

The Herd vs. the Country Club: Which Mentality Is Right

for You? The need to follow the crowd and the desire for exclusivity are powerful motivators you can use to your advantage



Social proofing happens in the financial world too, and can even cause advisors, particularly when under adverse situations, to make incorrect decisions for the sake of the herd.

An advisor we've consulted with on and off for over seven years has been unhappy with his broker dealer situation, feeling that the service is subpar and that his expenses on advisory are too high.

Since September 2017, we've experienced a substantial outflow of advisors from the Jackson National broker-dealers that were sold to LPL Financial via the National Planning Holdings acquisition. Industry publications announced regular movement to broker dealers, touting the group's assets and discussing why they moved to whatever firm they had ultimately chosen.

The herd mentality has been in full swing, as BDs and the press drew attention to which firms were the most successful in attracting advisors. In a perceptive move, even LPL joined in by publicizing the names of [large groups that decided to go along](#) with the sale and proceed with their move to LPL, to swing the herd mentality in its favor.

Success begets success is the motivation behind perpetuating the herd mentality, and it's a more powerful force than many realize.

The Power of Being Part of the Pack

You can see the herd mentality at work in everyday life. For example, just go to YouTube to view the latest music releases on VEVO. One of the first things you'll see is "What's Hot!" and number of views.

When you see many views or likes, your initial reaction might be "it must be a good song." On the other hand, a song with only a few hits elicits the opposite reaction.

I recently replaced my Ford F-150 truck with a new F-150 truck. Did the tagline "Americas #1 Selling Truck" influence me? It certainly felt comfortable to be part of the pack of other Ford buyers, and it's that "being part of the pack" that is the draw.

When our daughters went through their horse phase, we learned early on that one of the cruelest things you can do to a horse is to isolate it, depriving it of the company of other horses. Once we had one horse, we had to have two. Not only that, we had to find a place to board the horses where they could be around other compatible horses.

Humans aren't much different in their need for belonging. One of the worst punishments in prison is being sent to solitary confinement. We need to be with others, and when you become part of a growing herd of advisors, it brings a sense of belonging.

Social Interaction & Financial Advisors

Editor and brand journalist Julian Rollins, in his article "[Harness the Positive Power of 'Herd Mentality'](#)," wrote, "Despite the negative implication of the phrase 'herd mentality,' our instinctive preference for social interaction is at the heart of lots of day-to-day decisions. We make our minds up based on what psychologists call 'social proofing,' that is, a desire to fall into line with people that we think are like us."

He also has a desire to go hybrid. He calls about once a year when some mishap with the broker dealer motivates him to explore broker dealer options that will resolve his ongoing issues.

During our conversations, he nearly always asks if there are numerous other advisors leaving his BD. When the response is "not really any great outflow at the time," he loses interest in pursuing a change and stays in the herd that he has been a part of for over 20 years.

Barring a stampede of advisor outflow, I doubt this advisor will ever leave the herd of his broker dealer.

For advisors, the herd mentality can have a powerful draw in attracting like-minded potential clients. Still, in our interviews during consultations, we've seen implementation of the herd mentality to be rather hit or miss.

Sharing news releases announcing new clients coming on board and why they joined with other potential clients can have a success multiplier effect. Simple word of mouth in cocktail conversations or invite-a-friend client events are other ways to peak interest by subtly pointing to recent new clients and why they joined.

The Other Side of the Coin

While the herd mentality is all about inclusion, the "country club" mentality is all about being exclusive. Several broker dealers we work with pride themselves in being "not for everyone."

You can recognize these broker dealers by the following traits:

- A focus on high producers, with a minimum production requirement to join in the \$200,000 range or higher
- A high-touch service level, enabling high-quality relationships between advisors and staff, with very low turnover for both
- On the cutting edge of technology changes
- A desire to limit growth, realizing that growth and overall size can hinder the culture that originally attracted advisors
- Preference for advisors who take a financial planning approach to managing client's assets (no active stock traders) and frequently have primary designations such as CFP, CLU, ChFC, CPA
- A recruiting department that is more stringent on compliance history and product mix
- Advisors they attract tend to have clients that are accredited and qualified investors
- Advisors they consider not only need to fit into their pegs, but they need to like them

For more about country club broker-dealers, see my article, "[Is Your Broker Dealer a Screaming Eagle or a Box Wine?](#)"

BMW or Toyota?

Jonah Berger, bestselling author and marketing professor at the Wharton School at the University of Pennsylvania, elaborates on exclusivity in his book, *"Invisible Influence, The Hidden Forces that Shape Behavior."*

In it, he describes what he calls the "snob effect"—when an individual's demand for goods or services is negatively correlated with market demand. The more other people own or use something, the less interested the people influenced by "snob effect" are in buying or using it.

Jonah continues by noting that people from prestigious graduate schools are much more likely to seek out exclusivity, while working-class people prefer more similarity. An example he cites is the exclusivity seekers driving a BMW 328i or a Volvo S60, while the working class is content with a Toyota Camry or an Acura TL.

For advisors choosing a country club type of broker dealer, it's a statement that their broker dealer is an extension of their BMW 328i and other things in their life that are high-end and exclusive.

Broker-Dealer Culture Clash

On occasion, we see a clash of the herd mentality vs. country club at the recruiting level.

In our consultation with one small group, for instance, the advisors had narrowed down their list to two broker dealers. One was a larger firm that was very good at perpetuating the herd mentality. The second firm being considered was a smaller but strong country club model firm.

This group was annoyed with the larger firm, which had dropped the ball on follow up numerous times; plus, the home office visit was an underwhelming experience.

The country club broker-dealer was prompt with responses and did everything correctly and in a timely manner.

The head of the group called about an inner struggle he was having. He explained, "Jon, I really prefer the smaller broker dealer, but the larger firm has been recruiting numerous advisors while the smaller firm doesn't add that many."

It was obvious the herd mentality was tugging at him. The herd draw was leading him to think that perhaps the larger firm was better because more advisors were joining them.

We talked it over, and I shared with him that the smaller firm wasn't as focused on growing externally, but rather organically and frankly, wanted to cap its growth at 500 advisors.

Besides its focus on quality over quantity, this firm turns down many advisors that knock on its door and brings on only those that it feels are a fit. I also told the advisor he should feel fortunate that the firm wants him.

The advisor and his group ended up joining the smaller broker-dealer and are thrilled that they did so. They have great relationships with the back office and management and have no regrets.

Herd mentality doesn't always translate to the better broker-dealer option.

High Net Worth, High Touch

On an advisor level, the country club mentality is an under-utilized method to attract new clients.

For those advisors focused on high-net-worth clients, it can be a very effective method.

One of my favorite advisor models was an advisor who had 32 clients. Her business model was, "I am fervently independent, currently having 32 clients, but I don't want to have more than 50. All my clients are very wealthy, and they refer people like themselves to me. We have each other's cell numbers, and we are frequently in conversation.

"You'll see me attending many of their family events, and I'm plugged into their lives on many levels. Frequently, I help them on other matters besides their investments, such as real estate purchases, even buying a car. My work week is usually four days a week, and I enjoy frequent travel, but I'm still in contact with my clients when I travel," she explained.

More modest middle-class clients can also have their benefits, and this group generally has no aversion to the herd mentality.

One model that stands out is an advisor who told me that I was missing the mark when I was discussing a wealth-focused broker-dealer to him.

He explained, "I don't want wealthy clients. They are high maintenance and they second guess your decisions on a regular basis, not to mention the egos you need to coddle. My clients are middle class and income oriented, so I do a lot of preferred stocks. They trust me and don't question my choices that I make for them.

"We meet once or twice a year to go over their portfolio and to see if there have been any life changes that I need to be aware of. Having 800 clients may sound like a lot of clients, but my work load is a normal five days a week, working 7-10 hours, and we vacation to Montana for a month each summer, where I work remotely," he said.

Follow the Crowd or Break Away?

Both the herd mentality and the country club models can be effective. And, they can both be misused. As you may recall, Bernie Madoff was notorious for utilizing both techniques to bring people into his web of Ponzi deception.

What's important is that you go with the model that works best for you and the way you want to work with your clients.

As an advisor, give yourself the operating room to act like a broker dealer. Make your successes in attracting new clients known, and feel free to express the advantages of working with you.

It can be uncomfortable to talk yourself up, but if done in a non-boastful, matter of fact manner, you'll get people's attention and grow your following of clients to the level you desire.