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BUSINESS MANAGEMENT

Industry Trends & Dynasty Guidance

Q4 2022

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Insights Heading Into Q4 2022

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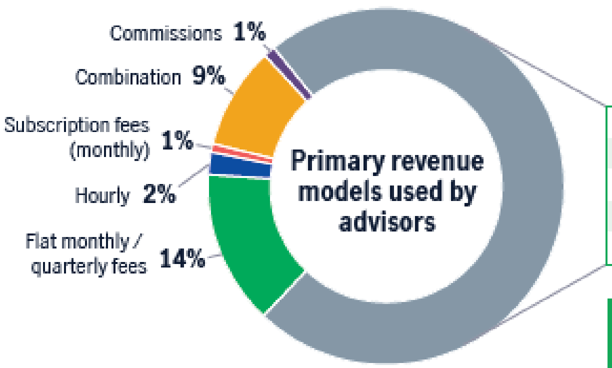
Should I Charge Clients for Financial Plans?

With the S&P 500 down 23.3% YTD and the fact that most advisors still utilize an AUM-based fee model, discussions regarding alternative revenue streams and fee models are understandably popular.

Advisors charge for planning in a variety of ways



73% AUM

Fee model	% Advisors
All clients AUM only	37.0%
AUM for some, flat fees for others	33.2%
AUM for some, hourly for others	13.4%
AUM for some, subscription for others	6.4%

29% Advisors are considering a different fee model

Source: 2020 Inside Information Fee Report, Bob Veres

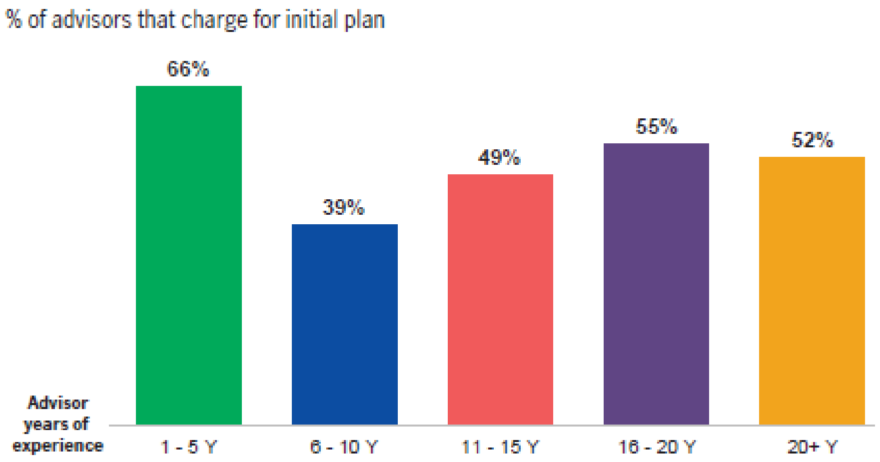
According to the data above, of the 73% of advisors using some sort of AUM-based fee model, only 37% are charging all clients **only** on AUM. Additionally, the study above found that 29% of advisors are considering a different fee model[1].

One of those different fee models includes charging upfront for a financial plan rather than including it in the AUM-based cost.

Interestingly, younger and emerging advisors tend to charge upfront for a financial plan more frequently than their more experienced counterparts. [1]According to PCG's study, this could be for a number of reasons:

- Account minimums prohibit them from using the traditional AUM model with younger, less wealthy clients
- The industry is starting to shift to charging for financial plans as clients give more value to financial planning as a service

Percent of advisors who charge for an initial plan based on years of experience



Source: 2020 Inside Information Fee Report, Bob Veres

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With the infamous Great Wealth Transfer imminent and the anticipated high percentage of inheritors ready to leave their parents' advisors, charging the next generation of existing clients for financial planning can be an excellent strategy for engaging them in an authentic way, even if they don't have the assets yet.

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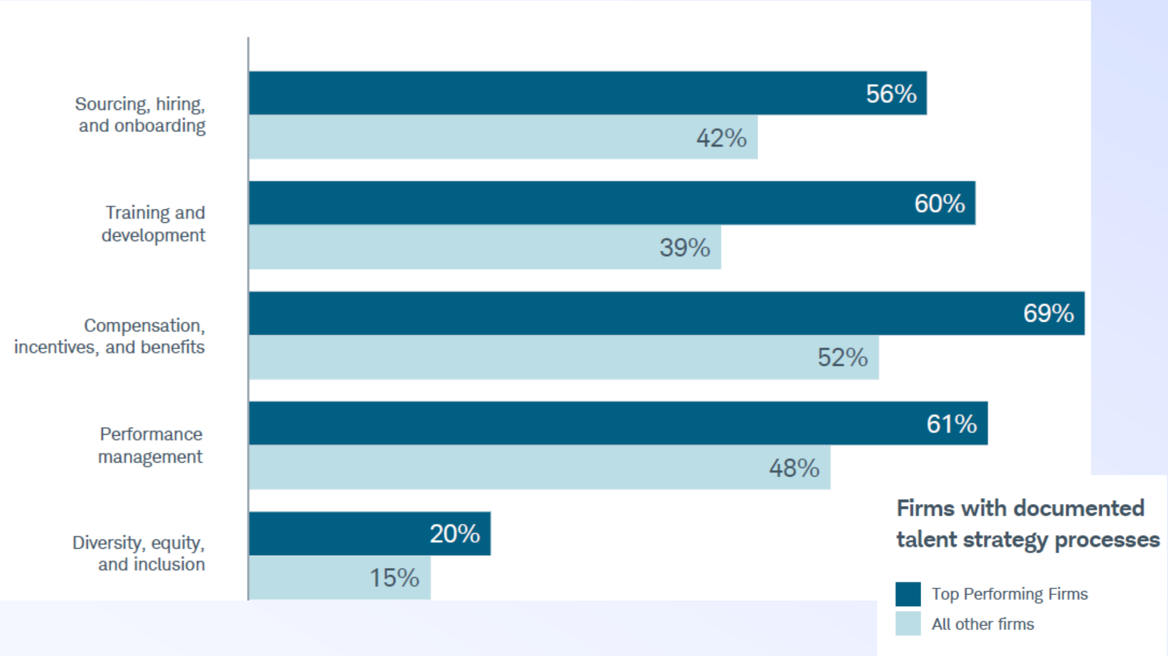
[1]Purpose Consulting Group and John Hancock Investment Management. "Guide to financial planning fees and fee models" 2022

Talent Acquisition and Retention

"Recruiting staff" was ranked as the top strategic initiative priority for RIAs for the first time in the history of Schwab's RIA Benchmarking Study.

Do you have your talent strategy clearly documented? Different processes include:

- **Sourcing, hiring and onboarding**
  - Recruiting process
  - Clearly defined culture
  - Employee value proposition
  - Hiring criteria and candidate scorecard
  - Onboarding process
- **Training and development**
  - Clearly defined career paths with roles and responsibilities
- **Compensation, incentives and benefits**
- **Performance management**
  - Objective Key Results (OKRs)
  - Performance review process
  - Evaluation criteria and parameters for promotions
- **Diversity, equity and inclusion**
  - Mission statement
  - Fair and D&I parity included in job descriptions and hiring decision-making



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If you are planning on hiring in Q4 and beyond, make sure you audit which documented processes exist at your firm that tie into your talent strategy and outline which processes are missing. Work with your Dynasty Relationship Manager to map out how to create the missing pieces in order to ascertain your talent strategy is understood across the firm and can be utilized to attract top talent.

Managing through Inflation: Fortify Your P&L

"Companies will need to make moves that not only cut costs but **also build more scalable growth platforms**, positioning them to strategically reinvest in programs that deliver greater resilience and stronger purchasing and pricing capabilities." - *Harvard Business Review*

Revenue questions a CEO should be able to answer:

Fee rates:
- Do your average fee rates vary between advisor teams?
- What is your standard fee rate for new clients? Is it in line with industry averages? (Dynasty can help provide industry data.)
- Do you consistently adhere to these rates when new clients come aboard?

Net new assets:
- What is your Net New Assets for this year?

Sources of revenue:
- Can and should you diversify your revenue stream? Add revenue from new products or services?

While cost cutting is the most direct solution, don't forgo margin for short term savings. Devise a business planning scorecard that leaves room for future profitability. Dynasty suggests Network Partners participate in our business planning process in Q4 to establish their focus for 2023. The process will address:

- Using current market values vs. historical values
- The cash operating cycle (time it takes between investing cash in inventory to recovering cash from clients)
- Risks and uncertainties (market volatility, supply chain challenges, client financials)
- Growth, combining total addressable market and achievable market share.

Get spending visibility on the biggest cost drivers of your P&L:

Payroll & benefits
- Has non advisor payroll expense as a percentage of revenue remained stable relative to AUM growth?
- How does your compensation level for each position compare to the replacement value?

Rent, utilities & real estate taxes
- The Commercial Office Space market has transformed in recent years. Have you surveyed your local market? Could you find better office space for less?

Travel & entertainment expenses (T & E)
- In a post pandemic world, can you replace in-person engagements with digital alternatives? Are you segmenting your travel by client tier?
- Consider a regional staffing footprint vs. central headquarters.

Marketing
- Are you able to track your marketing efforts - can you easily link clients to lead generation sources?
- Are you seeing a return on your investment?

40 – 45% — **Expenses should not exceed 40 – 45% of total gross revenue.**

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Sources: Dynasty/AGS Benchmarking Study, 2018
Harvard Business Review, "Strategies to help your company weather inflation," 2021
Harvard Business Review, "How Companies Can Prepare for a Long Run of High Inflation," 2022

Managing through Inflation: Wages and Demographics

55% of US salaries have not kept apace with inflation*

**Relative to CPI*

Be sensitive to how inflation impacts demographics differently, particularly gender.

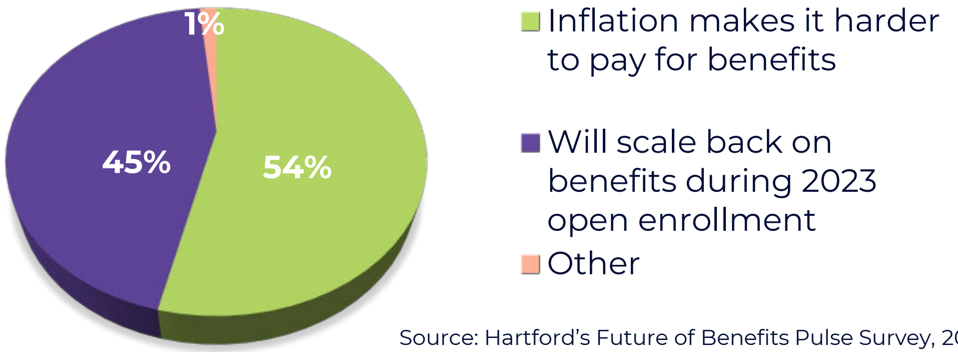
Inflation is equal parts economic and psychological. Women are likely to perceive inflation as more severe than men and feel more anxiety about future inflation based on gendered shopping habits (like grocery shopping), resulting exposure to price signals, and inflation expectations. In addition, women's wages are less likely than men's to keep pace with inflation, according to a recent study by Sophisticated Investor.

You may be chronically underpaying your staff in times of inflation. Mitigate the impact by examining your comp & benefits packages.

Inflation erodes disposable income, even as wages rise to keep up. Staples like rent, gas, and groceries are harder to come by, and workers are less inclined to wait for annual bonuses. Even wealthy households ($100k - $25m) are shopping for discounts, buying cheaper brands, or delaying major purchases. Combined with a tight labor market and workforce disruptions from the pandemic, inflation is driving employees to shop for higher wages at alarming rates.

Inflation and Benefits Affordability, According to Employees

Due to inflation, benefits are less affordable for employees surveyed across 900 firms.



Source: Hartford's Future of Benefits Pulse Survey, 2022

Inflation & the Labor Market

Payoff for job switching has never been higher, according to the WSJ. July saw the biggest increase in annual raises (8.5%) in 20 years, vs. a 5.9% increase for those who stayed put.

Over the same period, job growth slowed by 50% from July to August 2022, and the financial services sector reported a reduction of 20,000 jobs.

Overall, nominal wage growth since 2007 has not kept up with inflation (only 5.1% real wage growth)

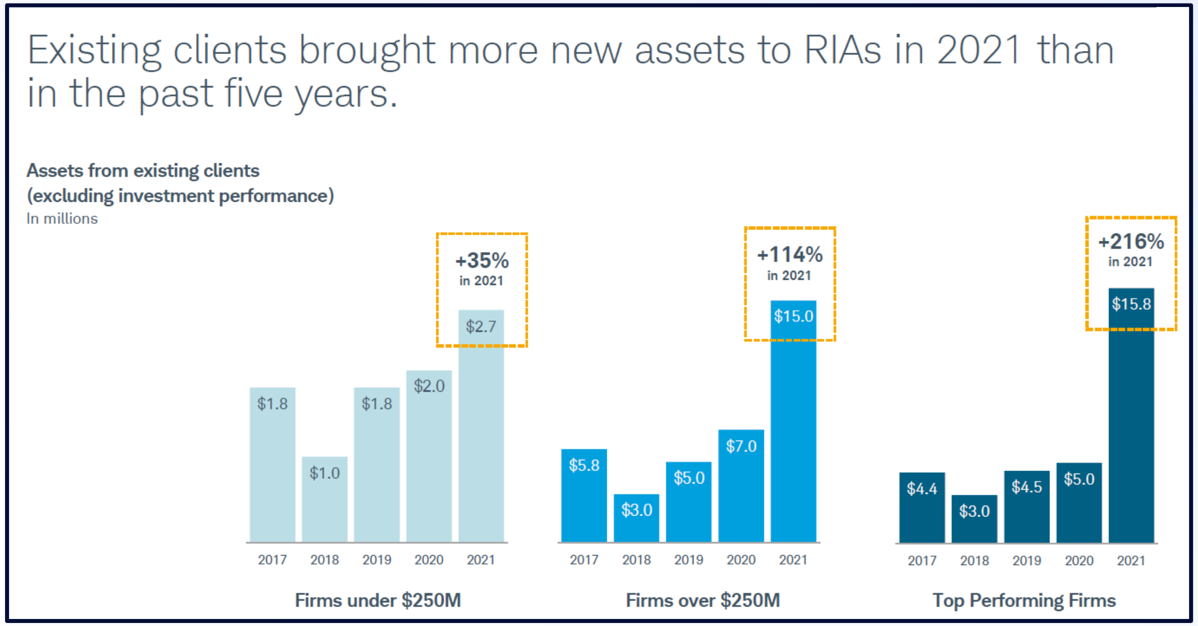
Workers aged between 45-51 are more likely to report having their salaries outmatched by inflation / most negatively impacted.

If you're hiring…
Consider sourcing talent outside of financial services and focus on transferrable skillsets rather than industry expertise.

Sophisticated Investor, July 2022 "Americans Falling Behind Due to Inflation""
Spectrem Group: High Net Worth Insights, 2022
CNBC, 2021. "Higher pay eclipses inflation bite for some."
Forbes, 2022. "Inflation Expectations."
Forbes, 2022. "Three steps to solving employee retention problems."
National Bureau of Economic Research, 2020. Working Paper, "Gender roles and the gender expectations gap."
Society of Human Resource Management, 2022. "Tools for Managing Employee Retention."
Society of Human Resource Management, 2022. "Inflation narrows employees' choice at open enrollment."

How to Boost Client Referrals

According to Schwab's latest benchmarking study, existing clients have brought in more new assets to RIAs in 2021 than they have in the last five years. What is your firm doing to boost that growth?



Earlier this year at MIT Sloan's School of Business, Professor Renée Gosline taught the 2022 Cohort of the Advisor to CEO Program the Five Value Exchanges and tied it specifically to the wealth management industry:

- **Economic Capital** – helps clients make or save money
- **Social Capital** – helps clients feel connected and part of a community
- **Cultural Capital** – self-expression empowerment, lifestyle
- **Information Capital** – offer transparency and access to information in order to enable better decision making
- **Temporal Capital** – provide efficient and timely action

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Consider viewing your firm under the lens of the five different types of value exchanges. The more types of capital that you offer clients in your brand, the higher the probability that clients will want to refer clients to your firm. Dynasty suggests speaking with your Relationship Manager about each of the five value exchanges in depth and seeing where you can perhaps enhance your value add in each of the five types of capital.

Source: 2022 Schwab RIA Benchmarking Study
Source: Adapted from Gosline, Bonnet, and Puram (2017)

How to Identify and Avoid Quiet Quitting in Your Firm

WHAT IS "QUIET QUITTING"?

- When employees decide to stop going above and beyond and simply do what is in their job description[1]
- At its core, quiet quitting is a result of widespread burnout in the workplace

How to Address and Prevent Quiet Quitting in the Workplace[2]

Check in With Employees

- Managers should frequently check in with employees, both formally and informally, to see how they are feeling and gauge stress levels and capacity.
- Use active listening and help set boundaries
- Creating a trusting and open rapport is crucial if you want to get honest feedback.
- Having this constant touch-base makes it easier to detect any shifts in mood or behavior early and you have the opportunity to talk it out with your employee.

Address Excess Workload

- Being a team player and putting in extra work is great but expecting this level of performance all the time can quickly turn engaged and passionate employees into frustrated, burnt-out employees.
- Make sure that your team's workload is manageable. Be proactive in hiring so that the team is rarely performing over capacity.
- In order to gauge capacity, you need to create a trusting and open environment where employees feel comfortable sharing.

Ensure Fair Compensation

- Some people define quiet quitting as "acting your wage", which comes from the thought process that workers are doing more than what their job description and salary say they should be doing
- This is only a problem if the work that is being done is not being fairly compensated. Make sure you are regularly checking compensation benchmarks to ensure your team is fairly compensated for their work.
- If you notice certain employees are taking on more and more responsibilities and tasks outside of their defined role, reward them for it (promotion tracks, pay raises, bonuses, etc.)

Recognize and Reward Employees

- Sometimes quiet quitting can be a result of feeling under-appreciated for going above and beyond. That can lead to the "why even bother?" thought process
- Make sure to celebrate wins, big or small, across the team. Examples of recognition can be company awards, one-time bonuses, gift cards, even vacations.

Encourage PTO and Work/Life Balance

- Encourage your employees to take their PTO. Managers should also follow suit to set an example
- Where possible, try to limit communications outside of working hours to encourage employees to unplug

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[1]Pearce, Katie. "What Is 'Quiet Quitting'?" *The Hub*, Johns Hopkins University, 12 Sept. 2022, https://hub.jhu.edu/2022/09/12/what-is-quiet-quitting/.
[2]Robinson, Angela. "Quiet Quitting: How to Prevent & Combat It at Work." *Teambuilding.com*, 27 Sept. 2022, https://teambuilding.com/blog/quiet-quitting.

What to Expect from Different Generations on your Team

In order to effectively manage your employees, it's important to understand the differences between generations on your team

	BABY BOOMERS	GEN X	MILLENNIALS (GEN Y)	ZOOMERS (GEN Z)
Birth Year	Born between 1946-1964	Born between 1965-1980	Born between 1981-1996	Born between 1997-2012
Typical Work Experience	By the end of their working years, pensions disappeared, and 401(k) plans took over. Weakened union protection and minimum wage stagnated. Firings and layoffs close to the age of retirement occurred in order to avoid paying pensions.	Entered workforce after the Great Inflation of the 1970s and worked through the dot.com burst in 2000 and the Great Recession following the financial crisis in 2008. Continued to see some of the same things that Baby Boomers faced in their lifetime.	Many started working during a recession, which has greatly affected how they view their long-term careers. They grew up as the internet revolutionized society, and they're more comfortable communicating digitally than previous generations.	The newest entrants to the workforce. Student debt is a significant concern of Gen Z, so compensation needs shape their workplace choices. Job security is also a big priority having watched their parents during the 2008 financial crisis.
Perspective of Work	Strong work ethic and goal-centric tendencies, hardworking and value interactions in person. Prefer staying at one company but used to changing throughout their career due to necessity. Loyal to the team.	Loyal to their manager; work is not the only focus of their life and is merely one facet of who they are. Known for being self-reliant, hardworking, and fiscally responsible. Job hopping is normal.	Loyal to their colleagues. View careers as an opportunity to add value and contribute. Desire for deeper purpose – connect firm's mission and how it helps create a better world for others. Currently the largest generation in the workforce	Loyal to the experience and invested in their careers, which they see as a way to grow. Prioritize salary over benefits. Intend to stay at a company for 2-4 years before moving on.
Typical Level of Burnout	Burnout became more prevalent in this generation after job hopping became more common.	Due to stressful financial and economic factors, employers were able to expect more from employees or fire them – leading to widespread employee burnout.	Sometimes referred to as "The Burnout Generation", this generation is known for high levels of burnout.	Recent studies show that younger generations are reporting burnout at higher rates than older generations, possibly due to the effects of COVID-19
Management Preferences	Recognize them publicly for their achievements. Managers should look to leverage these employees' skills and encourage them to mentor younger employees.	Prefer more autonomy and less supervision. Most have settled into family life and desire a more flexible schedule that allows work/life balance.	Focus on building a skill-structured training program that focuses on their desire for leadership training, skills development and career progression. Prefer being judged for their results, not for the hours they spend in the office (quality over quantity). Prefer transparent and honest feedback.	Expect flexibility in the way they get things done and like to input opinions on how to improve processes.
Preferred Interactions	Value face-to-face interactions	Comfortable with face-to-face interaction and virtual meetings.	Remote job a plus; prefer instant messages, emails and texts to talking in person for efficiency's sake	Prefer flexible work hours
Technology	Didn't grow up with computers but will use tech for job-related functions	Shaped by the evolution of personal computers and comfortable using tech	Adopt new social media platforms quicker than most other generations; expect a tech-driven experience	Raised as digital natives, very familiar with technology and cutting-edge technology is expected.
Preferred Benefits	Flexible work policies as they near retirement, healthcare and retirement benefits, including a 401k match.	Healthcare, flexible work, on-site daycare, and other perks that support work/life balance as well as $ benefits	Career development programs, monetary gifts, opportunities to give back, onsite daycare, mortgage services	Flexibility, student debt assistance, competitive salaries, financial incentives, tuition reimbursement, formal training opps

Sources: Gibson, Hise, and MaShon Wilson. "Your Best Employees Are Burning out: A Framework for Retaining Talent." *Harvard Business School Working Knowledge*, 18 Aug. 2022. add source onto slide . This generation does this, yo ushould expect this, this his how you deal with them.
"How to Manage the 5 Generations in the Workplace." *Paychex*, 26 July 2019, https://www.paychex.com/articles/human-resources/how-to-manage-multiple-generations-in-the-workplace.

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