MINDY DIAMOND ON INDEPENDENCE
A PODCAST FOR FINANCIAL ADVISORS CONSIDERING CHANGE

EPISODE TRANSCRIPT

A Losing Battle at Merrill: Why a Former Leader Left the Herd for Independence–the Value of Culture and the "Intoxicating" Effects of Freedom

A conversation with Greg Franks, Managing Partner, President and COO of Snowden Lane Partners

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is, A Losing Battle at Merrill; Why a former leader left the herd for independence, the value of culture, and the intoxicating effects of freedom. It's a conversation with Greg Franks, managing partner, president, and COO of Snowden Lane Partners. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

Ten years ago, the thought of going independent was anathema to most advisors and almost completely unheard of for a senior leader of a firm like Merrill Lynch. But to Greg Franks, the bankifying of Merrill, the firm that he served at for nearly three decades was nothing short of tragic.

Mindy Diamond:

In this episode, Greg talks about how initial optimism around the positives that bank of America brought to the firm quickly turned to a battle that management fought in the background. Yet he speaks highly of his tenure at the firm, serving in senior leadership positions in the United States, Europe, and the Middle East, where he also served as the Western division director, Mid-Atlantic division director and regional managing director.

Mindy Diamond:

And as a managing director with Merrill Lynch Wealth Management, he was responsible for over 5,000 advisors, 450 billion in client assets and four in an annual revenue. So he has a unique perspective of Merrill as it once was, a firm with a strong focus on advisors and their clients, not one that had greater emphasis on product and P&L. It was a widespread cultural shift that was being imposed by the bank, such as increasing minimum account sizes, cross sell products, and diminishing control that advisors had, that he and other fellow Merrill leaders including Lyle LaMothe, who ran all of Merrill Lynch Wealth Management could no longer stand behind.

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Yet Greg shares that the shift in culture was not limited to Merrill Bank of America, but one that was being influenced by all of the big banks on the street at the time. Even after leaving Merrill and vetting other opportunities from top firms, Greg felt they were all very much the same. And in a call to his wife, he shared that he was never going back. Instead, an investment in a firm started by the former business risk officer for Merrill, Rob Moony, demonstrated how there was far greater potential and a business that he and Lyle all wanted in on. And in 2012, that business became what is Snowden Lane Partners today.

Mindy Diamond:

Greg talks about his role in the independent firm that focuses on advisors who manage high net worth clients and how that firm fills a gap in an ever-changing landscape. He shares what makes Snowden Lane different from other firms in the boutique space, and how the experience he and his partners had at Merrill defines what Snowden Lane is today. So let's get to it.

Mindy Diamond:

Greg. I just want to thank you so much for taking your time to join me today.

Greg Franks:

Well, thank you. It's a pleasure being here today, Mindy. It truly is.

Mindy Diamond:

Great. Well, lots to unpack. As I said to you offline, you've got multiple perspectives having come from Merrill Lynch. And of course, we want to hear all about the fabulous Snowden story, so let's get to it. I guess let's start at the beginning. Tell us about yourself, Greg, your background in the industry. I know you spent 28 years at Merrill before launching Snowden. So tell us a little bit about how you got to Merrill and what your roles were there.

Greg Franks:

Sure. I'd be happy to. It's hard to believe this is my 38th year in the business, so a long time, but I started in 1983 as a trainee in the New Orleans office for Merrill Lynch, April of 1983, and then I became a financial advisor or back then it was called account executive in the summer of 1983 in New Orleans and remained as a financial advisor for a number of years down in Louisiana. And then after a period of time, I was just drawn to the mix side of management and was lucky enough to be selected to go into management with Merrill Lynch in 1987.

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Mindy Diamond:

Yeah. So a couple of questions. I know in your last role with the firm, you are responsible for more than 5,000 advisors, 450 billion in client assets, and 4 billion in annual revenue. That's a lot of responsibility and obviously what must have been a well paying job. So what was going on to make you want to leave a role like that?

Greg Franks:

Leading up to that, if I could is I just had a great run. Merrill was a different place, obviously back in the '80s and '90s and I was fortunate enough to run various complexes and regions. And then I went overseas and spent a number of years overseas running our London office, then being the executive director of the Middle East based in Dubai. And then that all culminated with eventually me running geographically half of the United States and for Merrill Lynch, which I really enjoyed. And I was on the operating committee, executive committee, and it was, it was terrific. But having gone through all of that, and obviously there is the merger and I stayed three years after the merger as well, things were changing, but we must have restructured during my times in management at least 20 different times as you probably know, and as anybody who's listening, you've survived so many restructurings.

Greg Franks:

And so after three years after merger, they restructured yet again. And the divisions that we had were three divisions, the west, the east and the central, I believe, and those divisions went away. So effectively my job went away. They went back to regions. And so I guess I could have gone back to a region again. I had done that and to be honest with you, I was somewhat disenchanted with the direction that Bank of America was taking Merrill Lynch. Several of my colleagues, such as the two colleagues I'm in business with today had all already left, and I just felt it is time. It was the right time. I had a great run, but I didn't want to stay there anymore. It just, I wasn't happy with the direction of things and I love very Merrill Lynch so much, I couldn't stay and be part of that.

Mindy Diamond:

We hear that all the time, people just mourn what was. Could you be a little specific with us, Greg? What specifically had changed at Merrill since Bank of America took over?

Greg Franks:

Well, someone told me many years ago, who had been through a few mergers is it's all wine and roses in the beginning and then after a period of time, whatever that period of time is, you're in a meeting and then someone leans over the table and says to you, but we bought you and we didn't buy you to do it your way. And so that's what's happening. I think that the bank is, for lack of a better word bankifying Merrill Lynch. And in my view, it's somewhat tragic. And I think that who's being lost in all of this is the client. It's just a different animal now, they reduce advisors compensation if they don't cross sell certain things. I mean, that's just advisors. That's not what they do for a living, but it is what they do for a living now. And it was very hard to see and everything became more of a P&L byproduct and it was a different approach and it was disheartening and something I just wasn't used to.

Mindy Diamond:

What were you hearing from the advisors at the time, in other words, do you think that the advisors became aware of that cultural shift before managers did? Or do you think managers or leadership became aware before the advisors?

Greg Franks:

That's a great question. I think that in the beginning, myself included everybody was really optimistic. There's a lot that bank of America brought to the table, it's the capability wise, and power and strength, they were very attractive. But for us in management, we saw it certainly before the advisors saw it, because we were sitting in OpCo or executive committee, and meeting with people and listening to what their plans were, and what they wanted to do, and how they wanted to change things. And how they wanted to raise the minimum account size to a million dollars and all these crazy things. And so we were quietly fighting those battles literally daily for probably a year or two before the advisors were aware of it. And my partner Lyle LaMothe, as you know ran all of wealth management and he came in one day and just said, "I can't do this. I'm not going to be part of this." And he resigned that day, really in protest.

Greg Franks:

Which is really disappointing because yeah, thankfully we worked together again, but it was unraveling internally and we were losing the battle, the Merrill Lynchers if you want to call, the old line Merrill Lynch, the old guard, I guess which I was part and we were losing that battle, and that's when everybody started basically heading for the exits.

Greg Franks:

Some of chosen to stay and good for them, but I couldn't do it, they say that the definition of integrity is making decisions based upon a core set of values as opposed to personal gain. And so it was the appropriate time to leave on a good note, I really felt that way.

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Mindy Diamond:

Yeah. And how about your other partner at Snowden, Rob Moony? I know he had spent 22 years at Merrill and I believe his last role was business risk officer. So what was his departure like or about?

Greg Franks:

Yeah, his was a little earlier. I think when the merger happened, it was going to be difficult for him to stay just because Bank of America already had gobs of people who were in that role. But Rob is amazing, he was in that role. But prior to that, he was the general council for all of global wealth management for James Gorman, before James went to Morgan Stanley. Rob and I met probably 30 years ago in London because at the time he was a chief regulatory officer and general counsel for Win Smith and Merrill Lynch International. He was living in London when I lived in London. He also lived in Hong Kong, in Singapore and he's a class act and he really, really understands the legal and regulatory side. So between the three of us, Rob and Lyle and myself, we all bring something a little different at the table, which makes a really good in my view, a really good combination of leadership.

Mindy Diamond:

Yeah. Tell us a little bit more about Lyle. I mean, I know as you said, he ran all of Merrill Lynch Wealth Management and you said he just reached a tipping point where he said, "I can't do this anymore. I'm out of here," but somebody of his stature could have gone and anywhere, and yet he chose to partner with the two of you. So tell us a little bit about that.

Greg Franks:

Sure. I think that it's very interesting is that independently we collectively reached the same opinion. So he left, we all had non-competes or not for a while. I think mine was for a year if I remember correctly, but I think we all decided that it wasn't necessarily just Bank of America, I don't want to pick on them. It was with Wall Street, with the big banks, the big four if you want to say that. He was called by everybody as you can imagine, probably spoke to quite a few and determined not to ever go back into that world again. Rob made that decision before we did. And then I after a period of time thought, okay what am I going to do? I thought about retiring completely. But I went and met with several people from what I call the usual suspects because they were calling and I just realized that I hate to say it, and they would certainly argue, but they're all the same.

Greg Franks:

And then back when I started in the 1980s is that they weren't, you'd walk down the street in New Orleans called Financial Alley. But I remember all, the heavies on the first floor back then, but everybody

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had their sign oudoors, EF Hutton, Bache & Company, Drexel Burnham Lambert, Merrill Lynch, Payne, Weber, Kidder Peabody. And every single one of those organizations had a completely different culture and then it really separated them, and it's all changed.

Greg Franks:

So a couple a meeting one day actually, I was crossing the George Washington Bridge and then I heard that company failed the stress test and I was like, we're all the same, and I just called my wife from the car and said, I'm never going back, it's broken in my opinion. I know people would argue that, but I'm never going back and that was one of the better decisions I've ever made in my life.

Mindy Diamond:

So I want to pick up on something you said a couple minutes earlier, you said you were lucky to get into management. You were drawn to management and what's so interesting to me is I've been in and around this industry for about 25 years. When I started this business, that's exactly what it was. It was a privilege to be asked to be in management, branch management, complex management, senior leadership, whatever it was. But round about 10 years ago, that began to change at least from my perspective and what I was hearing, that it was more of a punishment. The managers were the ones that were the most vulnerable because they didn't have a book of business and they were being held responsible for whatever went on with those beneath them. And one of the constituencies that we are seeing move a lot or what's driving movement more lately first it was the breakaway advisors.

Mindy Diamond:

The advisors began to see what you saw, which is all the big firms are the same to move from Morgan to Merrill and Merrill to UBS is just a change of jersey, but doesn't do a lot. And the managers, the ones, at least that had drank the Kool-Aid were saying things like yeah, planned attrition, a couple are leaving, no big deal, but the amount of attrition is undeniable. And today, every day we're watching top and well-respected leaders and managers from the wirehouse world cross the transom into the independence space. So I guess that's a lot, two questions.

Mindy Diamond:

One. Do you still believe today in the notion of being drawn management and being lucky to get into it? And what would you say to managers, to leaders in the wirehouse world? Look, plenty of them love it and should, and good for them. We're not looking to convince people but there are plenty that are unhappy, that are seeing the handwriting on the wall and worried. What would your message be to them?

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Greg Franks:

Great question. When I went into management, it truly was very hard to get into management, enormously difficult. You had to be nominated. Then you had to go to an assessment center with a large group of people, a three day process of role playing and being assessed. And I can't remember, I think there was 27 people in our class, nine made it, I was lucky to be one of those nine. So it was something we really aspired to. And I can remember the manager that I had in New Orleans, his name was Buddy Trimble. And he was somebody to really look up to, he had enormous power, and he was hand selected by Mr. Fenner of Merrill Lynch, Pierce, Fenner and Smith, who used to run the New Orleans office. And he was a real gentleman and quite frankly, that's where the money was as well back in the day, but it was a prestigious role.

Greg Franks:

So that's why I wanted to do it to try and make my way through that process. And it was great. And over the years running various, whether it was Houston, Texas, or Baltimore, or various complexes that I ran or regions, I in my colleges we really had enormous power to make decisions, spend dollars, make personnel decisions, make expansion decisions, but it was great and you could create a culture. And I think that what unfortunately, that I think that has changed is that there's also unique is that back during that time is that every single chairman of the board of Merrill Lynch & Co started off as a trainee financial advisor.

Greg Franks:

And so that gave them empathy and understanding. It gave me empathy and understanding because I did it as well. I cold called and built a book and as Lyle did, and I think that it helps when you make fundamental decisions on what resource or needs or feedback that a financial advisor needs. And so now what's happening is that the most people in leadership have minimal if any power, because they have to reach out to the people above them and then go to HR and then go to legal. And then the answer is usually no. And so they really are just caretakers of an organization implementing the plan that was given to them by somebody above them.

Greg Franks:

And so the advisors have picked up on this, and what's happening is the advisors now are bypassing their managers because they know they cannot get a decision because they know the managers don't have the authority to render a decision. So it's starting to make many of these organizations somewhat dysfunctional. Whether Bank America is better or worse, I don't know. What I hear is that it's more difficult because they're starting to replace many of those great leaders with people from the bank, who are now running complexes and regions, and they've never sat in a chair of a financial advisor and that really shows a disconnect between them and the people who they're supposed to lead. So I think the leadership part is gone out the window, and it's more an administration part. and that's what makes people become diseffective.

Mindy Diamond:

We heard that a lot as well, but here's my question. A lot of these folks are making an awful lot of money. So even though they see the handwriting on the wall, they know that with great attrition and an inability to recruit comes less money at some point down the road. But for some of these folks to go from a million dollar comp level, to even $800,000, this makes them still priced out of the market. And while they know that they could go to a Morgan Stanley or a UBS or a Wells Fargo, if there was a job in their market, they don't want to do that. They see that handwriting on the wall, they know how disinfected they are and how disenfranchised they are, and they see everything you see. Yet, how did you, and what would be your advice to these same folks?

Mindy Diamond:

How do you justify going from what might be a million dollar comp level to either starting something from scratch, where there is zero, or joining a firm, whether it be like Snowden or the many others in the space, and probably starting at I'm going to make it up 300,000 in comp and everything else is equity and upside, et cetera?

Greg Franks:

Yeah. As a manager that's really hard to do. Look. Yeah. It's if you're there, you're making a good living, you're not making a living you used to make, the comp's been reduced by about 40%, but it's still a wonderful living. So you can't really complain or just leave that because it's not perfect as a manager. So it's very hard. Obviously I did that. I probably it was at a time in my career that I had the financial resources to be able to do it, but it's like anybody else who leaves an organization they've been with in any industry to break out and become an entrepreneur, it's a mindset, you're taking on risk and it's hard. It's really, really hard, but it's the right thing to do for the right person. It's not for everybody, for sure. Some people enjoy being in that cocoon as I did for a long, long time, and so you really had to step out over the edge into the unknown, which that's not for everybody, but I can tell you.

Mindy Diamond:

For sure. Yeah.

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Greg Franks:

The last 10 years of my life have been the most enjoyable probably of my entire career. It's exhilarating to take something that was on a piece of paper, a nifty idea, and then turn it into a great business over eight or nine or 10 years later. There's nothing more rewarding than that really.

Mindy Diamond:

Thank you for that. I appreciate that answer. But let's pivot to Snowden Lane, the firm you built on a piece of paper or envisioned on a piece of paper 10 years ago. So you were the managing partner president and COO. Tell us a little bit about why you and Lyle and Rob founded it. What were you looking to solve for at the time?

Greg Franks:

Sure. Well, in fairness, Rob Kern is the one who founded it, although it was oriented slightly differently, more towards the international space. So what happened is that he approached Lyle and myself at slightly different times, but relatively at the same time to ask if we would just become investors. And so I decided to do that, and put capital into the company, because I thought it would be a really interesting investment. And I was learning much, much more about the independent world. So I was starting to become a believer in it. Then they asked if I'd go on the advisory council, I did that as well. And then after learning for a period of time Lyle and I both got together and we went to Rob and said, "We think this could be a really big business. We think the trends are undeniable and they're macro trends. They're not secular trends."

Greg Franks:

And that's when I went all in and joined full time, whatever it was back in 2013, or something like that, 2012, I guess it was. And then we started building it. And it was really interesting. It was very hard, much harder than we thought. And step by step, we slowly started building this firm and then it's probably better than we thought it would be as far as size, and brand, and so forth. But it was, we stepped in as a group and did it and it turned out to be great.

Mindy Diamond:

Yeah. Interesting. Harder than you thought because 10 years ago the ecosystem to support the independent space wasn't nearly as robust as it is today. So you were largely flying blind and figuring it out for yourself, but what is Snowden Lane's value proposition?

Greg Franks:

Yeah, well it depends. It's different to different people. Obviously we, as a firm, I'll just explain because it maybe something you don't know. We are a fully independent, but we are a hybrid, which means that we can operate in the exact same way that a Morgan Stanley or a Merrill or UBS can. So obviously, we are a fiduciary, we're a registered investment advisor, but we also do, can do brokerage business to facilitate certain types of transactions. So we can do both of those, which separates us from being a pure RIA. We think that's very important.

Greg Franks:

So to a financial advisor, really our value proposition is, basically what we're selling is freedom. Become free from the bureaucracy, free from the mandates, free to manage money in the way in which you should for your clients, the free to try and market yourself in different, unique ways.

Greg Franks:

And in addition to that freedom, then you also have the ability to be an owner in something. Now you're not working for other people helping make other people wealthy. Now you are on the same page of them, and you're an owner much like most of your clients, most probably. And that's very exciting in its own way. And then you are a true partner in the organization. Those things are intoxicating. And it also, I would say at the same time is it gives you, this is very important, actually, Mindy, it gives you the ability to speak to a client when you're making a transition or to get a new client. You have something to market, you work for a high net worth in fully independent investment boutique, where you are both an owner and a senior partner. And I think that that's really amazing.

Greg Franks:

We spoke to a client probably six, seven months ago who joined us. It was very interesting. And he said, "I have money with most everybody." And then his advisor joined us. So he came in to sign his documents. And so he was saying, basically he said, it seems like all my people move around from time to time. And then he said, "I was speaking to one of my other advisors recently who had just moved." And he said, "And it's all between the big four." And he said, "Okay, so explain this to me. Do I get better research?" And he said, the advisor said, "No, it's about the same." He said, "Do I get different products?" And the adviser said, "No, no, they're almost identical, and you can count on that." He goes, "Okay, do I get different pricing?" "No, your pricing will stay the same."

Greg Franks:

So he said, "Oh, okay. So this is really just about you. It really has nothing to do with me, does it?" And he said when John called and said he was making this move and John told me what was happening, this is the first time he goes in 30 years that my advisor was doing something that was only about me. And I thought that was really enlightening. And it was very powerful.

Mindy Diamond:

For sure. Very powerful. Greg, who else are Snowden's financial backers?

Greg Franks:

Yeah. So this is interesting. Unlike may be some other of our worthy competitors, we founded this firm with our own money. So Lyle, and Rob, and myself, and usually large amount of our net worth into this company originally, because it costs a lot of money to start a company. And when you have staff and rent and no advisors, you have to fund that. And so that's how we did it, we thought it was the appropriate way to do it. And then when we started to get a little bigger, we realized, and we had some family and friends on the smaller side that we needed. If we were really going to believe in this and make it big, that we needed more capital. So we spoke to a lot of people. We are represented by Sandler O'Neill, the investment bank. And Estancia Capital Partner out of Scottsdale, Arizona made the decision to back us.

Greg Franks:

Maybe they shouldn't have because we were probably more of a venture capital investment than a private equity investment, but they did back us. And we've never raised money since that day. We're very proud of that. And we know lots of people who have raised money multiple times, but with the money they gave us, which was not a lot, we were able to grow firm and they've been fabulous with us. I mean, really good. They let us run the business. I think they're happy with what's happened. I know they are. And we've been happy having them as partners. And at some point yeah, they're going to probably step out and they've done quite well. And probably somebody else will step in and take their place, but that's who our backers are. All they do is financial services. So they turned out to be a great partner for us.

Mindy Diamond:

One of the concerns some advisors have about joining a private equity backed firm, which many of these in the space are, is that they're not patient investors. And if a private equity firm wants to cash out, who will they sell to? So how can an advisor joining Snowden get comfort or understand? So Estancia steps out, what happens next?

Greg Franks:

Yeah. Good point. So some people ask questions, well, how do I know you won't sell to Bank of America?

Mindy Diamond:

Back to Merrill Lynch? Right.

Greg Franks:

Right. Or Wells Fargo or whatever. Well, first of all is that if we did that, I think every financial advisor would quit. I would quit. And I know Lyle and Rob would quit, so that'll never happen. That's not a possibility. I think that having a financial backer also presents opportunity. And that is we don't know how it'll play out, but it seems that the natural next step would be for another organization, very similar to Estancia would come in and take their place, I don't know who that would be, but one of the larger players, and provide more capital and keep going. So that will provide a liquidity event for our advisors, probably not for management, but for advisors, for sure. And then that would lead to a second liquidity event and maybe even a third.

Greg Franks:

So I think there's positives to having that and there's positives to being extraordinarily well capitalized, which we are. And obviously in the beginning, we were not making money, now we're very, very profitable. And so we're in a really good spot right now. So I know it's a concern, it's a concern of ours, but I think the benefits clearly outweigh any negatives.

Greg Franks:

And lastly, I'll just say that because our advisors own such a sizable portion of the company, that they really have the ability if they're not happy at all with whatever direction that we're going, they always have the ability to leave or vote against it. And so that gives us a lot of confidence, a correct decision will be made at the appropriate time.

Mindy Diamond:

Yeah. And the reality is not every advisor can get comfortable with that and that's okay. It's not the right model for them. But I think that comment that advisors or partners have a strong voice in the firm and would vote with their feet in a big way if the wrong partner came in, I think is a pretty powerful statement. Let me ask you a question. You mentioned your esteemed competitors, who are your major competitors and what do you think is Snowden's biggest differentiator from them?

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Greg Franks:

Yeah, really it's a fragmented world out there. So we really don't feel we have any believer, not sure direct competitors, but we have competitors who are similar to us. So obviously the ones that you would come to mind would be, say a Steward Partners. And so there's so much similar to us, different in the senses that currently they have plugged into Raymond James, which is a great outfit, but that means that the platform is written the Raymond James platform. But I know they're trying to change that, and they have a really good leadership team. So I think they're a really good firm.

Greg Franks:

I think Sanctuary is another competitor. Jim Dickson, who we know well, and then I think they're doing a really great job, different company though in a sense it's a Snowden Lane Partners, everybody who joins us is an employee and they truly work for a firm and work for Snowden Lane Partners. And I think Sanctuary is more of a 1099 model where you plug into their platform. And so it's a different approach. And yeah, I think that people who join us would never join, say a Dynasty or a Sanctuary or LPL and the people who would join them would never join us. So I think all the models are self-selecting.

Greg Franks:

And I think another competitor would be Rockefeller, but again, they're totally different in the sense that there's no equity, only management has equity. So you really go in there to be just an employee. And they're building a mini Merrill. So they have investment banking, sales and trading, capital markets, and wealth management. So it's very attractive to the right person, just not our approach.

Mindy Diamond:

Right. And I know you have a focus or at least a good number of your advisors focus on the international space. I know you've recruited just a number of the advisors that came from Wells Fargo, who could no longer do international business there. So is that one of your biggest differentiators? Because not all firms want to do international business.

Greg Franks:

Yeah. I'm not sure where we are now, but probably 35% of the firm is international. And we entered that business many years ago and we had the international advisors in New York who only cover Asia. And we have international advisors, our entire office in San Diego is all off shore, primarily Mexico, Latin America, a little bit of south America. The office in Miami was originally started with the non-Wells international advisors. So we really embrace it and we know it. A big part of our heritage is individuals, Rob and I. We've always liked it. We think we understand it. And we think it's a big world out there, and there's great businesses being created around the world that are really attractive and you want to do business with those owners and those families. So we are one of the few people, although, interesting enough is that the Wells Fargo announcement did make a lot of people say that they're going to go into international and I think they're learning, but we'll see how that works out because learning the international business is very complex, very complicated, and you tend to learn the hard way.

Greg Franks:

So Rob and I we got 30 years experience in the Middle East, in Asia, and in Europe- I think we were in a good spot with that. But clearly it's a differentiator for us. I think the fact that we are 100% transparent open architecture, which is specifically why we chose The Bank of New York Mellon, and they provide us with their technology and their trading systems, but they have no products to market us at all, no research to market us, so it's very pure. And I think that really describes our company approach.

Mindy Diamond:

What was it like to start Snowden in 2011? I imagine it had to be slow going at first, any firm who has no proof of concept finds it hard to recruit those first advisors. So how did you do it?

Greg Franks:

It was brutal. It was really hard because the first question that we received is, who are you? And then how long have you been in business? And then the next question is, how do I know you're not going to go bankrupt? So you have to overcome. And then I remember one of the very first teams you brought on is it's funny story, but I was at their home, a very big team, $4 million group. I was in the kitchen of their home and the spouse was there and she said, "I have a few questions." And I said, okay. And they are coming from Merrill Lynch. And she said, "How many financial advisors do you have?" And I didn't want to ask that question because we had four. So I said, "Well, what do you mean?" And she said, "Well, I mean globally."

Greg Franks:

And I say, "Well, your husband joins, it'll be five." So that was hard. And we had to kiss a lot of frogs to find the prince, but we did it one person at a time. And our first office was in Pasadena. And when we had two Merrill Lynch groups join us because in the beginning that's they knew us. So we knew them. So that was really important that that happened. I think that led to other people joining. And since then, now we have advisors from Merrill Lynch, Morgan Stanley, UBS, Wells Fargo, you name it. We probably have them all, but in the beginning it was a little certainly tenuous to say the least.

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Mindy Diamond:

For sure. All right. So let's fast forward 10 years later and let's talk about what it looks like now. So you've had some real recruiting success particularly of late. Tell us about how many advisors now, where did they come from? How much in total AUM, what does it look like now?

Greg Franks:

Yeah. So last, we've been steady Eddie. We've been very careful with our capital because someone didn't quite frankly lay a check on us for a hundred million dollars. And that we've seen that before in the past and people tend to make mistakes because you have too much money. So we are very careful. We offer deals in the marketplace that are probably well below what the going rate, but it worked out really well. Financially it worked out quite well. And then last year we brought in several teams from JP Morgan, a half a billion dollar team from Merrill Lynch and others. And then obviously we did really well this year with advisors from Wells Fargo and a couple others. So at this point we have just, we are just a touch under 9 billion in AUM. I believe it's 8.7 billion as of Friday.

Greg Franks:

So we're growing very rapidly and we have offices. We are a nationwide firm, which is very interesting and it's a differentiator and we're in major markets. So we're in New York city, obviously Connecticut. And we opened an office in Buffalo last year. We're in Chicago, Pittsburgh, Washington, D.C., Baltimore, Miami, San Antonio, Los Angeles, San Diego. So we're across the board. I believe we have 64, 65 partners in the firm right now, financial advisors. And we've really grown very significantly. Although we're careful, we really, really believe that culture matters a lot. And I think we have just a dynamic, great culture in the firm. Everybody's on the same page. Everyone owns equity in the company. It's mandatory and it's worked out really, really well. And it's very rewarding to come into the office and not have those tensions where someone's counting ceiling tiles saying that the person next to me has three ceiling tiles, I only have two. Yeah, I don't miss those days.

Greg Franks:

So we've grown a lot. We can live now and survive just through our cash flow and profitability. But to do what we want to do, which is to continue to grow really rapidly, it will probably have somebody else take us down to his place to take us to the next level. I think that'd be the appropriate thing to do, but they ended up in a really wonderful place.

Mindy Diamond:

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So you mentioned offering deals below the going rate. Two questions about that. Can you talk with us a little bit about the economics you offer both ongoing advisor comp and transition deals. And then the followup question is, so if deals are below the going rate, what is it that made the 64, 65 advisors join the firm?

Greg Franks:

Yeah, it's a really good question. I mean, we're not massively below, but we are below. We strategically said we never ever want to lead with the highest deal. And we've seen that movie before, it always ends really badly. We ever meet with a financial advisor and they say, well, it's between you and I'll just throw out a name, you and Merrill Lynch or Morgan Stanley. We generally end the meeting because we say just philosophically, you're not on the right page. So the people who really join us are people who are at one of these major firms or are intensely frustrated. And the people who are frustrated are people who are trying to grow. If you're not trying to grow, then you're bothered, but you're not frustrated. You're really not opening up new accounts. You're not marketing yourself. So you just, you put your head down and just focus on the finish line.

Greg Franks:

If you're trying to grow and you have to run away and you're a team... then the people who join us almost always are ones who have philosophically made the decision they can't stay where they are, or they won't. And that they are going to go independent, but they don't quite know where. And maybe they're thinking about opening their own LLC firm. Maybe they're not, they're not quite sure. And then the people who ultimately then choose us would be people would say, "Yeah, I know what my unique ability is, and that is managing money and dealing with my clients. That's what I'm uniquely good at."

Greg Franks:

And I do think that everybody in the world has a unique ability. And great financial advisors, that is their unique ability. It's probably not dealing with lawyers and accountants, and setting up LLCs, and outsourcing supervisory, and compliance, and AML. That's not. So the people who join us say that, I don't want to do that. And I want to be associated with the brand. And I want to be able to pick up the phone and call somebody within my own company to solve an operations problem, or to send an international wire or whatever. And that seems to be who joins us. People want to leave, who want to be independent, but have no interest in running their own shop.

Mindy Diamond:

And what are the components of the deals that you offer and how about ongoing payout?

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Greg Franks:

Yeah. So our deals is it's a combination of cash and equity in the company. And so let's just make the assumption that it's we offer 150% of the T12 for a financial advisor, which is not bad, but you can get more. As I say, if you go to one of the big four, they're desperate right now, so they'll offer you probably more than that, but then you have to work there. So that's the problem, and put up with all the nonsense. So what we tell people is that, here's your gross number, and now you tell us how much of that you want in cash and how much of that you want in equity in our firm. You can't take zero equity, because that means, again, philosophically you're not on the same page, but on average, probably it's a 35% or so in equity, 40% equity and 60% in cash give or take. And that's how it works. Very simplistic, not a lot of moving parts to it, quite frankly.

Greg Franks:

If someone has deferred, we'll take a look at it as well on the back end, we'll figure that out for them. And as far as pale, I think we're very unique in that way, in the sense that we have a grid. Everybody starts at 42%, so you're guaranteed 42% all cash. But then we have a really unique thing in the sense that we do a P&L on each team's individual practice. And we do it actually before they join and share with them. And if their profitability is above a certain level, then we split that back with them 50, 50 in cash.

Greg Franks:

And so they then can be entrepreneurial. They have a say in whatever they want to spend, they don't have to ask us if they want to spend marketing dollars. They really don't have to ask us if they want to add support, we'll work with them on that, of course. But it really helps them manage their practice in a very entrepreneurial way. And then that increases their overall payout or whatever it might be, 48, 50% all cash, which is interesting. And then in there on the side, they still own their equity, which we think is, will be quite meaningful.

Mindy Diamond:

Yeah. And so what does your ideal recruit look like? In other words, is it a three, four, $5 million producer? How much in assets, how do you think about it? Is there a minimum that you look for?

Greg Franks:

Yeah. So we are teams based. We definitely hire teams for all the reasons that people would understand out there, they're more productive. They have higher retention, higher acquisition rates. We just think it's better for your client to be serviced by teams. So we like that a lot. Our average advisor is 21 years in the business. We have advisors who've joined us who have been over 30 years in the business. It was an advisor that just joined us at year end in Buffalo. He was well over 30 years in the business, $3 million producer. And he just said, "I can't believe this day has come where I am forced to leave my firm, Merrill Lynch," but he did for all the reasons we spoke about. So yeah, I'm not sure. I think our average team does an excess of $2 million. Obviously you'd add the last eight or nine months, several teams that are doing well in excess of $3 million.

Greg Franks:

So have a couple of teams that have well over in excess of a billion dollars in assets to do four or 5 million. But I'd say on average the groups that are joining us are between 1.5 million to 4.5 million seems to be what people who are attracted to us and where we can really provide value to them. We don't have a training program, really not the right place for someone who's 20 years in the business, who's doing 400,000. It's just not who we are, not who we want to be. So we were looking at the sophisticated, larger teams that are trying to grow.

Mindy Diamond:

Yeah. So I want to pivot for a second to some of the negatives we hear from advisors in motion. And that's not about Snowden specifically, but the things that concern them are the top questions they ask about working for a small independent firm. So let's do a lightning round. I'll share with you what the concern is and then maybe you can just quickly run through how you would respond to it. So, first one, will I be able to replicate my business and better serve clients?

Greg Franks:

Yeah. So absolutely, and that's the key part of our value proposition. Obviously everybody who's coming from these large firms, we have to replicate that. If there's gaps, then they're losing clients or they're losing income. So A, we can replicate it exactly. B, our technology is far, far superior to what they have right now, which that's a bold claim, but it is. The technology you need exists outside of these giant organizations is better because they're trapped within their own legacy systems and they can't get out of it, quite frankly they're stuck.

Greg Franks:

And then lastly, there's no home cooking. So in every single investment solutions, category, alternate investments, it doesn't really matter. Research, is it A, there's no conflicts and B, we always give you multiple choices. I mean, in everything. In research, we have the full suite of Goldman Sachs research. We have a full suite of Credit Suisse research. We have obviously S&P, and we have too much research, but none of it is ours, which I think is very good. And so yes, we could replicate it, and in our opinion it's far superior.

Mindy Diamond:

And how about the level of operational support that a wirehouse advisor is used to, both operational and transition support?

Greg Franks:

Yeah. So operationally it's far superior just simply because they're not one of whatever the number is 15 or 18,000 people trying to get a decision, because the problem is that the firms are managed to the lowest common denominator, right? So if you're a large team, you have a large client, they have a hard time making an exception because you're one of many, in fact that the large team or the large client is the outlier. UJA, Bank of America, as an example, I'm not picking on them but I believe they have almost 90 million clients, I think they call them customers. So how you separate yourself, you need something important and it's very, very difficult. So the people that are calling are Snowden Lane employees in operations, and we're small enough. And I think that we have the experience within the leadership team to sit down and say, "Okay, so what is it you need? Why do you need it?" And then we say, "Done."

Greg Franks:

The entire organization is digital. All of our new account openings, transitions, everything is 100% e signature. As you see I think we're much more nimble. I think the transition process we have is fabulous. And then we have a great transition team, a fantastic transition team onsite, and they are highly skilled. We've transitioned obviously eight or $9 billion in assets within the firm so far. And I think that, well, let's put it this way, historically on average, the average advisor who joins us has transitioned 91% of their assets within the first 12 months. And I think that's something that we're quite proud of.

Mindy Diamond:

Yeah. Okay. Another question. I drank the Kool-Aid being served by my big firm for years and believe that it is the only place to be a serious advisor serving high net worth clients, running a serious business.

Greg Franks:

Well, I actually think that used to be the case and I drank the Kool-Aid too, by the way. And I appreciate it as well. So I do agree with that. However, I think things have changed. It's really interesting is that if you will go back and look at Detroit, the big four auto automakers, 1980, they had, this is very interesting. They had 79% market share of the US auto industry. Obviously today, I believe I'm not sure

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exactly, I think it's 32. The big four wirehouses at one point controlled 77% of market share. And I believe that the latest survey that I saw shows that they have 36%. So I think what has happened is that as the independent world has grown up and become much more sophisticated, and boutiques like us and others have grown up is that I think it's changing, and I think that many, their high net worth clients now realize that they are better served in a investment boutique that only has clients like themselves. So the world is changing. And the parallels between the big four autos in the wirehouses are really quite stunning.

Mindy Diamond:

So Greg, let me ask you a question. Is there a specific example or two you can give us of something an advisor at Snowden is able to do for an ultra high net worth client that he or she couldn't do at a wirehouse?

Greg Franks:

Yeah, I mean, again, there's a lot of things. First of all, it just for the international worldview, we are fully multi-currency. Our clients can hold different currencies in the same account and no problem at all for that matter. So very, very different. So we were approached by an existing client who had significant assets with us and asked if he could hire his financial advisor to provide secondary fiduciary advice for their retirement plan for their company. And we can do that. So for a flat fee, our advisor para in our firm provides to a second look from a fiduciary standpoint to ensure the company is doing the right thing. And we have on retainer, a great firm called PRI, Pension Resources Institute that helps us in that regard.

Greg Franks:

So, I mean, that's just a couple of things. We can bill on assets held away. So if we have assets that are held in a trust company or any bank is that we can manage those assets and we can bill on those assets to integrate those into the client view. I could go on and on, it's you'd have to see the entire presentation, but the freedoms that we have here are pretty extraordinary.

Mindy Diamond:

I appreciate the perspective for sure. A couple of last questions. So what keeps you up at night? I mean, every business owner worries about being dis-intermediated. So is it that, do you worry about increased competition that other, for example, X, Y, wirehouse leaders will come out and build the next Snowden?

Greg Franks:

No, I don't at all. It's a big world out there and they probably will. And I think that every time that happens, it just provides more and more credibility to the independent channel. And so we welcome that as opposed to being concerned. We really welcome it.

Greg Franks:

Not a lot really keeps us up at night anymore. We just got to stay, we have to stay the course. We have to be very mindful from a supervisory standpoint, just to make sure we're watching our Ps and Qs. Cybersecurity is probably the one that keeps us up at night, although we have several layers of firms that provide that for us. So thankfully we're in a good spot, but now we look out into the future and we just see good things and we want to keep growing. There'll be bear markets and bull markets, but that's just part of the business, that doesn't really concern us that much.

Mindy Diamond:

Yeah. How about your long-term goals?

Greg Franks:

And we never want to have a thousand advisors ever, ever. I think, yeah at some point you lose your soul and you have to start managing through layers or through memos. So we don't want that. Could we have 200 financial advisors some day? I think we could. And probably we'll. Do we want five or 600? Probably not. So we want to continue to grow with super high quality people and build this. As we always said from the beginning, we'd basically like to recreate Lazard, our own, and that's what they're doing. And it feels really good. We like that a lot.

Greg Franks:

And two, yeah I would say that to advisors maybe who listen to this is that yeah, I'll just say a couple of things, and he said, you got decide at some point is it, are you going to do it or not? My father well told me one time, he said, "In order to change the future, you must be willing to disrupt the present." And there's so much truth in that. So it does take, it'll make you uncomfortable to leave the cocoon and venture out. But once you do it, you'll be enormously pleased that you did.

Greg Franks:

And then another thing my father told me, he was in Marine Corps but he had a great saying, it came from there. When people are saying, what should I do? What should I do? And he said, this is a good thing, and I've lived my life by that saying, in the absence of perfect information, boldness and initiative is almost always the correct course of action. And we speak to so many advisors who are so miserable, I mean, truly miserable. And yet they're scared. It's just fear of the unknown. So I understand that, it's not for everybody. But someone who's really thinking about it, sometimes just leaving the comfort zone, to change the future trajectory of your life, you have to make a decision.

Mindy Diamond:

Yep. I think that's worthy words of advice and thank you. Greg, this was a wonderful conversation. I'm grateful for your sharing your time, and your wisdom, and perspective, and we're all excited to see the wonderful, great things that Snowden continues to do. So thank you again for joining me today.

Greg Franks:

It was an honor and truly a pleasure. Thank you Mindy very much.

Mindy Diamond:

Well, we often hear the advisor's perspective of changes within the brokerage world. It's even more powerful to gain the point of view from management and to understand what led up to those changes. That is the behind the scenes fight to retain the freedoms that advisors once had. But as Greg Frank shared, it was a losing battle. So he took a bold step with other former Merrill senior leaders and built a firm designed to be the next Lazard. But ultimately, it was his advice that will ring true for many, to change the future, you must disrupt the present and you must leave your comfort zone to do so.

Mindy Diamond:

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 to regular updates for 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 to stay informed about what's going on in the industry 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 at 973-476-8578, or email at 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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