EPISODE TRANSCRIPT

An Industry Update on Mega-Moves: How the Ever-Increasing Number of Billion-Dollar Transitions are Rocking the Industry

A conversation with Louis Diamond and Jason Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is An Industry Update on Mega-Moves: How the Ever-Increasing Number of Billion-Dollar Transitions are Rocking the Industry with Louis Diamond and Jason Diamond. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

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It seems like hardly a day goes by when you don't read of yet another billion dollar plus team on the move. And these huge transitions are not only being made by advisors; we've also seen a number of large independent broker dealer transactions, and of course the continued frenzy of mega RIA deals. Yet when it comes to mega advisor transitions, while last year was hot, this year is even hotter. For example, according to our 2022 Transition Report, 30 teams managing a billion dollars or more either changed jerseys or left to build their own independent firm. Over the course of last year. And by our count, as of this recording at the end of Q3, we've already surpassed last year's cumulative total with more than 30 billion dollar teams transitioning from their current firms, representing over $50 billion in assets changing hands.

This is vital information because as a firm that represents advisors from their due diligence process on through transition, we can tell you that moving a business at any level isn't without stress and hassle. And surely, as you've heard from countless advisors on this series, while things may go smoother than many expect, just the decision-making process alone is a strong reminder that the transition needs to be impactful enough for you and your clients to be worth the time, energy, and yes, even risk.

But think about it, all that hassle and risk multiplies with the size of the business; that is, the bar is set that much higher and there's much more to lose. Yet as these moves prove out, advisors of this size and caliber are choosing to move because they feel the gains on the other side far outweigh the hassle and risk at the end of the day.

So as we see more and more mega-teams moving, we start to wonder what was needle moving enough for them to leave the firm they built a phenomenal business at? And what does this movement mean for advisors at any level? What can we all learn from this activity? And what is the impact on recruiting and the industry at large? Louis and Jason are at the mics to dive into this topic, so let's get to it.

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A conversation with Louis Diamond and Jason Diamond.

Louis Diamond:

Jason, thank you for joining us today.

Jason Diamond:

Thanks for having me. I'm thrilled to be here.

Louis Diamond:

Very good. So let's dive right into it. We know that advisors are naturally a very curious bunch, so whenever a friend or well-respected colleague moves firms, they often take notice. But some moves are bigger than others. Not to minimize the risk and the work that folks take when transitioning, but I think we're really talking about the biggest teams in the industry who likely had the most to lose in the transition making moves with increased frequency. So I'm curious, in your view, why should we care about these moves, and why are we talking about this today?

Jason Diamond:

Yeah, it's a good question. This is a fun topic I think, because to your point, whenever anybody makes a transition, the local advisor force takes notice, right? It doesn't matter how big the advisor was down the hall. When he moves, the people in his office are going to take note. But there are some moves, let's call it the billion dollar plus crowd or the corner office mega team crowd, when they move, it shakes the whole industry.

So why should we care? A, I think advisors are a naturally curious bunch. I think everybody wants to know why their colleagues are moving, what they got paid to do so, what drove them to consider X, Y, Z firm and not A, B, C. But also because, what do these deals tell us about the future of the landscape? Some of the deals we'll talk about are more in the traditional space, others are more in the independent space. If you're an advisor today, what can that tell you about the industry going forward? And I think that's really more why we care beyond just gossip and curiosity. It's much more, what are these biggest and most sophisticated teams moving tell me about my business potentially?

Louis Diamond:

Yeah, I think that's exactly right. So today what we're going to do is we're going to share four or maybe five, we'll do a bonus transition, that we think encapsulates this trend. So like we mentioned earlier, there's already been over 30 billion dollar plus teams that have transitioned either business models, employers, or platforms. But we're going to break into a handful just to take it a level deeper and analyze what we think these moves mean for the industry. So we'll bat it back and forth.

I think we would be remiss not to start off with this one's part transaction and will become a transition. But that's the Goldman Sachs personal financial management sale to Creative Planning, and associated

with that has been a couple of very high profile transitions. Couple teams have started RIAs. So Jason, why don't we talk about this; what this deal means, and let's dive into it and share why folks should pay attention.

Jason Diamond:

This is an interesting one, because I think when you and I first started thinking about ideas for this, we were thinking more along the lines of traditional wealth management and recruiting, and this is really more of an M&A type transaction. But I think we have to talk about it because it's been such an important and hot topic in the industry since the deal was announced. We don't know a ton of details around the economics of the transaction beyond that Goldman is alleging that they've made a profit on the original purchase. So they alleged to have bought the United Capital Unit for $750 million. So we'll assume that Creative Planning paid something north of $750 million to acquire this Goldman PFM unit.

What does it mean? It's interesting, because in a lot of ways it's a little bit of a cautionary tale for these employee RIA advisors, so for advisors that affiliate with an RIA as a W-2 employee. Because while the firms themself are independent in these cases, the advisors really are not. And many of these advisors, I think, are living with the consequences of that today as we see this play out. They were purchased first by Goldman Sachs, and then again in a few short years to Creative Planning. That's disruptive; it involves client transition, it involves teams learning new systems. So it's been a little bit of a rough go, I think, across the board for these legacy United Capital advisors, because that's a lot of transitions in a fairly short period of time.

The other thing I think it signifies though is just how frothy we continue to see M&A deal volume be. It's maybe not quite as hot as it was last year and the year prior. I think interest rates have played a part in that. But for the right transactions and for these mega size transactions, which this one certainly qualifies as, we're still seeing a very active M&A market. Anything else you would add about this one? I know this has been a hot topic the last couple of weeks.

Louis Diamond:

I think what's interesting about this one is, it honestly doesn't matter what the reported purchase price is for the unit because so much of the transaction proceeds for Goldman will be linked to advisor retention. We've already seen some fairly high profile and large groups transition out of the unit; one prior to the announcement, and another one was linked right to the timing of the move. It was a large team that launched an RIA with Dynasty. But I think we will see many, many more folks exit.

But in the end, Creative Planning likely does a decent enough job at retaining the advisors because these advisors have very significant employment agreements. It's a lot of risk. And we know anytime as a transaction, retention's better than expected. So I think TBD on the transaction price because the whole ball game is going to be retention of the advisors for Creative Planning.

Let me ask you though two follow-up questions to this. What do you think this means about Goldman's commitment to the wealth management business? And then the second question will be, does it mean anything for their new RIA custody business?

Jason Diamond:

It's a great question. I think that is what everybody wants to know. And the good news is, I don't think we really have to guess. I think their very senior right up through the CEO of Goldman, David Solomon, have been pretty vocal about what this signifies, which is really them leaving the more mass affluent to high net worth space. I think where they want to be and where they feel comfortable playing in the wealth management space is the more ultra-high net worth/private bank kind of space, which was really what their legacy or their core wealth management channel was more catering to.

I think it's probably fair at this point to categorize their foray into the more mass affluent space as something of a failure, maybe pending future data points, but at least certainly with this transaction, even with the reported profit that they made. I don't think they intended to flip the unit as quickly as they did and to exit that business model as quickly as they did.

The RIA custody unit seems to be a much more natural fit for Goldman. I think part of that is it enables them to do what they do best, which is provide products and services to presumably the highest net worth clients on the street, and they can do that via the RIA custody unit. I think it's a much more natural fit with their business unit. So I would expect them to pick up a couple of more high profile wins in the coming months, and I would certainly expect them to emphasize that unit more.

I think what we've seen is the unit when it first launched had some notable gaps in it and maybe wasn't, by their own admission, wasn't a hundred percent fully baked. And as they continue to plug those gaps, I think it will be a much more viable option for high net worth and probably even more ultra-high net worth teams that are looking to break away and that are looking for a custodian as an alternative to Fidelity. Schwab, LPL, Bank of New York Pershing; really those four have dominated the space for some time.

Anything else you would add here? I'm just thinking from these advisors' perspective. That was my first thought when I saw this news is it's kind of a cautionary tale or it's almost like a sad story. I genuinely feel bad in part for a lot of these advisors because of what they've been through and what their clients will have to go through. Are there any teachings or anything you could learn as an advisor who's either currently an employee of an RIA or who's considering that type of move?

Louis Diamond:

I think you already addressed it, but once you cede control over your post-employment restrictions, so non-solicitation, non-competes, garden leave, which these folks all had, you got to be comfortable that

you're going to potentially be sold and have to be either okay with the outcome of the transaction, or be ready to fight like hell to get out of some of these restrictions.

We've heard over the years when folks are considering selling their business, they look at the Goldman acquisition of United Capital as, well, what if this firm, fill in the blank of the RIA or independent firm, is sold to a firm like Goldman Sachs? Nothing against Goldman here, but more so culturally, the United Capital advisors, for the most part, ran independent wealth management practices and were selling against the perils of firms like Goldman for their whole careers. So I think that's the big thing is just be mindful of what you're signing onto, and know that if you are going to sell or move into a scenario where you're not fully independent, that there's a chance that you may not control your own destiny.

Let's keep pushing forward here. I think the next deal to talk about, it was a monumental deal for our firm where we represented Leslie Lauer, Becca Glasgow, and Curt Rubinas, who made up the ESOP Group at UBS. They managed an excess of $5 billion in assets under management, generated more than $20 million of production. And aside from the metrics, were just one of the more impressive and large scale teams in the industry, and I think will be the move of the year. I'm self proclaiming this as the transition of the year because of the significance of the team, but also what it meant to the industry.

A team like this does not move lightly. There were ALFA agreements in place, that's UBS's retiring advisor program. There's partnerships with other advisors, and overall just business like this had its tentacles all over the bank. The reason this team moved and it's been publicized was because they no longer believed that UBS would allow their very specialized ESOP business to remain competitive. The interest rates they were providing, term sheets, et cetera, were not being honored. And because of that, they looked longer term and said, "You know what? We can be successful here. We'll still make a ton of money. We can tread water. But if we want to grow the business and if we want to have this be a dominant practice for years to come, unfortunately we're going to have to find a new employer." And in this case, RBC really stepped up to the plate. They did not have a meaningful ESOP practice and they wanted to be in it. So they demonstrated that they had the platform, they had the willingness to build around this team, and that they were excited about the business.

So let me just pause there real quick, Jason, and see if there's anything that you would add to that narrative.

Jason Diamond:

No, I think you summed it up quite nicely. I think the initial surprise, this was obviously a highly publicized transition, and we got a lot of questions from other advisors, even advisors not at UBS or RBC for that matter, just people across the industry asking questions. And the question I got at least most commonly was, "Why RBC?" Or, "Why a regional firm period?" Do you have thoughts on that? Because I

think five to 10 years ago, maybe 10 years ago, a regional firm would've felt like a step down in terms of sophistication for a corner office wirehouse team, but it feels like that's not the case these days.

Louis Diamond:

Yeah, that's a really good point. I think you're right, and to many advisors, that may still be the case; that to them, unless you're with a Morgan or UBS, a Merrill or Goldman Sachs type firm, maybe J.P. Morgan, that any other brand is going to be a step down. So while there's still plenty of folks that would think this, and it's their right and they know their clients, for the most part, the advisor community at large has embraced the cultures, the platforms, and the fact that RBC, Raymond James, Stifel, Ameriprise, they may not be the same brands as the wirehouses, but they're still very, very well respected. And to teams that go there, they will buy into the culture and ease of doing business over the name on the business card.

So I think for a team like this, we never would've seen a multimillion dollar team consider a non-wirehouse. Maybe some would go independent, but I think the learning or the teaching is some firms just step up to the plate, they're ready to make a splash. RBC was right place, right time. They were willing to bet on the team. They were willing to invest in the team. They're willing to build around them at a time where they felt slighted by what UBS put them through. I think that's a great point.

I think the other interesting one here, and I think there's some strategy behind all the press that this move garnered from a legal standpoint, but we have questions about, "Am I going to get sued? UBS is not part of the broker protocol. I might be part of an ALFA agreement or a CTP agreement or something of the like. Am I definitely going to get sued?" What do you think is the answer to that?

Jason Diamond:

This was an interesting one. For this specific move, this is going to take a little while to play out. I think everybody saw the AdvisorHub articles about UBS files suit, and then the team kind of files counteraction against UBS. A little bit messy in that regard, and not surprising at all with the transaction or transition of this size. My advice and my thoughts on this have not changed. And honestly, it's the same advice regardless of the size of the business in question, although obviously the stakes are a little higher when you're talking about a $20 million plus revenue team. That advice is, be a good corporate citizen, do things the right way right up through resignation and transition, follow the advice of legal counsel and of other industry experts, whether that's us or whether that's the firm you're moving to, but certainly legal counsel, and you should not fear a TRO or legal recourse, protocol or not. I think that's my takeaway here.

And I know from just hearing some whispers even around this deal, I think that's similar to the way RBC feels about this, is that while obviously nobody likes any sort of legal action, I think everything we've heard was expected and nothing outside the ordinary. What are your thoughts on that?

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Louis Diamond:

That's exactly right. A tiny fraction of teams that move, regardless of size, end up in court. This one had a lot of different elements that made it so it was a strategic imperative for UBS to make some headlines, and I think, in large case, trying to scare folks into having a conversation just like this. Because many people see that and worry about them being next. But I think you're exactly right. Follow an attorney's guidance, do the right thing. Anyone can sue anyone in the United States, but don't give a firm a reason to actually win or even be able to get a TRO motion passed.

Jason Diamond:

No, I totally agree. And not picking on AdvisorHub, but any sort of industry press, the ones we read about are oftentimes the ones that either go wrong or the ones that have some hair on them. That's nothing to do with this deal. I don't think anything went wrong in this case. I'm just saying in general, when you read about so-and-so advisor in AdvisorHub was sued or was filed a TRO, oftentimes those are the ones who did something wrong, took proprietary information or emailed things in advance to their personal email, things like that. And the best advice we can give is just do everything to the letter of the law, particularly as a transition approaches.

Louis Diamond:

Yep, exactly. So this episode, we're not using it to pick on UBS, but I think what's very interesting is in the span of two weeks, there were 3 billion plus teams that left UBS; the ESOP group, which we've been talking about; there was a team led by Angela Mwanza in New York that went to Rockefeller; and there was a team in the Dallas area that went to an RIA. So lots and lots of movement from UBS. But like the narrative says, we call it the wirehouse wars for a reason. And just like that, after UBS loses three very meaningful teams that were all, I think, culture carriers in their respective markets, news broke about a $13 million, $2.6 billion team of Merrill lifers in South Carolina that actually landed at UBS. So the team was led by Michael Velasco Jr. and Ladd Lumpkin with a number of other advisors.

So maybe, Jason, if you want to talk about this deal. But I think what's very interesting is the one hand you take away, the other hand you give. This is a great example of I think the reasons why wirehouses have to keep recruiting and keep recruiting competitively. Teams are going to leave, as this was evidenced; but you have an ability to bring in the next crop of advisors through recruiting. So maybe you can spend a little bit of time on this deal and why folks should care.

Jason Diamond:

Yeah, absolutely. Yeah, this one made us chuckle a little for exactly the reason you just outlined. So, A, I think it goes to show that not all wires are the same, and that's probably even more true as you zoom in to the regional or local level. I think they found a market that was really willing to invest in them. In fact,

in this case, in this market in South Carolina, UBS actually opened an office for them. And a lot of advisors obviously like that because it gives you a voice in the local strategy and footprint and the building out of an office. So that's one thing.

The other thing is deal I think is an important factor that we have to mention. UBS has been very aggressive in recruiting other wirehouse advisors, in part for the reason you laid out, which is that if you're going to have advisor attrition, you need to plug those holes via competitive advisor recruiting. And the UBS deal structure is very attractive. We've heard some eye-popping numbers associated with this deal, well north of 300 or even 350% of trailing twelve. The structure of the UBS deal is much less contingent or hurdle based than a lot of their peers, so that is certainly a factor. We did not represent this team, so I have no inside insight into what specifically captured their interest here, but just conjecture based upon what we know from other similar teams. That would be one.

The other is, there are certainly advisors to whom UBS is a great solution. I know you said that it felt at the beginning of this episode like we were picking on UBS, and that's certainly not our intention. UBS is one of the best brands on the street. They do a really nice job servicing high net worth and ultra-high net worth clients. So for a team of this size, and certainly again, I think most importantly in a market that's really emphasizing them and really giving them resources and commitment, you can understand the appeal of a firm like UBS.

I will say maybe what surprises us a little when these massive teams get recruited to a firm like UBS, and I'd be curious to hear your thoughts here, there was an article in AdvisorHub or one of the other industry publications maybe last week about UBS cutting resources for their existing advisor force. It's much harder to get a dedicated client associate. It's harder to get T&E and other things like that approved; just generally kind of belt tightening. But at the same time, it feels like they're recruiting some of the biggest teams in the industry and paying some of the biggest deals in the industry. What are your thoughts on that incongruence? Do you think that runs the risk of upsetting their existing advisors? Meaning, you can't invest in my business, but you can invest 375% in this $2.6 billion Merrill team?

Louis Diamond:

I think that's exactly right. I firmly believe, call me biased because of our profession, but I think competitive recruiting is actually investing in the business. It might take a little bit longer for the payoff to happen. It might take a couple of years. But by paying up for top teams, which you have to if you want to win a team like this. Especially given the multitude of options available to teams like this, you have to really pay top dollar. And again, they do become profitable over time, but it's also the way to keep up the culture and make sure that there's still really successful advisors within the firm. Because folks are going to leave, folks are going to retire, et cetera.

I do think you're right, though, that the deal structure that UBS is putting out there is what maybe feels a little bit off to advisors. The firm is crying poor on one hand, and cutting expenses like you mentioned, but paying what they would call a fully guaranteed deal to attract talent.

So I don't think anyone has necessarily a problem with the size of the deal, because typically the deal has to be earned. There's backends they have to grow, et cetera. I think it's the case here that they're handing advisors who may not transition any of their business tens of millions of dollars when they don't really have the incentive to keep growing. While you may be a $3 or $4 million team who's rightfully entitled to a new client assistant or wants their manager to put on a golf event for them and you're not able to. So I think that incongruence is real, and that has been a reason we're seeing some UBS teams leave.

One question I'll ask you, and then I think we'll move on to the next one. What's interesting here is, I don't know this team in South Carolina that went to UBS, but seeing that there was a couple billion dollar plus teams that left UBS and they joined, what was it that either this team was missing and the other teams knew? Or do you think something else is at play?

Jason Diamond:

No, I think that's great about the industry landscape and that's what makes a horse race. That's what's so exciting to me about the modern industry landscape. I think ESOP we can hold in a bucket of their own because they were in such a niche business that, as you said, UBS just really wasn't committed to the same degree anymore, so they had to leave in some ways.

A lot of the other moves we saw were moves to an entirely different industry model or bucket, so meaning people who left the wirehouse world and move to either a boutique firm in the case of Angela Mwanza who went to Rockefeller, or, as you mentioned, this team in Texas that started an RIA. That's a very different type of move. That's an advisor who says, "Look, I have no objection with UBS necessarily. It's just that I think the wirehouse model is no longer right for my business. I want more autonomy, more freedom, more control."

And like I said, that's so great about the industry landscape. It's not just that those options exist; it's that those options exist as legitimate options for even the most sophisticated teams in the industry. You are just as likely to see a billion dollar team go to another wirehouse like this move in South Carolina as you are to see one go to a boutique firm like you mentioned with Mwanza, or independent like this team in Texas, or a regional firm like ESOP. So I think it's a great thing. I think that means that the models work and that the industry landscape is working as intended.

Louis Diamond:

Let's pivot to a deal that was independent independent. This is a deal or a team that was headlined by a very respected advisor named Alex Harrison and his partner Mike Cirino. They ran a $1.3 billion independent practice with Lincoln Financial in Jacksonville, and earlier this year moved it to Commonwealth Financial Network. So they left one independent brokerage for another. This was a team that we did have the privilege of representing. Just a little bit on the team, and then we could talk about the implications.

This team had been at Lincoln for their entire careers. Alex was very senior and within the company leading I guess their advisor resource group or one of their peer groups that was led by and attended by many of the most significant advisors within the firm. He saw that while he was respectful of Lincoln and all that they had helped him achieve over the years, that what got him here was not going to get him there; that the industry was moving too quickly, technology had changed a ton and Lincoln was left behind in the dust. And that for less cost, that there were broker dealers and platforms and RIAs that could add a lot more value to the business and would set them up for success for many years to come.

We're seeing a ton of movement out of Lincoln just like we are with many of the insurance affiliated broker dealers. This one was a great example of I think the narrative that not all independent broker dealers are created equal. For a team like this, they thought and through a lot of due diligence realized that Commonwealth was going to help take their business to the next level. That they had a focus on service, they invested in the right ways in the business, and rather than going to build an RIA which it certainly could have and made more money, that they thought there would be a lot of value exchanged by Commonwealth and it could free them up to really focus on recruiting new advisors and also building their practice to be $2, $3, $4 billion or much larger in the years to come.

Any thoughts to share on this one, Jason, and what you think it means for the industry?

Jason Diamond:

Yeah, so it's interesting. This move, and actually the last one we spoke about as well coincidentally, we're talking about lifers who made the transition. So meaning people who had up until this time been with one firm for their entire career. I'm always fascinated when those people make a move, especially big successful teams make a move. Because to me, that narrative, at least in my head, goes something like this. "Well, I've crushed it. I've built an incredibly successful business. But for some reason or another, what got to your point, what got me here is no longer getting me there. The status quo no longer serves me and I need something else. I've outgrown the firm or the model."

What are your takeaways when we see lifers move? It feels like that's becoming more common, seeing people who had previously been with just one firm make a move, when maybe historically those people would've just waited it out and spent their entire career at one firm.

Louis Diamond:

Yeah, I think that's right. I wrote a social media post a couple weeks ago saying jokingly that there's no gold watches or pensions within the wealth management industry, and it's true. While it might be noble and advantageous to retire from General Motors or from IBM or fill in the blank for whatever industry, in this industry it's very much a, "What have you done for me lately?" type thing. So while loyalty is great when the firm serves you and you have great relationships and you can do what you need to for clients, sometimes the cultures change, the needs of a business change, the needs of clients change, and it's quite all right to go from being LOS 30 at a firm to being a rookie there, as long as the move is made for the right reasons. And most often we're seeing these moves made for the next generation.

For many folks that have been lifers at their firm, they can take advantage of their firm's retiring advisor program or sell the business internally, but that may not be the most advantageous financial situation for them. Certainly you can get a much larger recruiting deal if you take the bid away or transition. You can certainly sell your business for much more if you sell it on the open market and can create a market versus more of an internal succession deal. And also, ideally set up the next generation on a platform or within a firm that you think is going to be better to take the business to the next level is going to serve them for many years to come.

So started off in a joking way, but I think it's true that you have to keep analyzing your firm, recognizing the value that's been delivered in the past, but also what can they do for you in the future. You know that if you made a compliance misstep, the firm doesn't matter what your tenure is; it's going to be very quick to shoot first and ask questions later. And I think advisors have to do the same thing. They have to constantly evaluate their firms, make sure they're in the right spot, and be okay that they may start off at LOS zero at a firm, even though they've been loyal to a firm for all these years.

Jason Diamond:

Yeah, I love what you just said, particularly the part about the long-term piece, because to me that's the biggest piece of this equation. I think most advisors, if you told them, "Exactly as things are today, that's how they're going to be five years from now," I think you'd see less people moving. I think most people could get comfortable with the status quo if you knew for a fact that it was going to continue in perpetuity. Most advisors might say, "Yeah, that's good enough." But I think when you see people looking out long-term and saying, "Hmm, five years from now, this place could look very different," or, "I see what management is signaling and I don't like it," or, "The types of products and services that they're incentivizing us to sell no longer align." It's that kind of long-term ethos or thinking, I think, that's driving in all of these cases, at least in some capacity, that's driving the move.

Louis Diamond:

Yep, exactly right. I'll take us home on, we'll say the last transition, but also it's largely a transaction, and that was Avantax, which was known to be the top independent broker dealer for tax professionals and

CPAs that had a wealth management business, was announced to have been sold by their private equity owners Blucora Group to Cetera Financial Group, which is also owned by private equity. $1.2 billion was the reported price tag on the deal, and that certainly does not take into account the millions of dollars of retention payments that Cetera will have to extend to most of these advisors as they're fielding offers from competing firms.

There's been a lot of talk on this podcast and just all over the industry of the consolidation of the independent broker dealer space. In this case, Avantax was a top 15 broker dealer by headcount. It is now being folded into Cetera, which is the second largest behind LPL Financial. So another one off the board. Cetera acquired Securian as well earlier this year, and there's been a number of other very large transactions in the independent brokerage space.

These advisors that are now going to be part of Cetera potentially have a choice. They can take the retention offer that Cetera will provide. I think most will like they normally do. Probably 85% to 90% or more of folks will stay because it's easier, they won't have to fully repaper, and they'll get a reasonably competitive deal to stay. But it's also a golden opportunity for every advisor to evaluate the competitive landscape. Make sure that you're playing offense rather than defense. Just because your firm was sold doesn't mean you have to go along with what was best for your owner. At the end of the day these advisors are independent, and it's incumbent upon them to scour the landscape and make sure Cetera is the right fit for their business. I think again, most of them will find that it is, but for many that won't be the case.

I think the big question with this deal, not to pick on either side of the transaction, do you think it's a good thing that we're seeing all these broker dealers bought up? Does it help to create scale for a very low margin business? Or is it a negative that there's less options for advisors considering change?

Jason Diamond:

I'd like to answer that just by saying yes. I'm half kidding, because I think you could make a very strong case to answer that question both ways. On the one hand, it's an industry that requires scale. I think LPL has proved that, and they've probably been the most successful firm in any model on the street in the last year or two. So scale, certainly not a bad thing.

But anytime you see this much consolidation, it certainly makes you a little nervous in the sense of, well, are there fewer legitimate options for an advisor? Let's say you're an advisor who wants to be in the independent broker dealer space. Having more firms to choose from was a good thing. It created competition. It meant you were more likely to find one that culturally aligned with you, that supported your business. And you're going to see less and less of that, I think, going forward, because there is such a rush for consolidation. So probably a little bit of a TBD in terms of, is this a good thing or a net bad thing for the industry? I think for now it's just a fact.

And it's a little bit also of a cautionary tale. If you're going to affiliate with one of these smaller, we'll call it subscale broker dealers, it has to be a risk that's on your mind, or maybe an opportunity, I guess, depending upon how you think of it, of this firm very reasonably could get bought up by one of the massive players in the space.

One other thing I wanted to talk about here is I think there's an important juxtaposition or dichotomy here versus the first deal we talked about. The first deal we talked about was a transaction involving an employee RIA, meaning advisors who were W-2 employees of a firm that was sold. Those advisors had restrictive post-employment agreements. Their options are really limited. We will see some move, but I don't view that necessarily as an opportunity for those advisors. In large part, they have to just play the hand that they're dealt.

This is different. This Avantax deal, we're talking about independent advisors who own their equity and their data; 1099 advisors, so independent advisors. It very much is an opportunity. Either they can take the retention offer, which will obviously economically enhance them from Cetera, or it provides them with a good opportunity to pick their head up and say, "Am I in the right place?" And if not, it's a pretty easy excuse to consider a change, right? You can tell your clients pretty easily either, A, this is not the firm I signed up for, or B, it's going to require some hassle of a transition anyway, so we may as well rip the bandaid off and find the firm or model that more closely aligns with us.

I think an important difference to note between a transaction involving an employee RIA and then one involving here an independent firm. Obviously here the buyer is assuming probably more risk, so you would think the deal structure is a little different. But from the advisor perspective, I'd say much more opportunity for ex-Avantax advisors relative to the Goldman PFM advisors. Do you agree with that?

Louis Diamond:

I think that's exactly right, yeah. Independent advisors always have choice, and I had agree with what you said around, is this good for the industry? This one was interesting because Avantax was so linked in the tax and accounting space that if you ran a tax practice or a CPA practice first and foremost and you wanted to have a wealth management business, this was the place that you went to. So removing a truly specialized broker dealer from the marketplace I think is overall a negative, but consolidation is an opportunity. It's the way of the industry. It's happening in the RIA space, but there's still, I think, over 800 billion dollar plus RIAs. There's just far fewer viable and attractive independent broker dealers.

But one, I think it's going to be an opportunity for someone, whether it's RIAs to get more into the game and provide differentiated platforms, or it's probably an industry where a handful of really high quality broker dealers is enough choice, and you don't necessarily need the excess capacity that's in the industry.

Jason Diamond:

An Industry Update on Mega-Moves: How the Ever-Increasing Number of Billion-Dollar Transitions are Rocking the Industry

A conversation with Louis Diamond and Jason Diamond.

That's what I think the end game is here. I think we see 10 really legitimate big scale quality players. It just feels like that's where this is heading, where a lot of these smaller B-Ds are just too ripe for consolidation and sale.

Louis Diamond:

Yep. Yeah, I think it's probably even five or six that end up through the carnage.

So I think that's it for today. This is a fun topic, and I absolutely think when we publish our 2023 Transition Report, I think we're going to be 35 to 40 or more billion dollar plus transitions. We tend to see a lot of activity between now and Thanksgiving, and I think a lot of folks are making their preparation. So we'll have to do this again and talk about what those moves mean. And in the meantime, if you want to learn about billion dollar plus transitions, or just transitions in general, we'd invite you to check out our 2022 Advisor Transition Report, and then you can sign up to be notified for the 2023 version.

Thanks for joining us today, Jason. We'll make sure to do this again soon.

Jason Diamond:

Thanks for having me. Please, I would love to be back anytime.

Mindy Diamond:

In an ever-evolving industry, there is one constant: change. And change is not a single force, but one that multiplies by a variety of inputs influencing and impacting widespread transformation. As such, the movement of mega-teams sends signals throughout the industry, continually demonstrating to advisors at all levels that the potential to achieve one's best business life is a reality.

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. 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 Articles link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full on exploration requires.

You can feel free to email or call me if you have specific questions. I can be reached at 973-476-8578, which is my cell, or my email MDiamond@diamond-consultants.com. Please note that all requests are handled with complete discretion and confidentiality. And keep in mind that our services are available without cost to the advisor. You can see our website for more information.

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and a review. It will let other advisors know it's a show worth their time to listen to. This is Mindy Diamond on Independence.