybe considering the fact they don't want to do this alone, part of the whole reason XYPN even came together, as Alan's story highlighted early on, was to create a space in a community among advisors so people felt less alone while they went out.

On their own. So come give XYPN a try, meet a community and hear from other advisors within accountability groups and in different programming we do here to see what it's like to just have some colleagues that can support you in a non partnership way.

Michael Kitces: Well that's why we tried to create study group, encourage and create side groups for every member as we join. Like it is lonely, like you're not off base feeling like it's really lonely building a thing. It's just, there are, other ways to solve for loneliness besides. multi year potentially lifelong commitments to partnership that entangle businesses and dollars that can be difficult to untangle.

Maddy Roche: Yeah. Absolutely. Alan I'm interested in some of the original conversations that you and Michael had. You were theorizing a strategic vision that it included multiple levels of kind of these solutions that we've now rolled out as a business from XYPN Ops to XYPN Invest. And of course, starting with XYPN Compliance, our original business solution for advisors.

Can you talk just a bit about how each of those, and, in total solve problems for our advisors?

Alan Moore: Yeah. I mentioned earlier that, I just have a compulsion to solve unmet demand and, needs that I see, I'm trying to get better about saying no to things. But the reality is the hardest part of building a business, particularly a larger business is getting enough eyeballs on the front end.

And, you're now starting to see all these celebrities with a gin or a tequila company or a makeup company. And they don't know about making alcohol or distribution or inventory or government regulations, but they do have an audience. And so Michael had that original audience and, we started to build XYPN, but what we started to find was that we had our own audience.

We had this internal audience of members who were starting to create a marketplace that was not being served. And when we looked at XYPN, we say, OK we have a hundred members and we've got 300 of them, 500, I'm like, what compliance company can I call? Who is willing to do ADV updates for a hundred, 300, 500 advisors.

Most of them don't do that many total, much less try to add that to their, to, to what they're doing. if we went out and said, Hey, we're looking for bookkeepers, a bookkeeping service that we can put all of our members on. They just don't exist at scale. And there were times where in a way we created demand for services that did not exist and therefore then started to build solutions to meet those unmet services.

So yes, each of our members could go out and hire their own bookkeeper. but what we found was, Hey, we're a highly regulated industry, the way you operate, is pretty specific, you actually need a bookkeeper who understands financial services. So why don't we hire a bookkeeper and then our members can pay them through us.

And so that's really been about, our model has always been about true, real independence. And that is that, it is your business. It is your firm. You get to make all the decisions. If you want to hire our in house bookkeeping service. Fantastic. If you want to hire your friend to do your books, that's fine too.

We don't care. We're happy to provide support if, you would like to work with us. And what we've really focused on are the areas where advisors, either we're already spending money on services, or needed services but there just weren't the right vendors out there providing that service to be able to help them ultimately run their business.

And so we now have a plethora of service solutions and various offerings that advisors can opt into. And then of course, with the recent launch of XYPN Sapphire bundling it all under one roof to make it even easier for firms.

Michael Kitces: Yes. As I think about just in the purest sense. Any advisory firm, once you get past just like the really early “startupy” days, ends out spending about 35 to 40 percent of their revenue on various overhead expenses. Like you look at industry benchmarking studies that just average lots of firms together.

Like I can take a firm with half a million of revenue or a million of revenue or 3 million or 5 million or 10 million or 20 million. And they all have basically the same overhead expense ratio. It does not materially change sad from the economies of scale perspective. Cause basically there, there are none.

There's no indication anywhere in the data that economies of scale ever show up, or at least if they do, you have to be above tens of millions of revenue, and maybe you'll find it there eventually, finally. What we saw though is that the core reason for that is like every advisory firm is the same set of services that they need.

And the bigger you are just the more of that stuff you need, however many advisors you got, you need a certain number of people to do operation support. You have a certain amount of billing and books to do. You have a certain amount of investment trading activity to do all of it moves linearly as the business grows.

And so for my end, even early in the business was looking and saying look, every member that ever comes to us is going to end out spending 35 to 40 percent of their overhead on or 35, 40 percent of the revenue on overhead, and they don't even get any economies of scale but if we can do it centrally for them, we can actually be larger than what any advisory firm would ever be on its own.

And we might be able to find A some economies of scale or be at the least we can train all of this centrally so that at least our members don't have to actually train like every single team member and every single specialized function because we can do it centrally. And so it became this goal of, I think we can do it better and ultimately cheaper, not because there's anything magical, but just because XYPN can actually achieve levels of scale that no member firm can do on its own, at least not unless it gets to tens of millions of dollars of revenue, which most firms never get to even literally in a lifetime.

Don't ever get anywhere near that.

Maddy Roche: Alan we're in the process of testing out this idea of a corporate RIA that is called XYPN Sapphire. Can you speak a bit to the direction of that and how the direction of XYPN over the next 10 years may fit with it?

Alan Moore: Absolutely. Yeah, we've spent the last 10 years helping advisors launch and run their own RIA and we've gotten pretty darn good at it. That is our core business. It is, it's working, we're bringing in advisors, we're able to serve them. And so we're really now in this iterative iteration, incremental improvement mode, with, with those advisors.

So then the question becomes, what's next? What do we think? Is it just the core business or are there going to be other things that help drive our growth and change and the value we provide our advisors over time? so Vince Hockett, our president here, did a training earlier this year with the leadership team talking about, it comes from McKinsey & Co. but the three horizons that every business has. And so the horizon one is your day to day, the core business, and the work that, that, you do for your clients, horizon two is looking out three to five years and starting to build whatever's going to be your drivers in three to five years.

And then you have horizon three, which are truly you're like long shot, moonshot type projects, new initiatives, investments in different things, pilot programs. And so part of my job is to be focused on horizon two and horizon three. And Vince's job as the integrator and president of the company is to focus on horizon one and ensure we keep the wheels on the bus while I go play in horizon two.

And XYPN Sapphire to me is horizon two. And that is, we have this core membership offering, and that is not changing. We're going to continue to help advisors launch and grow their own firm. But what we also recognize is that there are times where we attract folks into launching their own firm.

And they get a few years in and they say, you know what? I really don't like this business ownership thing. I really don't want to get audited. I really don't want to deal with IT issues. I just want to work with my clients. I have this particular client I want to serve and do planning my way but I don't want to deal with the rest of this. And so XYPN Sapphire is, we would call it a corporate RIA but it's a platform that allows advisors to affiliate with our RAA and take a lot of the workload off of the advisor who wants to outsource that. And so for us, we don't really care if, between if you want to join XYPN Sapphire, or you want to launch your own firm.

There's buttons in the member portal to do that and we'll continue to support it, but we really see Sapphire as, I think it's going to be a long term growth initiative for us. It's where in 10 years, I think we'll be able to look back and have some similar conversations about Sapphire as we do XYPN today.

But it's really about, I keep coming back to that demand and wanting to serve, serve those advisors. And we get a lot of advisors that leave the network because of that, because they just don't like running a business. And we think we can help them, I guess in a way they built a business that didn't support their great life.

They built a business they didn't love. And we think for those particular advisors, maybe by joining XYPN Sapphire, they can get back to doing the work that they love, and, helping them live their great life because of where their skillset is and the things they want to do and the time they want to spend and all the things.

And also for the advisors who are fearful of launching their own firms, who say I don't want to be an entrepreneur. I don't want to be out on my own. I want a system. Give me a turnkey platform. I want to go to the store and buy something off the shelf that just works. I don't want to, I don't want to build a computer from parts.

I just want a computer that works. And for us, that Sapphire is bundling everything, that we've been doing for the last 10 years together, into a turnkey platform. So advisors can just go buy it off the shelf and go work with their clients and know that the business side is taken care of.

Maddy Roche: Beautiful. Michael, any opinions about the future of XYPN Sapphire and XYPN generally?

Michael Kitces: I didn't think Alan captured it well in the context of Sapphire. You know to me it's just, another offering on this spectrum of, we were, always founded around helping advisors build businesses where they're doing real financial planning and own and control it independently because both Alan and I are obsessed with the independence thing.

like that doesn't change, but now we get a wider spectrum around, and to me, just like what we found and seen over time is, Almost all of us at the end of the day go independent because we want to see our clients served a particular way, or we want to serve a particular type of client.

And the firm we were at previously says, no. Sometimes it's a compliance no sometimes it's a business model no sometimes it's a compensation model no. There's a lot of different ways that we get to no but it only comes down to, they're not letting me serve who I want to serve the way I want to serve and charge the way that I want to charge.

And so that to us was really the core that we were trying to solve for. It started with the membership model. I guess now we're calling it XYPN Emerald. Where you just hang your own shingle and then you get the autonomy to do all those decisions because that's what happens when it's your shingle and what we realize over time is that part still matters, but there are other things that come with the total autonomy of running your own business that some members didn't want.

I want the autonomy to serve my clients the way that I want. I don't want the autonomy to respond to the audit on my own. I don't need the autonomy to pick my own IT support. I would rather someone just figure that out and make my computers work. To me, it's just, it's a refinement of, we have different parts of what we care to have autonomy over.

All of them share the common thread of autonomy over who you serve, the way you serve them, and what you charge, because that's the essence of what XYPN was built to do but we're trying to give some range of choices around letting you not have to be responsible for the things you didn't actually care about anyways. And, as we look forward, financial planning still on the rise, according to pretty much every industry study ever anywhere, we just, we see an immense amount of opportunity for continuing the growth path where we're going and still feel like we have a pretty good competitive advantage simply because almost every other firm in the industry at the end of the day, makes its money on assets or it makes its money on products.

And so as much as a lot of those platforms try to talk a good game about investing more in a financial planning, when all their margins and all their profits come from their core business, it's really there are limits as to how far they tend to go with the financial planning. And so to me, like the opportunity is still immense that more of the industry is going into financial planning, discovering how rewarding it is both financially and just personally to be able to give clients advice and then see the impact as they like, take the advice and get to a better place in their life with this relationship we're in over time, where we really get to see that blossom and develop and that's not going anywhere.

That's just growing. And either the rest of the industry is going to figure out how to really support financial planning more meaningfully, or we'll just keep adding more and more XYPN members that want to do it here.

Maddy Roche: I think I speak on behalf of all three of us, that it has been a total honor and gift to be able to serve and help build some of the solutions and services to you, the listeners and to the XYPN members who are tuning in, as we've continued to navigate over the past 10 years, what this industry needs and what advisors like you have needed.

Thank you both so much, both for your vision, your leadership, and quite frankly, your fun conversation today. Alan and Michael, you both are wonderful. I know our listeners are going to enjoy this episode and all of the sage advice you've shared, but for now we're going to tune out and leave you with a nice goodbye.

Thank you everyone.

Alan Moore: Thank you.

Michael Kitces: Thank you.