EPISODE TRANSCRIPT

From Start-Up to $31B Behemoth RIA: The Catalysts Behind the Growth of Mega-Firm Cerity Partners

With Kurt Miscinski, President, Cerity Partners

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is, From Startup to $31 Billion Behemoth RIA: The Catalyst Behind the Growth of Mega Firms Cerity Partners. And it's a conversation with Cerity President Kurt Miscinski. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

And while you're at it, if you know others who are considering change, or simply looking to learn more about the industry landscape, please feel free to share this episode or this series widely.

Mindy Diamond:

There's a quote that says luck has no role in a successful outcome, but for Kurt Miscinski, his meeting with entrepreneur and CEO of emigrant savings, Howard Milstein could possibly be called serendipitous. Because at the time Kurt was considering leaving his management role at Deutsche Bank, and Howard was looking to make long-term strategic investments in the wealth management space. As a high profile executive at Deutsche Bank, Kurt certainly had options, but he instead saw the early promise of the RIA, and multifamily office model. In 2009, HPM Partners was born, a firm starting from zero assets, and with the backing of investor Howard Milstein.

Mindy Diamond:

After growing from zero to $9 billion in a decade, private equity firm, Lightyear Capital purchased a 50% stake in HPM Partners, from Immigrant Bank in January of 2018. A year later, they changed the name of the firm to Cerity Partners. And today, Cerity manages over 31 billion in assets.

Mindy Diamond:

Yet behind it all was Kurt strategic vision to build a sustainable business, and attract the most talented people, and create a firm operated like a private wealth bank, but with full access to the market so that clients could be served without conflict or limitation. Kurt shares his story with Louis Diamond, starting with the early stages of HPM through Cerity today, They discuss how Cerity competes with other large firms and their key advantages. Plus he shares his advice for other RIAs who are considering their firms growth. Let's get to it.

Louis Diamond:

Kurt really excited for you to share your perspectives today. Thanks for joining us.

Kurt Miscinski:

Louis thank you for having me.

Louis Diamond:

Very good. Why don't you tell us about your background real quick?

Kurt Miscinski:

Sure. Well, prior to founding Cerity Partners in 2009, I spent 11 years with Deutsche Bank via Deutsche Bank's acquisition of Scudder Investments. I started my career as a financial advisor working mostly with corporate executives and business owners, but I immediately took interest in understanding all aspects of our business including, systems, and processes, and financial management, and strategy. And that interest led me to business management and leadership roles within our industry.

Louis Diamond:

Very succinct answer, I appreciate that. And that leads us to our second question. Obviously, the focus of our show today is hearing you talk about the founding of Cerity Partners and what got you to where you are today. Before we get to that though, you were as you mentioned, a managing director, and an executive committee member of Deutsche Bank's private wealth management division. And clearly a very successful executive with a lot to accomplish there. What led you to leave DB when you did?

Kurt Miscinski:

A great question. Well, although Deutsche Bank was very good to me, and a place where I learned much in a very short period of time, I actually came to a few realizations. At first, I felt that clients are best served when your solution set could be the entire marketplace, not simply the products of one firm.

Kurt Miscinski:

Second, I wanted to be in the advice business rather than feeling I was in the product distribution business. And lastly, I wanted to work in an entrepreneurial partnership culture, which I had experienced somewhat early in my career, where you're building something with colleagues, and partners, and sharing, and the excitement of building that.

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Louis Diamond:

That makes sense. And those are all reasons that many of our breakaway guests and executives who have founded various firms have mentioned, but I mean, you were kind of early to the whole breakaway party. You started Cerity in 2009, back then it was called HPM Partners. And so as the time when many brokerage executives hadn't entered the breakaway movement like they have today, and certainly from the advisor side, it wasn't nearly as popular for a successful private wealth team to leave the confines of a major firm to start their own RIA. What was your thoughts there on striking out on your own, and taking the entrepreneurial journey kind of early on in this whole evolution?

Kurt Miscinski:

Although a dozen some years may cloud the specificity of what I was thinking, I'd say generally at that time, given my professional experiences and my industry observations, I strongly believed there was a terrific opportunity to build an independent full service wealth management firm, that would grow into a leading global wealth management professional services partnership, that would be capable of delivering a family office experience to all private clients that could be done in a very sustainable, scalable, and profitable manner.

Kurt Miscinski:

But at the same time, becoming a leader in providing workplace wealth management solutions to companies around the world, and those views were shaped by what I witnessed in the major accounting firms exiting more or less the wealth management business, because of the corporate scandal era, and recognizing that when the Ayco Company was acquired by Goldman Sachs, it created a little bit of a void in the marketplace. A couple of things jumped out at me. One, was creating maybe a first of its kind global professional services firm in wealth management, but secondly, becoming a trusted partner to companies around the world.

Louis Diamond:

Excellent, and let's back up or not back up, let's fast forward just for perspective, what does Cerity Partners look like today from an asset and head count standpoint?

Kurt Miscinski:

Sure. Today from an asset perspective, managing nearly $31 billion for our clients, and we have approximately 250 colleagues of the firm.

Louis Diamond:

Perfect. Now let's rewind, when you launched Cerity or HPM Partners, as it was called back then, I believe you were aligned with Howard Milstein of the famous New York real estate family. Can you talk about that relationship, and how he either shaped the building of the business, or enabled you to do some different things?

Kurt Miscinski:

I was very fortunate that serendipitously our paths had crossed, at the time that I was considering leaving Deutsche Bank, Howard was seeking to make long-term strategic investments in the wealth management space. His family has been one of the wealthiest families in the country for the past 100 years, and has wholly owned one of the largest probably held banks in the US.

Kurt Miscinski:

Needless to say, Howard thoroughly understands the needs and the mindsets of wealthy individuals and families. And thankfully through mutual acquaintances, Howard office contacted me for a meeting, and given his family's large enterprise, which includes meaningful investments in real estate. I just presumed he wanted to borrow some money from Deutsche Bank, but upon meeting with them, he took me by surprise, and made an overture to be a business partner in a wealth management venture.

Kurt Miscinski:

I think after that meeting, I floated back to my office on Park Avenue, but shortly thereafter, it inspired me to resign from Deutsche Bank and begin drafting a business plan. And given Howard's seeking capital and general support, I proposed naming the firm HPM Partners where he is clearly HPM, and we would be his partners. And Howard was a terrific angel investor and partner, and he became a business mentor, and an almost a business father to me.

Louis Diamond:

That's amazing. It sounded like he was actually part of the catalyst that gave you the confidence and the conviction to go out on your own. Obviously you mentioned some of the realizations you had about the private wealth capabilities of a global bank with not having access to the whole market, et cetera, but it sounded he kind of helped you along. Do you think without him, you would have had the ability, or the confidence, or the conviction to go and start HPM?

Kurt Miscinski:

I would say definitively, I wouldn't have the confidence to be as bold in my thinking as I was at the time. Someone of Howard's background, education, accomplishments, let alone substantial wealth did fortify my confidence that this could be a venture that would be very successful, and that his association with it would lend instant credibility. Because of someone of his stature was involved with such a business, it would give prospective clients the confidence that we did something that was very good.

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Louis Diamond:

And it's interesting too, because many of our listeners when they're considering breaking away and either founding their own RIA, or joining a firm, they're likely bringing a base of clients, and portable revenue with them from day one. You kind of want the reverse, is kind of the old field of dreams. If you build it, they may come. Two questions there. One, how did you even value the business and bringing Howard in if there really wasn't much in the way of assets? And second, how did it feel building a firm from scratch versus having either a platform that you acquired day one, or having some sort of base to grow off of.

Kurt Miscinski:

Great questions. I would say probably a bit of a throwback model in terms of how we started our business. It's really started with a vision and a strategy for what could be a sustainable perpetual business. And often in our industry, businesses are not founded that way. Businesses are founded in a very scrappy way of, as you noted Louis, individuals saying, "Hey, there's a better way to do this, might I put up a shingle, and have a sole proprietorship?"

Kurt Miscinski:

And maybe that grows into something bigger, where our day one, we concurrently opened offices in three locations, to contrast what often is done. And I would say having the capital means to bring that vision to life was our experience of how we were capable of attracting really talented people that wanted to make sure that if they were going to make a change in their career and leave something that was incredibly stable to them, it would be because they were not running away from something but running to something, and that something would have been well supported in capital, as well as leadership.

Kurt Miscinski:

And I think all those ingredients came together very nicely, it enabled us to grow very quickly as a firm. I want to say within our first 12 months, we went from startup to over a billion and a half of AUM because we had a number of talented people believing in the long-term vision of what we were going to build together.

Louis Diamond:

How did you assemble this eventual group of partners, was it the strategy to acquire businesses? Was it more to recruit, or maybe it was more to groom folks? What was the strategy day one?

Kurt Miscinski:

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The strategy day one was to be able to deliver our value proposition of having a full service wealth management firm. And so if you're going to be in the business of delivering a state financial tax planning, tax preparation, investment advisory services, you needed a breadth and depth of expertise to do that. Colleagues who come from backgrounds as former trust and estate planning, attorneys, financial planners, tax advisors, investment professionals.

Kurt Miscinski:

The strategy day one was recruiting talented people that would want to be part of this effort. Day one, the strategy wasn't how do we roll things up with M & A, but how do we simply put a team on the field that is very capable of providing these services? And for many of us, including myself, there were clients we had worked with that wanted to be part of that, and immediately decided to become clients of our firm.

Kurt Miscinski:

But we also had a very good timing, at our back here, we launched our firm in the middle of 2009 at the absolute bottom of the last major financial recession, needless to say, we didn't anticipate a 12 year bull market after we would launch, but the timing was very good. Being an independent business, being supported by someone of Howard's stature, having the resources to deliver all of the service we were claiming we were capable of delivering.

Kurt Miscinski:

All really served us well, and it allowed us to build meaningful momentum in our first one, two, three years of operation, where we were able to go from a startup to a business that was squarely stable and cashflow strong.

Louis Diamond:

It's really interesting because many advisors grapple with taking an investor at the jump, if they're going to start the business, of course, taking on an investor, de-risks a potential transition, and having some capital grow the business, but many will come back to the fact that if I'm going to start this and do it on my own, I want to own 100% of the business, and I want to completely control my own destiny.

Louis Diamond:

It sounds like you took the opposite approach, and you leveraged the strategic thinking, and the expertise, and the credibility of a major investor, and use that money to hire presumably pretty expensive folks who can provide these types of services.

Kurt Miscinski:

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Yeah, absolutely. I think the mindset was a little different, because I had professional experiences being at partnerships. My DNA is around partnerships, the thought of building something with other partners was just more attractive to me. And therefore the goal was just simply build a bigger pie, having a smaller percent of something much larger. It would be equally if not more rewarding than simply owning 100% of something that may be much smaller.

Kurt Miscinski:

And so that was the mindset from day one, I didn't have an ego around, "Hey, this is Kurt's business, or this is I'm going to own 100% and convince others to come work here." It was how do we create a partnership that could be perpetual? How do you create a business that is bigger than any one person at the firm? How do you create a business that one day could be a global leader?

Kurt Miscinski:

And that was always the vision of our firm to grow into a global professional services firm, and to be a leader in what we do. And so that mindset goes well beyond trying to hold on to all the ownership, because if that were the case, if you're not independently wealthy yourself, you would probably be very challenged in our market place to grow a business, and it allow it to thrive.

Louis Diamond:

That's a great segue. I know in speaking with you frequently, you often use the term colleague instead of employee to refer to individuals within your firm. And I know it's also a culture as you just mentioned of partnership, and that there's a pretty unique compensation structure that you have in place. If you're comfortable, can you share a little bit about your thinking around how advisors and employees become partners, and high level how you think about compensation for those individuals?

Kurt Miscinski:

Yeah, sure, absolutely. I would first start by saying words matter, and they're important to us, and I appreciate you referencing that. For example, we're a firm, we're not a platform, we don't reference ourselves as a company organization, a firm. As you said, we don't feel we have employees, we have colleagues and partners. We have clients rather than having cases, or other deals, or terminology.

Kurt Miscinski:

And so these words are very important culturally to us of how we build. But since we think of ourselves as this thriving partnership, partners don't need to fairly share in the success of the firm, both the cash flows of the firm, as well as the equity of the firm. We target a percentage of our firm's revenue to create cashflow pools that get allocated to the partners of the firm.

Kurt Miscinski:

And that enables them to think and act like true business owners, and partners of the firm, and empowers them to use their allocation of the firm's cash flow, to share with other colleagues, with whom they wish to work, to develop and serve clients. But also to make sure they have the other colleagues they need around them to do the things that are required to be successful in our business.

Kurt Miscinski:

And by empowering them to do that, we feel it's just a much more rewarding profession, because if your partners, partners have the ability to think and act like a business owner. And then we carry that same concept to how we share the firm's equity. Everything we do in our firm is based on meritocracy. People have absolute control of not only their professional fulfillment within our firm, but they have control over the economic fulfillment.

Kurt Miscinski:

And so for those partners who are driving the growth and the profitability of the firm, they will continue to receive growing cashflow, and growing allocations of the firm's equity, because they are most meaningfully contributing to the growth of the value for all shareholders. That has served us very well since inception. And not to say that through time, you can't refine or tweak things on the edges, but that core concept, and core principles of how we build our firm together is the glue of our partnership.

Louis Diamond:

I think, again, it comes back to what you said about wanting to have a smaller piece of a much more valuable pie rather than clean to every decile of equity possible. And it's really interesting to hear your viewpoint on it, because many RIAs, always have a high payout, but a founder or group of founders owns all the equity, others, like we've had Rush Benton from CAPTRUST on here, everyone in the firm, including the receptionist is an equity owner. And it's not that there's one right or wrong way, it goes more to one an advisor, or a firm is looking to sell is seeking in your case a partner. And it defines your culture clearly.

Kurt Miscinski:

We very much share those principles and very much resonates to me with what you said Rush had shared with his firm.

Louis Diamond:

Perfect. Earlier you mentioned the multiple lines of business that Cerity has. I would call it family office services at its core, things like tax preparation, obviously financial planning, and asset management, estate planning, et cetera. But you also have a relatively meaningful institutional business, more institutional consulting. How do all these pieces fit together?

Kurt Miscinski:

Sure. I would start by saying everything we do as a firm is wealth management. Our mission from day one in inception has been to positively impact the financial wellbeing of our clients, and provide a family office experience to them. Accordingly we need a breadth of capabilities to deliver that value proposition, and among those things is a state financial and tax planning and tax preparation.

Kurt Miscinski:

We do a fair amount of personal financial administration for our clients and of course, investment management. But by having those capabilities, we're able to bring those areas of expertise together, and to deliver a very powerful workplace wealth management solution for leaders of companies who have a fair amount of complexity, and how they're creating their own a wealth with compensation, and instead of equity programs, and broader benefit plans that companies are putting in place for them, we've become experts.

Kurt Miscinski:

Many of us here at the firm have started our careers at big public accounting firms, or for example, the Ayco Company where we were trained in a great deal of precision of how to understand those issues and render quality advice. These executives and leaders could take most advantage of what a company is putting in place for them in creating their wealth, and to integrate that with their personal financial and tax planning.

Kurt Miscinski:

That's become a powerful component to what we do as a firm. And that naturally led us to being a trusted partner with companies, and as we became experts on companies overall comp and benefit plans, we became experts on things, as basic as their retirement plans. Both qualified for a profitable or a for-profit company, rather that would be a 401(k) plan or for a nonprofit, it could take different forms, but then we became advisors to those plans since we were helping their leaders figure out how do they take advantage of them.

Kurt Miscinski:

And this then started to grow hand-in-hand, but we deem everything we do is wealth management. Whether we are managing a company's qualified, or non-qualified retirement plan, or personalizing the advice and service to individuals within the company, we all deem it to be part of the broader wealth management solution.

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Louis Diamond:

It sounds like too from day one, you've known who your core client is, and everything you've built around it is in support of either providing more comprehensive services to this corporate executive clientele, or to expand your roster of executives plans.

Kurt Miscinski:

Agreed. That's exactly correct.

Louis Diamond:

Very cool, and you made reference a couple of times to the Ayco Corporation, which is now part of Goldman Sachs, and we've also seen companies like Morgan Stanley running extremely hard into what they would call the workplace wealth management space, but their acquisition of Solium, and E-Trade. What do you think is Cerity's edge against obviously these global behemoths who have brand names that are going to resonate likely more than Cerity, but how do you compete for clients against the likes of Morgan or Goldman Sachs Ayco?

Kurt Miscinski:

Sure, another good question. Well, Ayco and Morgan Stanley have meaningful presences in the workplace wealth management space as you identified. And while I cannot fairly speak to all their practices, I believe the differences have remained the same, and as follows that first, we serve as a fiduciary to our clients. We're always placing their interests first, we do that by our regulatory registration, and we do that by our client agreement.

Kurt Miscinski:

And I think that is kind of the first key point of differentiation, I mean, we are not seeking to put ourselves in a position of conflict. Second, we do not sell products of any nature to our clients, and we have the freedom to use the best solutions offered in the entire marketplace without marking up the cost of those solutions.

Kurt Miscinski:

Our job is to not only advise our clients as to what they should do, but help them get the solution they need to affect our advice, and having the freedom to use every capability in the marketplace is incredibly powerful, not simply the products of one organization. And last we do not have corporate investment banking activities that may pose information, confidentiality risks, or restrictions.

Kurt Miscinski:

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If you are working with either Ayco or Morgan Stanley, and you're working with the executives, the company may be using an investment banking advisor that's different than those companies. And that potentially creates confidentiality issues by crossing over that barrier. We do not have those characteristics and I believe based on some of those key differences, and it's what our corporate clients tell us.

Kurt Miscinski:

These differences are not just what we believe, but it's what companies have informed us as to why they selected us. Now that's how we seek to compete against those companies, even though they are big companies with big brands, and much capability.

Louis Diamond:

That's a really good explanation. And how about on the capability side, what are, let's say two examples, of a solution or a service, or even access to a product that Cerity has already has access to differently than either when you're at Deutsche Bank on the private wealth side, or that you can imagine an Ayco or Morgan Stanley are able to do for their clients?

Kurt Miscinski:

I'll give you a couple of examples, I can say these examples perfectly hold true for Ayco Morgan Stanley, and [inaudible 00:26:19] particular institution, but given my experiences working at one of the largest global investment banks, I think you'd likely see this more often than not. If you are employed by a global investment bank and a client has a credit need, and by the definition of you being a global bank, you have a balance sheet.

Kurt Miscinski:

When you are the lender to a client, as a lender, you often are seeking the highest interest rate possible, the most amount of covenants, the most amount of collateral, and the best terms possible. When you're an independent advisor to a client, you think in the opposite format, if you view yourself as an extension of your client's family, you would seek to try to get your client a loan with the best interest rate, with the least amount of confidence, with the least amount of collateral, it's a different approach.

Kurt Miscinski:

If you are lending money to a client, often you don't inform your clients if you then lend money to other clients with a similar credit profile, and you gave him better terms, you call back your other clients and say, "Hey, we just want to give you better terms because we provided better terms recently to other clients." These things don't happen, as an independent advisor, that's exactly your responsibility and duty as a fiduciary, that we know the marketplace, and if we know there's better terms, we immediately seek to get our clients the better terms and better solutions.

Kurt Miscinski:

That's a key difference when you don't have products to offer your clients, but instead finding the best products and services in the marketplace for your clients. On the investment front, in some regard the same can hold true. If you have proprietary products and capabilities, the joke has always been, it's hard to fire yourself. It's hard to say, "Hey, we're not performing well, therefore we're going to fire ourselves, and let you seek investment management elsewhere."

Kurt Miscinski:

But however, a lot of the global investment banks have moved into a more open architecture model, but an issue now is becoming with the global investment banks of their size. Now Morgan Stanley, nearly to 20,000 financial advisors, and Merrill Lynch and UBS. Merrill Lynch, pretty close to Morgan Stanley, UBS, maybe a little bit smaller.

Kurt Miscinski:

I share those as examples because when they seek to find third-party investment manager solutions, in many cases for boutique or niche managers or terrific alternative investment managers, they may not be seeking to raise billions of dollars of assets. They may want to simply raise something smaller, and therefore becomes challenging going to those institutions because those institutions, if they get access to something, want it available for everyone.

Kurt Miscinski:

And if they don't want it available to everyone, then how does that work with their clients? How do they only provide access to unique things to only certain clients, but not all their clients. Being a firm that is more nimble, and being affirmed that it does not need to play to a low common denominator allows independent firms, much greater flexibility and latitude, and often better access to solutions for clients, because not being encumbered by having to figure out how does this solution benefit 100,000 plus clients. When you put all that together, independent wealth management firms can compete very effectively against big global investment banks for these reasons.

Louis Diamond:

That's one of the clearer and better explanations of shopping the street, or true open architecture that I've heard. I very much appreciate that.

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Kurt Miscinski:

Oh, thank you.

Louis Diamond:

Let's pivot to Cerity's inorganic growth. Mergers and acquisitions has been a major avenue for Cerity, having announced, I don't even know the number, but some very impressive transactions, such as a $3 billion merger with EMM Wealth in New York, and a $1.1 billion merger with Banco in Boston. Can you talk about your motivation for M & A, and how it might be similar or different from some of the other acquirers that are in the marketplace right now?

Kurt Miscinski:

Sure. Well, we've used mergers as an effective means of deepening our expertise, expanding our geographic presence, and enhancing our capacity for organic growth. As I said earlier in this discussion, words are very important to us. We never view we acquire anyone, colleagues or clients we merge. And by coming together, we create a better partnership. Always felt that we've been better as a firm with our new colleagues than without them.

Kurt Miscinski:

And so that's very important for cultural integration, and making sure we're going to build one strong unified firm. And we are not a loose confederacy of colleagues. We don't deem we're a roll up business, like consolidator an aggregator, these are terms that I often try to say we are not those things. And although I cannot fairly comment on the strategies of other active acquirers, I suspect some of them are proud aggregators and consolidators, and are simply seeking the scale.

Kurt Miscinski:

We want to be this one strong unified partnership, and if you look at leaders of other professional services areas such as accounting firms, be it a Deloitte, or Pricewaterhouse, or KPMG, or Ernst & Young, or management consulting firms like McKinsey, Bain, Boston Consulting, or the big global law firms, you put like a Cravath, Skadden, Arps, as premier law firms, these are firms no one would ever say, are you a consolidator? Are you an aggregator? Are you rolling up?

Kurt Miscinski:

But if you take a look at the histories of many of those firms, I just mentioned, it's a 100, 150, or 150 year plus histories of a number of mergers. And those mergers have lent well to those professional services firms, expanding their presence, and deepening their expertise, and having capacity for organic growth. And we view mergers as our way of also doing that.

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Louis Diamond:

Another enlightening answer. How about on the topic of external investors, we've talked about the initial partnership with Howard Milstein, and relatively recently with private equity giant, Lightyear Capital, how do you view private equity as a catalyst for your business? And what was the thinking behind moving from one investor to another versus maybe taking the company fully out of an investor's hands or even going public?

Kurt Miscinski:

Sure. I first start by saying just external capital, always viewed external capital has helped us accelerate our vision and strategy. Now in just 10 years, we went from startup to one of the largest independent wealth management firms in the country, having capital resources to do that is ultimately what enables you to do that in that kind of short timeframe.

Kurt Miscinski:

Now, furthermore, I think our external capital partners have lent much value other than capital, they've helped provide credibility at various stages. For example, having a partner like Howard, when you're a startup wealth management firm, trying to serve ultra high net worth clientele, that establishes credibility. He provided insight to the perspectives of very wealthy people.

Kurt Miscinski:

But then when we moved to growth capital, Lightyear Capital has been an exceptional partner and they provide insight to the marketplace. But in both cases with Howard and Lightyear, it also accelerated the professionalism of the business. When you have external shareholders you're not only held to the standards, or the expectations of your partners who are in the business managing clients, but you have a responsibility and accountability to external shareholders, which I believe, promotes greater professionalism, greater transparency, better decision-making, it become better stewards of capital.

Louis Diamond:

Perfect, and how about the word scale? That's a buzz word to many that firms need to gain scale, and it's a race for scale. What does scale mean to you< and how can Cerity help affirm that feels like it's not at scale.

Kurt Miscinski:

Sure. Well, first to me, scale is the ability to optimize your efficiency, or effectiveness, or profitability. With scale you can afford to have colleagues who are specialized in activities versus small firms. Often, people are wearing four, five, six, seven hats, it's not unusual to see an independent RIA that's small, where the founders, the CEO, CIO had a compliance and other roles.

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Kurt Miscinski:

And as I think, many people would honestly acknowledge, when you're wearing many hats, you're likely not performing at your peak at each hat. And things tend to give, so scale provides the specialization, specialization then provides greater advancement for a business. But it also transcends technologies to enhance your productivity, marketing have to drive systematic organic growth. And then most importantly scale provides leveraged on your fixed costs, which increases profitability.

Kurt Miscinski:

Those things to me are what scale means. Now, we are able to help bring that to new colleagues because many times colleagues join us, whether it's through a merger or simply they join us because they left another firm, and wanted to be a partner, or colleague of our firm. That we're able to have them focus on the things that they love, and that they excel at, often being great client advisors.

Kurt Miscinski:

Furthermore, we have the resources to help accelerate organic growth. Now we believe that being a great firm means colleagues don't feel that they're on an island, and that if they can't figure out how to solely source the next client opportunity, they can't grow. And so we have many ways in which we, as a firm invest to create perspective client opportunities for our colleagues throughout the firm.

Kurt Miscinski:

It's things as basic as custodial referral programs to having regional and national partnerships with other firms that don't do what we do, we don't do what they do, but they like what we could do for their clientele, or increasingly investing in our direct and digital marketing efforts, which are sourcing new business opportunities. And what this is enabling us to do is to provide growth opportunities for all of our colleagues.

Kurt Miscinski:

Our motto is leave no one behind, let high tide raise all ships here in the firm. But the goal is to help everyone achieve their optimal professional fulfillment. And that will include being able to serve more clients, and being able to create a better personal wealth creation event for themselves.

Louis Diamond:

Outstanding. And how about on the topic of valuations? From where I said, it seems like valuations are on the rise, and maybe some would say there's a bit of a bubble in the M & A market. What's your viewpoint on this? And how have you seen either valuations, or deal structures change since you've become an active acquirer yourself?

From Start-Up to $31B Behemoth RIA: The Catalysts Behind the Growth of Mega-Firm Cerity Partners

With Kurt Miscinski, President, Cerity Partners

Kurt Miscinski:

I can definitely confirm valuations have increased over the past couple a few years. I would also note that not only evaluations have increased, but the amount of those valuations upfront have also increased versus amounts that potentially will be paid in future years upon coming together. I believe valuations are a function of many things, including absolute value, depending on the specific circumstance of the business, and their growth, and their capacity, but also relative value.

Kurt Miscinski:

And then you also have the dynamic of supply and demand dynamics, but after the last financial recession, wealth management became an instant beacon for stability in the financial services sector, generally speaking, wealth management businesses have fairly stable, and predictable revenue and cash flows. And those attributes have become very appealing to investors of all types via private equity firms, large financial services firms, who are already in the business of providing financial services, obviously, but also wealthy individuals and other investor profiles.

Kurt Miscinski:

I think all of that interest has driven valuations higher, I suspect those valuations will we'll stay here for some bit of time, but until there's other relative value opportunities that can provide that same level of predictable stable revenue and cash flows, I think valuations will remain high.

Louis Diamond:

Do you think it's justified?

Kurt Miscinski:

Well, justify is the eye of the beholder, but it depends on the specific firm. If you're meeting with a firm who has had explosive organic growth, and there doesn't appear to be anything slowing down that organic growth, they could be very fairly evaluated at a higher valuation. And now if you are meeting with a firm that has had a very modest growth, or maybe even net outflows, higher valuations are not justified, there's other dynamics outside of growth rates, but growth rates are generally one of the key drivers of value, because you will be willing to invest more in a business that is going to generate more economic potential than one that doesn't.

Louis Diamond:

Last question for you. What's your vision for Cerity, and where does it go from here?

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Kurt Miscinski:

Well, I want to continue to build our leadership position in the US, but we've always had a vision of expanding globally. I believe our next chapter will be how do we thoughtfully enter into new markets outside the US, and continue to build on our vision of being a global professional services firm and wealth management, and possibly becoming a first of its kind.

Louis Diamond:

Love it. Kurt, thank you so much for sharing some of your tips. I especially enjoyed your candor around your business model, and just how you think a truly independent fiduciary minded wealth manager can stand out versus some of the more global investment bank competitors. Thanks again and look forward to the next time.

Kurt Miscinski:

Great, Louis, thank you for having me.

Mindy Diamond:

Kurt had a strategic vision that to this day drives the continued growth of the firm, but it was his designs for attracting the right talent, and building a culture that individuals felt invested in, and that they were not running away from something, but instead to something. That really is the fuel behind the firm's astounding success. I thank you for listening, and I encourage you to visit our website diamond-consultants.com and click on the tools and resources link for valuable content.

Mindy Diamond:

You'll also find a link to subscribe for regular updates to the series. And if you're not a recipient of our weekly email perspectives for advisors, click on the blog link to browse recent articles, these written pieces are an ideal way to stay informed about what's going on in the wealth management space without expending the energy that full-on exploration requires.

Mindy Diamond:

Feel free to email or call me if you have specific questions, I can be reached by cell at (973) 476-8578, or by email at mdiamond@diamond-consultants.com. Please note that all requests are handled with complete discretion and confidentiality. And again, if you enjoyed this episode, feel free to share it with a colleague who might benefit from its content. And if you're listening on the Apple Podcast App, I'd be grateful if you gave it a star rating and a review. That will let other advisors know that it's a show worth listening to. This is Mindy Diamond on Independence.