



## EPISODE TRANSCRIPT

### **Finding Your Unfair Advantage: David Canter on Bluespring, M&A, RIAs, and More**

A conversation with Louis Diamond and David Canter, President of Bluespring Wealth Partners.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is "Finding Your Unfair Advantage, David Canter on Bluespring, M&A, RIAs, and More." It's a conversation with the President of Bluespring Wealth Partners. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

This podcast is available on our website [diamond-consultants.com](https://diamond-consultants.com), as well as Apple Podcasts and other major podcast platforms. If you are not already a subscriber and want to be notified of new show releases, please subscribe right on your favorite podcast platform or on the episode page on our website. For Apple Podcast users, I'd be grateful if you'd give the show a review. Your input helps us to make the series better and alerts other advisors like you who may find the content to be relevant. And while you're at it, if you know others who are considering change or simply looking to learn more about the industry landscape, please feel free to share this episode or the series widely.

It was September of 2018, just shy of this podcast's one-year anniversary when David Canter was first on our show. Back then he was the executive vice president and head of the RIA segment for Fidelity Clearing and Custody Solutions responsible for driving the execution and results of more than 2,800 RIA firms across eight territories throughout the US. In that episode, he shared an extensive view of independence and the custody industry with commentary, which is still relevant today, so be sure to check for the link to it on your podcast app on our website.

The reality is that we're in an industry in which change is common, and even those in the C-suite often feel the pull of a new opportunity to achieve their best business life. And David is the perfect example. A nearly 13-year veteran of Fidelity, David left the firm in August of '22 to take on the role of president of Bluespring Wealth Partners, a subsidiary of Kestra Holdings. Bluespring launched in 2019 with a mission focused on acquiring independent wealth management practices that have their sites set on growth, succession and continuity.

No doubt, independent business owners have a growing field of options when considering selling all or a piece of their business and in what continues to be an active M&A market, Bluespring has been attracting their fair share of headlines. For instance, they closed out 2022 with nine acquisitions that represent more than \$3 billion in assets under management. And David's view of 2023 is an even more aggressive push to expand their footprint of partner firm acquisitions. There were few people in this industry who had David's unique combination of experience and knowledge, nor is there anyone as generous in sharing all that he knows, so I'm thrilled to have David join us again.

In this episode with my partner Louis Diamond, David talks about an evolving industry and how that impacted his choice to leave fidelity for Bluespring. He discusses what life was like in the independent world before it was cool, and what he sees as the key traits of the most successful practices. He talks about Bluespring's unique value proposition, and he shares his perspective about M&A, evaluations and deals in the coming year. Plus he offers advice on what current and prospective business owners alike

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should know before considering a capital partner, and much more. It's a great conversation with plenty of key takeaways, so let's get to it.

Louis Diamond:

David, thanks for joining us today.

David Canter:

Louis, my pleasure. Really happy to be here, honored to be here and excited for our conversation.

Louis Diamond:

Yeah, back for the second round. Let's dive in though. Can you tell us just about your background and career arc?

David Canter:

Well, thanks Louis. You know it well, but I've been in the RIA space for boy, almost 30 years, probably coming up on 28 years. I've had many roles. I've been a lawyer. I've worked at two advisory firms before Bluespring, and I worked at two platform providers. Most recently, almost 13 years at Fidelity.

Louis Diamond:

Perfect. And so you said you were an attorney. Can you explain how that led into the RIA channel?

David Canter:

Yeah, I was practicing law in the Bay Area and got exposed to the Advisors Act when I was in private practice, and then I was fortunate enough to continue that along the way, helping firms become RIAs before this whole RIA craze became in vogue as it is today. So I like to say that I've been playing in the nightclubs and bars of the RIA profession long before it was an overnight success.

Louis Diamond:

I think that's definitely true. Yeah. You were somewhat called a trendsetter, maybe?

David Canter:

Well, either I was a trendsetter or I rode the wave, and boy has that wave continued to crest. With no signs of stopping, by the way. And I know we'll get into that.

Louis Diamond:

Absolutely. And perfect segue too, because before you joined Bluespring and the last time you were gracious enough to come on our show, you were the head of the RIA segment for major RIA custodian, Fidelity Institutional. Can you just explain what your scope of responsibilities were there and how you helped Fidelity over the years?



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David Canter:

Yeah, sure. And actually at the time I transitioned from Fidelity, I was looking after not only the RIA business, but also the family office business, which is a fascinating business as well. So I was there at Fidelity for, as I said, almost 13 years and had an ever-increasing scope of responsibilities. I think we first met each other when I was heading up the practice management function, and then I was looking after the business and businesses from a P&L responsibility. And the business keeps growing as the RIA profession grows. I think as you know, there are about 15,000 SEC registered advisors now and more than that at the state level. So as that business grows, and you've heard me say there's a bull market for advice, and we can talk about that, there's a bull market for advisors, that business continued to grow with it. And I see no signs of this movement, this evolution to fee-only or fee-based advice. That's what advisors want to deliver and what consumers are craving as well.

Louis Diamond:

Can you explain what you mean by there being a bull market for advisors or for advice?

David Canter:

I'm glad you asked me that follow-up because it's easy just to say a bull market for advice, but the numbers prove it out. My favorite report, and you've probably heard me say this often in the RIA space is something called the Investment Advisor Association Snapshot Report. They do this in partnership with National Regulatory Services, but what they do is they look at ADV data and they examine it and they dissect it. They look at it from many lenses, if you will. And there are four things that I think are important for everybody to keep in mind. Number one, the number of registrants keeps growing. As a matter of fact, over the last reporting period, it was 6.7%, almost 500 advisors.

Louis Diamond:

Wow.

David Canter:

So as much as there's talk about consolidation, there's just this self-renewal that happens. The second thing is the number of investors that are seeking advice continues to grow. It's both from an institutional and an individual perspective. The third thing is the assets that are looked after by RIAs continues to grow. And then the fourth thing that I think that we all need to keep in mind is that as part of this renewal, there are still more advisors that are entering the profession. So everyone talks about the fact that there's a talent shortage, and by the way, there is, but there's this continuing entrance to the profession, which I think is very positive. So it's still early days, but all the emphasis that some of us have put on educating this next generation of talent, I think will start to bear fruit.

Louis Diamond:



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Yeah, and I think we'll hit on a number of things you said as we progress through the episode, but it sounds like you're saying that there's more RIAs, more advisors, and more investors to service, which is a good thing. It means that the pie keeps growing, but it also probably means that advisors have to be better about sticking out, because even as there's a lot of consolidation, there's newer and newer entrants coming in, even though there might be more clients to serve, there's still a lot more folks that advisors have to stand out against. Do you agree with that?

David Canter:

I absolutely do. I think the firms that are growing, and we'll talk hopefully about some of what those attributes are, need to stand out in an increasingly crowded marketplace.

Louis Diamond:

Absolutely. Let's talk a little bit more about the custody business because it's changed a lot over the last few years with zero trading commissions or just about zero trading commissions, the Schwab TD Ameritrade merger, rapidly changing interest rate environment. So I'm curious to hear just your thoughts on the custody marketplace as a whole, and while you're at Fidelity, and I know you're still a Fidelity client today with Bluespring, where do you see Fidelity fitting into this?

David Canter:

Sure, and as you know, I have transitioned from the firm, but I'm a very big supporter or proud supporter, a raving fan of Fidelity. And I just think the work that Fidelity and others in the profession do is so important. But yes, the RIA custody, the custody business has changed. One thing I would say some people call custody a commodity. I actually don't think that's the right description. I think it's a very important utility business. Commodity, as you know, represents goods that are basically fungible at the time of sale or transaction. What custodians like Fidelity do, and do very well, is a complex series of technology, of people, processes to actually make the custody, the execution and trading of securities and all of the related actions possible. And it takes capital, it takes training, it takes expertise and scale. And I think that's why I think it appropriately fits the definition of a utility.

And I think some in the marketplace overlook what an important and vital function this is that can't be easily replicated, frankly. You think about what it takes to execute and trade securities, what it takes to look after each individual account that we all have registered, the managing of corporate actions. It's a very complex series of transactions. And I think that what custodians like Fidelity have done and done well is be able to introduce an appropriate amount of scale and mixing that with good service.

Louis Diamond:

Interesting.

David Canter:



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And I think that's what I would want the audience to understand. Scale and service are what make this a very good business for advisors to have their back office co-looked after. And I think that's the future, quite frankly, as the industry and folks like Fidelity have worked to drive costs down for consumers.

Louis Diamond:

And do you see the role of the custodian changing?

David Canter:

I think the role of the custodian has frankly been very stable over time, just doing it with increasing scale and trying to introduce fewer costs to the consumer.

Louis Diamond:

Got it. And one last question on custody, and then we'll pivot to your current profession. But curious to hear your take on Goldman's RIA custody launch and then even other custodians like LPL and Raymond James and Altruist and Axos and a bunch of other ones that are all trying to gun for similar market share.

David Canter:

Well, I think that what these newer market entrants see is what we just began this conversation. There is growth in the RIA marketplace. There's a bull market for advice, and these newer entrants want to be a part of this. What I think they'll find, and maybe they're finding now is that in addition to the technologies that's required, it's a different kind of relationship. It's not just the one-to-one consumer to provider, it's taking into account the intermediary relationship requires expertise and a more detailed set of policies, procedures, technology and so forth. So I think there's going to be a lot of words that are yet written or more chapters to this story.

Louis Diamond:

So David, you were in the RIA channel, as you said, before it was cool and would love to just hear your perspective on the evolution and the professionalization of the space. Because you've had a front row seat at Schwab, at Fidelity, and now in your new role and really just you've been able to sit back and watch and see this amazing segment of the industry evolve. So I would love to hear your thoughts on that.

David Canter:

Yeah, Louis, the breakaway trend is far from abetting. I think back to our conversation about the renewal and the profession, we're going to continue to see a steady state of advisors going independent because they want more flexibility in the way they serve their clients. And actually the last time I was on this podcast, we talked about this. And so I think with the industry evolving and the introduction, quite frankly over the last five years in particular of more and more private capital to the space, this is having an effect on the professionalization of these businesses.

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I think an important thing I would note is that historically these businesses were set up simply to serve clients and delight clients and grow. The change that I'm perceiving is now you're seeing the evolution of these businesses into platforms. And the difference between an advisory business and a platform is that the platform is designed to provide leverage to the advisor with an increasingly broad set of capabilities and services. So I think that is what we're seeing is the business versus platform dichotomy is starting to evolve, and that is leading to more and more professionalization.

Louis Diamond:

Interesting. And you mentioned the breakaway segment, but do you see the role of the breakaway advisor in the space changing? Or put another way, are there platforms or capabilities that are happening within the RIA channel that is going to contribute to more breakaway advisors in the future?

David Canter:

I do. I think that all of this goes back to, and you have a front row seat, if not the best front row seat is just the mosaic of choice that advisors have. If they're leaving what we call a captive environment, like a wirehouse, you can start your own firm, you could align with an outsourcer, you could go into an existing platform, you can work in an environment where you're just an independent contractor. Many of these choices have been around for a long time. It's just that the scope and the services and frankly, the degree of choice is expanded.

Louis Diamond:

Absolutely. I completely agree with you. The choice is what's driving a lot of the movement, but also the support and infrastructure that's available. It's not just, "Hey, let's build it brick by brick," like we used to have to, or, "Let's go to a broker dealer." It's everything else that's in between. And certainly a Bluespring is one of those market participants that helps not only to help people establish their business, but also provides a really attractive exit opportunity. And I assume that's probably part of your perspective as well, is you mentioned the influx of private capital, but it's not just how do I build my business, how do I sell it or how do I exit it, and how do I transition the business? And from where I sit, there's more options. There's more compelling choices for those looking to exit than ever before. It's not just an internal transaction like it used to be.

David Canter:

That's absolutely right. And in fact, that's a great observation, Louis, and I think there's seven choices. So maybe during this conversation, I can tell you what I think the seven are, would love to see if you agree with me.

Louis Diamond:

Let's go. Bring it on. What are the seven?



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David Canter:

Here we go. Choice number one, if you're an advisor and you're looking after clients, do nothing. You don't have to do anything. But in my view, if you do nothing as you're thinking about your future, it's probably at your potential peril in that of your clients. Number two, and you nailed it, pursue an internal transition to G2 or in some cases G3. By the way, all of these have pros and cons and perhaps we can talk about them today or maybe in a future podcast. Choice three, sell a minority stake. That's a pure capital transaction, and again, pros and cons.

Choice four, sell a majority stake, but maintain full or close to full operational control. And that can be harder to do when you do a majority stake. The next choice is the Bluespring model. Sell a majority or full stake, maintain your brand, keep your entrepreneurial spirit, but you're part of a different family. But you still have your client experience, your brand, and you've sold a majority or full stake. The next choice is join an integrator. So sell a full stake or perhaps less, but generally a full stake, your brand goes away. You get to take advantage of a number of operational processes, other services, and focus on serving the client.

Louis Diamond:

Now an example of that would be like a Mariner or CAPTRUST or a Mercer?

David Canter:

I don't like to characterize other cohorts. I have a lot of respect, by the way, for each of those firms that you mentioned and know them personally. But I think that's right. And then finally the last choice is try to do it on your own and do a cross-town merger or a regional merger and create that scale. So I think many of the choices that involve combining businesses and processes involve scale. Just taking capital and not getting scale is probably on the other end of the spectrum. But let me pause, Louis. You know this space well, what am I missing? What are we missing? Are those the choices or are there others?

Louis Diamond:

I think those are the choices. Yeah. If we're thinking about how to transact your business or solve for succession, I think that's right. Maybe an eighth one would be looking really hard to find someone to hire, whether it's an acqui-hire. So acquiring a small practice to come in and be your succession plan or going out and hiring a servicing advisor or an advisor with a small book to come in and facilitate that somewhat internal succession plan. I think the great thing is that, like we talked about, there's choice. Eight different options. There's pros and cons of each. There isn't one that's dominant, otherwise that would be the only thing advisors did. So as advisors look to monetize their business, it means that a really active market can develop because they have the number one option is do nothing. And then if they wanted to go external, there is tons and tons and tons of choices and you're leading the way on one very compelling option as well.





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David Canter:

Well, great. Whether there's seven or eight, you're right. What has happened over the last five years I would say is just this explosion of choice and choice is good. It's good for the advisor, it's good for the consumer, it's good for the profession.

Louis Diamond:

Absolutely. In the past, I've heard you talk about how independent advisors need to find their unfair advantage. I love that term, unfair advantage. Can you elaborate on this and maybe some examples of advisors or firms that you think have really leaned into this concept?

David Canter:

Absolutely, and I get that term because I do a lot of work. You've heard me talk about this here in Boston with a group called Boston Harbor Angels. We invest in startup businesses at really the ground level, the angel investing level. And by the way, as an aside, it is a great way to produce tax losses. But we always ask five questions. What's your target market? What are your capabilities? Who are the people? How are you organized? What is your infrastructure? And finally, what's your unfair advantage? What makes your business distinct so that it can't be replicated?

And I just think that is a question that applies to really any business, whether you're in the wealth management space or running a lemonade stand for crying out loud. By the way, most lemonade stands, your unfair advantage is, well, the block better than anyone else where you're operating that lemonade stand. And I think that all advisory firms overlook the one unfair advantage that they have and often forget is that they know more about their clients, their clients' lives, their families of the clients from a financial, emotional, and other perspective than almost anyone, including the families themselves. So that's what I mean by an unfair advantage.

Louis Diamond:

So it's not just knowing what your unfair advantage is, but it's also, I would assume, leaning into it and investing in what that advantage is and maybe better articulating what it is to potential prospects and clients.

David Canter:

Absolutely. We have a firm that's part of the Bluespring network called Curo Private Wealth, and they specialize in working with women in transition, with women who are going through any number of life events including a divorce, and they lean into it. And that's one of their unfair advantages. We have other firms in the Bluespring network that may have a specialty working with a particular company and their benefit plan. So these are examples that I would say that are endemic, if you will, to an unfair advantage.





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Louis Diamond:

That's great. So let's pivot to Bluespring then. How come you decided to make the move to become the President of Bluespring in the middle of 2022? Obviously you had a really compelling and interesting job within Fidelity, so why'd you take on the challenge of starting something new?

David Canter:

Yeah, thank you for asking that, Louis. I had enjoyed a great career at Fidelity and yeah, again, I'm just so grateful that I had that opportunity, have a lot of respect for the company. But like many people, I had been doing it for a while and there were three things, you know me, I talk in threes and fours, that made me think, "Well, it's time to see if there's another mountain for me to climb." Number one, I had reached a degree of mastery, or at least what I thought was mastery in the role. Number two, I had played a role in developing a really, really strong team that's still there at the company who are my great friends. And then the third thing is give other folks a chance, and at the same time wanting another challenge, another mountain to climb as folks might see and learning.

And I believe in continual learning and growth and improvement. So I looked around the marketplace, I talked to a number of folks. I also would never go to any type of company that could be viewed as competitive, so I wanted to work at a place that was complimentary, if you will, and Kestra, Bluespring are good clients. And so when I found this opportunity to lead and help grow and develop a platform, it really appealed to me. So there you have it. Here we are. And also I got a chance as part of the get to know you, to know the partner firms that we work with at Bluespring. James Poer, who's my boss, I've known him for over a decade and have a lot of respect for him. So it all just fit. And in this point in my life, probably like you, you want to work with people who you can bring out the best in them and they can bring out the best in you, and it worked out to be a great fit.

Louis Diamond:

Terrific. And you mentioned Kestra. So Bluespring is a business unit or a subsidiary or a partner within the Kestra financial family of businesses. Can you just explain broader Kestra and where Bluespring fits into this order?

David Canter:

Sure, sure. Bluespring is part of what we call the Kestra Holdings ecosystem. So Bluespring is the RIA acquisition unit, a separate subsidiary. Actually we call ourselves a practice management consultancy that just happens to be in the RIA platform and acquisition business, and I can come back to that in a moment. But then we have some sister businesses. We have two hybrid RIA broker dealers that are part of the family. One is Kestra Financial, another is Grove Point, a more regional hybrid advisor and broker dealer. There's a trust company called Arden Trust. We have an investment management function called Kestra Investment Management.



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And it all is designed to provide a platform, if you look at all of these services to serve advisors and investors, it just so happens that Bluespring focuses on RIA acquisition. But we do so from a practice management perch because we are trying to help the advisors that we ultimately acquire and partner with grow and compete in the marketplace and offer them a broad set of capabilities. But we take it as our duty, our mission, if you will, that any firm that we talk to, we want to, even in the event we do not elect a partner, to provide some value as they think about their future, as they think about perhaps the seven or eight choices that we talked about, or they think about ways to grow, they think about ways to expand their talent base.

Louis Diamond:

Interesting. So you hit on some of the value prop of Bluespring, but maybe just take it back to square one. What does Bluespring do? How does it work? And when you look to acquire or partner with a business, what does that look like?

David Canter:

So we look to partner with standalone firms that are standalone RIAs or perhaps a standalone firm that is an RIA that is also drafting off of a broker dealer platform. So they may have some broker dealer business, but the thrust is they're in the advice business. They're fee-only or fee-based. And to date, we've done I think 29 acquisitions. We're in 17 states, and our model is the entrepreneurial model. When we buy a firm, the firm maintains its own brand. The firm maintains its own client experience, its special sauces if you will.

But our goal is to just help them grow faster. Now here's what we look for, Louis. We're looking for firms that are doing at least a million dollars in EBITDA. We're looking for firms that also have a non ensemble practice that they represent, so a team-based approach, no silos. And then further, we're looking for firms that have not just G1 advisors but G2 so that there is some built-in succession. And our goal, of course, is to help them grow and evolve in the marketplace. We also take a number of functions off their plate so that we can make them more efficient. We like to say we're a time machine.

Louis Diamond:

What services does Bluespring provide? Many people can write a check, but what does someone get in return, in addition to the capital?

David Canter:

Yeah. So right off the bat, we take HR, we take benefits, we take financial controls, financial reporting, some technology tasks off the plate. And then we have a set of services that are on offer that the advisory firm can take advantage of but is not required, and that includes our marketing consultancy. We have a number of consultants on staff, which includes a team of 70 in our technology team that is also part of our larger ecosystem. We also have an expanding set of what we call platform services that



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we're looking to build into our platform. And I didn't mention also on offer, our Kestra investment management function. So I mentioned our investment management expertise and our trust company. So a number of things we take off your plate right off the bat, and by the way, I forgot to mention talent acquisition, which is such a key focus right now in our marketplace, and then the other services are what we like to call on offer. We don't mandate anything that would disrupt the way our firms manage the client experience or deal with prospecting for new business.

Louis Diamond:

Got it. I like that, the time machine. You are taking off their plates, we'll say, the non-value add activities or maybe the things that don't contribute to their unfair advantage.

David Canter:

You're exactly right, Louis. We like to call them the defensive tasks, the tasks that don't implicate really that core unfair advantage, that core way of servicing clients and prospecting for new clients.

Louis Diamond:

Terrific. And just to clarify, so let's say Bluespring acquires an RIA or an independent practice, are they maintaining their form ADVs and keeping their own RIA, or are they joining a centralized platform? Meaning they're joining the Kestra corporate RIA, registering to the Kestra broker dealer, et cetera. How does that work?

David Canter:

Well, interestingly, the answer is both. If we're acquiring a standalone RIA with their own ADV today, they maintain it. We don't change it. They don't fold into any other ADV or entity. But we have acquired some firms that are on the Kestra platform today that draft off of the Kestra ADV and broker dealer services, and they stay exactly where they are.

Louis Diamond:

Very interesting. So if you partner with the firm that desires to keep their own RIA, are they still doing compliance or is compliance transferred to Kestra or Bluespring?

David Canter:

Great, great question. They still maintain responsibility at the local level for their compliance, but we are actually right now in the process of expanding our scope of services to support compliance.

Louis Diamond:

Very interesting. And that is a differentiated model, because many investors in the space, they would mandate joining a shared platform where there's many financial buyers who are providing capital and



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maybe some strategic expertise, but you're not getting the full suite of services that you mentioned. So it seems like, and you probably agree, that it is a one of a kind model right now in the market.

David Canter:

We certainly feel this way because before Bluespring was started, and Bluespring's a new company, it's only been, it's coming up on four years. It was founded at the beginning of 2019. The team surveyed the marketplace and took a look at what advisors really were looking for. And as you know, there's been a lot of choice, but the team made a very conscious choice just to really address three things. Again here I am, Canter and three, founders wanted to have a solution where they could maintain their brand, maintain their special sauce. They wanted to provide an avenue to transition the business, especially those that operated on ensemble that had G2, but they didn't want to get paid out of their own cash flow. And then third, they wanted to, while maintaining what they do best to take some of those defensive tasks that we talked about off their plate. So that's how Bluespring was carefully curated, designed and crafted.

Louis Diamond:

It sounds like advisors who may consider partnering with Bluespring, they're doing it for a multitude of reasons. One might be to take chips off the table for succession planning, but with the group that already has a built-in G2, and you said instead of using cash flow, meaning instead of just paying an advisor out over a couple of years from the cash flow of the business, instead it's external capital coming in and basically writing a much larger check day one without the business really paying for the transaction itself. That's one use case. The second one I would assume are folks that maybe have hit a ceiling on the complexity of their business and they're bogged down with running the day-to-day and they want to partner to take a stuff off their plate. Is that accurate as two use cases for who partners with Bluespring? And are there any other archetypes or types of situations where someone would consider transacting with you?

David Canter:

I think those are two very fair use cases. The other element that I should emphasize is I think that the advisors that are a part of our network want to be part of a community. So we do a really detailed job, careful exercise in trying to understand how a new firm would fit into our culture. And through the events that we do, through the best practice sharing, we're trying to curate a community and a culture that is one of collaboration and continuous learning.

So we're careful stewards of the culture, and it's the old adage that you know quite well, is that advisors that have run these businesses and have done so very well and successfully want to be a part of something bigger than themselves. And I think that is also an attraction for the G2. I should mention that we operate in partnership with Philip Palaveev, who, something called our G2 Successor Academy. So one of our unfair advantages is that we are all about succession planning and we buy firms, or I



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should say we partner with firms that have G2, but we are here to help further develop them as they grow into being the leaders and growth engines of these businesses.

Louis Diamond:

And Philip, for anyone who isn't familiar, is the mastermind behind the book, and I think his company's even called the Ensemble Practice, which is extremely influential in the space. So I guess what's an example then of, so you partner with a firm that has a G2. How is it that Philip and your team are helping to groom that G2? What are a couple specific things you're helping them master?

David Canter:

Sure. Well, every year we send a number of G2 leaders to the successor academy that we operate with Philip. And it's a two-year program where they participate in studies in business simulation and also in peer-to-peer learning as they think about real challenges, problems, opportunities associated with running and growing these businesses. So we're actually in paneling our next class as we speak.

Louis Diamond:

Very interesting. And that's a challenge for any standalone business is how do you take time to train and groom the next generation? If you're lucky enough to even have it. So it seems like the practices you're partnering with, they already got things figured out. They're already successful, they've thought ahead to have a G2, but maybe there's something missing that couldn't be accomplished by remaining a standalone.

David Canter:

Precisely right.

Louis Diamond:

How about, so we talk often to advisors or firm owners that are considering selling or merging their practice. And hands down, the hardest concept for a business owner to grasp is what's it going to feel like to give up a controlling stake in the business? With your model you don't have to fully conform to a brand and to one way of doing things, but you're not only answering to yourself, you now have a new owner and there's certainly some elements of control that you give up. How would you counsel a prospective seller on giving up control and thinking through this really challenging concept?

David Canter:

Well, you'll appreciate this, Louis, because it goes right to the way you approach transitions because these are transitions. I always ask, "What's driving you to make this decision and why now?" So why and why now? And then it's an emotional exercise because basically we're working with founders who are having a transition with respect to their life's work. So it's all about understanding motivations, understanding how we can be a help, how we can be a force multiplier, how we can actually help things



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grow over time, but craft a solution for their clients and their associates. When we talk to founders, they really are concerned with three things. Here it is, Canter and threes again. How can I make sure that my clients are looked after? How can I make sure that my associates and teammates are looked after? And then finally, how can I make sure that I'm getting a fair price for this business that I've worked so hard, put blood, sweat, and tears into over the years? And so that's the paradigm that we try to operate within.

Louis Diamond:

Yeah, I agree with you. Even though you're very compelling and very good at your job, you're never going to talk someone who isn't ready to give up some element of control and transact their business into doing a deal. All you can do is give them the perspective of how you might be able to help them, and perhaps if their needs or gaps match with yours, then you have a shot at earning their business. So I completely agree with you.

Let me come at you with two likely objections you get very often I want to see how you respond. The first one is, okay, I'm selling today, but I'm growing the business. I'm going to keep growing the business. It's great that I am able to take some cash out of the transaction, but I'm going to be making less going forward. Why would I opt to sell today?

David Canter:

It's a great question and one that we do get, but what we've very carefully put in place is the right set of incentives after the transaction. Because most entrepreneurs, perhaps every entrepreneur that we've ever talked to says, "Hey, I want to get a fair price for the business I've created." But everyone wants a second bite at the apple, in some cases the third bite at the apple. So we've put in place something we call our growth incentive plan, which gives the founders, the business owners, in many cases the G2s who may or may not have been owners at the time of transaction, a chance to participate in the ongoing growth of the business.

So it's an important issue and it's one where we have put a lot of thought into because there needs to be alignment going forward. So that's our tool, if you will, to help answer that question. We have other tools though. As I said at the outset, our model does give entrepreneurs the chance to retain some degree of control in the existing business so they don't have to transact all immediately. So that is one way to have another bite at the apple as well.

Louis Diamond:

Very interesting. In your model, you are still allowing for the acquired firm to own some equity in their business or own some cash flow, or once advisors sell to Bluespring, are they on a salary and then they participate in this growth incentive plan? How does that work?

David Canter:

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So the answer is when you sell to Bluespring, in all cases you become not just an employee of Bluespring, but at an appropriate time, the growth incentive plan will come into play. But as you noted, and as I said, you can retain the original equity in the business and have access to a portion of that cash flow as well.

Louis Diamond:

Understood. So it's also a differentiator because there's still plenty of profit incentive to keep growing the business. You're selling some of it, but you're not selling it all and there's still plenty of skin in the game you have to keep growing the business and keep driving new revenue.

David Canter:

That's right. And every sort of structure we put in place, we're very attuned and motivated to make sure that there are incentives for all parties.

Louis Diamond:

Yeah, it sounds that way. All right, here's my second and my final, even though there's many more, objection that you likely get, I have an internal team or I'm going to go out and find someone to come join me. Isn't it better for me just to sell internally and just be loyal to the people that have gotten me here? Why would I sell to you?

David Canter:

Well, by the way, I think internal successions are a wonderful tool. The problem, not the objection, but the problem that we found is many of the G2's lack the capital to actually fund the equity transfer of some of these businesses just because they become so valuable and they don't have that capital. And in some cases they're not willing to take on the risk that is associated with it. That's why we believe our model is very helpful because an owner can transact, we can put in place for not just the owner, but the G2's, this growth incentive plan, or we found creative ways how we can actually assist in some transfer, a small amount or a larger amount of equity at the time of transaction.

So the G2's can have a bite at the Apple at that point. So I guess I should really emphasize, we've been talking around this, ours is a flexible deal structure. We realize that you can't just craft deals within a template or out of a box. So we like to collaborate with firms that we're looking to partner with so that we can make sure that everybody's concerns, needs, and desires are accounted for.

Louis Diamond:

I like that. And I think another way to think of it too is if you transact with Bluespring, it's still a form of an internal succession plan. You're just bringing in some external capital and external resources to bolster the transaction.

David Canter:

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That's right.

Louis Diamond:

I like it. So over the years, you've personally watched and supported at Fidelity and at Schwab, many of the major acquirers, probably all of the major acquirers, and you've encountered really all of them throughout your travels. I'm curious to hear your take on where Bluespring's model fits into this broader ecosystem, given there's so many different options for those looking to sell their business, and it seems like there's new acquirers and new very well-capitalized platforms out there that are gunning to buy or partner with similar firms. So where does Bluespring fit into the universe?

David Canter:

Yeah. Well, as we talked about earlier in our seven or eight choices, we're right there in the middle. We are a platform. We enable you to sell your business a majority interest or the full business, but we have a whole bunch of services that we provide you or put on offer, and you get to maintain your entrepreneurial spirit and your brand. So we are right there in the middle. We like to think we're the Goldilocks choice. But the great thing is there are a lot of choices and this year we'll close the year having done eight transactions, so a record number of transactions for us, and the future looks bright.

Louis Diamond:

What's an example of a transaction that you think either you're especially proud of or one that it was just an interesting story that represents what Bluespring's about?

David Canter:

Nobody wants to say a favorite, but how about this, Louis? I don't know when this podcast will drop, but here we are at the end of 2022 and I think we're going to drop a press release next week with our last transaction of the year that we're quite proud of.

Louis Diamond:

Okay, I like it. So I'll wait to see the press release. How about with all the acquirers in the market, do you think the market is oversaturated with buyers or do you think there's the right number right now, or maybe not enough?

David Canter:

Yeah. It's funny, you asked a question that Phillip Palaveev asked me last week, I happened to have been speaking to a group of his G2 alumni in Austin, and my response was define over-saturation. I think that there's just phenomenal opportunity out there. There's phenomenal opportunity because markets go up, markets go down, but as we said, the number of advisors continues to be self-renewing. And as you know, this year, perhaps we'll end the year, let's say north of 200 transactions in the RIA space, but you're going off a denominator of around 30,000 if you include SEC and state registered advisory firms.

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So there is a secular opportunity just with the aging of some of these founders, and I see no slowing down, quite frankly.

Louis Diamond:

So it's not a depleting oil well because there's constantly new firms that are created and as one gets bought up or shuts down or transitions out of the business, there's probably three more that are going to replace them in the market.

David Canter:

I think that's right. And founders have to think about their future. And the great news is they are, and they're not just waiting for what my good friend Mark Hurley called, believe it or not over 10 years ago, that white swan event that the minute they magically think they're going to retire, that this white swan is going to appear and buy their business at top value. Yes, that can happen because there are any number of white swans like Bluespring out there. I like the sound of that, by the way, a white swan landing on a blue spring. But you just have to think about your future and those seven or eight choices that we talked about earlier in this discussion.

Louis Diamond:

So you mentioned the value of a business. So any business owner, any advisor probably loses some sleep at night thinking about the value of their business. Has it breached a peak? Is it going to drop? What are valuations at? So we're recording this podcast very end of 2022. Can you just comment on valuations overall? Obviously I'm not going to pin you on what multiple is Bluespring paying, and obviously that's private and a lot of factors influence it, but maybe just directionally or trend-wise, where are valuations now relative to the past and where do you see them going?

David Canter:

I think valuations are strong, and I think that it's just an indication of where these businesses have been and continue to go. As you know, they're steady cash flow businesses. Markets go up, markets go down. This has been a market in 2022 that at least the equity markets and in some cases the bond market has had some challenges. But I do believe that the market has a steady heartbeat. And I think that for good businesses in the RIA space, meaning those that are growing businesses, they'll command very, very fair and full value.

Louis Diamond:

And do you think there's room to run on valuation or do you think we're at a high point for a while now?

David Canter:

I think that there is, every situation demands its own examination, quite frankly. So I'm not the person to ask about year over year trends in all of the transactions because I don't think anyone really collects



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that data. Perhaps if there was a consortium of investment banks that shared, but I see this is a very good market for both advisors that are looking to transact and for firms like ours that are looking to transact.

Louis Diamond:

Yep. I would agree with you. Let me ask you a question about just let's say the mindset around valuation. So many advisors who are weighing the possibility of breaking away from a captive firm, they're doing so focused more on the long term. They're thinking about the value of their business, their enterprise value, and they're doing it knowingly, really not taking a large upfront check, taking the short term liquidity of a recruiting deal from any number of firms. But a major part of this is expecting or thinking about selling the business in the future. So ideally selling it for a really high valuation. How would you counsel someone who is thinking of breaking away and saying, "How do I know that these high valuations are going to be there in the future?" What would you say to that?

David Canter:

I think it's, here we go, Canter and twos, not threes, focus on having a sustainable growing business. So growth. Growth is the elixir and you know that better than anybody, Louis. But then back to what we've been talking about, do the steps that are necessary to professionalize your business, understanding your P&L, understanding how investments in the business will move the needle and focus on your talent. So maybe I did manage to get three in there, growth, professionalizing in all aspects, and focus on talent. Because remember, as we all know, it's that talent that these advisory firms maintain, whether it's the founding principle or up and down that value chain that really powers these businesses.

Louis Diamond:

Got it. So it sounds like if you do the right things, you focus on how to run a really good business, then it sounds like you think the rest of it will take care of itself. So I shouldn't worry that five years from now or 10 years from now, valuations are going to be low. I guess no one can know that you're saying just think about what you can control and good things tend to happen.

David Canter:

I do, and I think getting educated on the marketplace what your options are. Just because you don't want to transact today, maybe you want to do it three or five years from now, but understanding your options and watching longitudinally, the evolution of some of these platforms is a good thing. What we found is that some of the partners that we've transacted with have really resulted from a multi-year relationship that's been cultivated over time.

Louis Diamond:

Very interesting.



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One last question for you. If you were counseling a firm or an advisor who was going to break away and they were considering a sale in the future because everyone should really think about their business as a business and part of that is transacting the business in the future, whether it's to an internal team or to an external buyer, what would be a couple piece of advice you would give to this future seller?

David Canter:

Number one, focus on the team. Do you have a multi-generational cross-functional team that serves clients in a true ensemble? Because that's going to increase the value of your firm, but it's also going to really demonstrate that you have a succession plan, not just for equity and operational purposes, but for client services purposes. And maybe that goes to the operational piece. Number two, focus on your growth engines. How are you growing the business sustainably over time and consistently? Where are your drivers? Are they from centers of influence? Are they from client referrals? Maybe a mix of the both.

And maybe you're focusing on other lead generation tactics such as digital marketing. And then the last piece of it is continue focusing on how you are operating the business and what that looks like if you're going to transact going forward. But those are, I think, the easy ones. And a great example is a firm that I think I talked about on the last time I was on your podcast, which is a firm called Core Financial in New York City. That's the way they exited the wirehouse environment and transitioned, and they were almost tailor-made because they were multi-generational. They were a growing business, and they thought about what their unfair advantage was. So don't overlook the unfair advantage either, I guess.

Louis Diamond:

Yeah, that's how you're going to stand out against the crowded field. That's terrific. David, thanks for coming and sharing your wisdom.

David Canter:

Cheers.

Mindy Diamond:

As David shared, M&A opportunities will continue for those who have taken the time to professionalize their businesses and focus on finding and nurturing talent, but ultimately, demonstrable growth is the elixir for the right capital partnerships. I thank you for listening, and I encourage you to visit our website [diamond-consultants.com](http://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.



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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](mailto: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. And again, if you enjoyed this episode, please feel free to share it with a colleague who might benefit from its content. If you're listening on the Apple Podcast app, I'd be grateful if you gave it a star rating 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.