MINDY DIAMOND ON INDEPENDENCE A PODCAST FOR FINANCIAL ADVISORS CONSIDERING CHANGE

EPISODE TRANSCRIPT

From Merrill to Hightower to $3B RIA: How Verdence Doubled Twice

A conversation with Leo Kelly, Founder and CEO of Verdence Capital Advisors.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is, From Merrill to Hightower to $3B RIA: How Verdence Doubled Twice. It's a conversation with the founder and CEO of Verdence Capital Advisors, Leo Kelly. I'm Mindy Diamond, and this is Mindy Diamond on Independence. This podcast is available on our website, 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. 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.

Happy but not satisfied, it's a common refrain we hear from top advisors and their teams who are ultimately driven to change, not because they're unhappy with the status quo, but instead because they feel a pull towards something better. Such was the case of Leo Kelly and his team at Merrill, The Kelly Group. Having built the business to some $600mm in assets under management, the pull of entrepreneurialism and being a true fiduciary to their clients was too strong to ignore. So, in 2012, they made the leap to Hightower, and in five years, they doubled their business. But by 2017, Leo felt Hightower was going in a different direction than they were. That motivated them to make yet another leap.

This time to full on independence, launching Verdence Capital Advisors. Five years later, the firm is now managing $3B in client assets more than doubling the business once again. So, what's driving all of this incredible success? Leo describes Verdence as a collaborative family culture, one based on building a business with a client as the architect. It's that same ethos that drives their platform-based business, giving financial advisors access to client resources, all with the goal of making it easy for them to deepen relationships with clients, create new relationships, and grow their businesses. In this episode, Leo and I dig into the key ingredients that make up Verdence's formula for success.

He shares how this start as a copier salesman from Trenton, New Jersey laid the groundwork for his entrepreneurial mindset. Leo discusses life at the wirehouses, what he liked best, and what was missing. He shares what initially attracted them to Hightower and why they chose five years later to leave the platform to launch their own RIA. We discussed Verdence's hyper-focus on the culture and how that is not just a value proposition but a way of life. Plus, Leo talks about the investment from Emigrant and the value of taking on the right capital partner at the right time and much more. It's an incredible conversation with lots to discuss. So, let's get to it.

Leo, I am incredibly grateful for your time today. Thank you so much for showing up and being willing to have this conversation with me.

From Merrill to Hightower to $3B RIA: How Verdence Doubled Twice

A conversation with Leo Kelly, Founder and CEO of Verdence Capital Advisors.

Leo Kelly:

Thank you for having me. It's a pleasure to be on the podcast.

Mindy Diamond:

Thank you. All right, lots to talk about. So, let's get to it. Let's start at the beginning. Tell me a little bit about yourself and mostly your path from being a research analyst at Bloomberg to a nationally ranked advisor at Merrill.

Leo Kelly:

Sure. Great. First of all, the story actually starts before Bloomberg. I have a weird background. I actually didn't go to college until I was in my 20s, because my senior year of high school, I grew up in a very modest background. One would say poor, and I was selling copiers my senior year of high school. I'd go to school for half a day and sell copiers for half a day. That's really where my entrepreneurial spirit was born. I was 17 years old. I was running around trying to make some money, got out of high school, and decided to continue with the copier business, and did that for about five years before I woke up one day and said, "This is not what I want to do the rest of my life." But those skills really carried forward to obviously going on in the business.

To answer your question directly, I started at Bloomberg while I was still in school. I was going to school for finance. I was passionate about the markets. I was as an analyst at Bloomberg in the derivatives vital statistics department. It was about as much market geekiness as you could get. We were digging in deep to markets and how they function. It was really a fantastic learning experience in terms of how the markets work and what we see from the outside and what's actually occurring on the inside of the markets, but I knew when I was at Bloomberg that it was just a learning experience and not a career. I wanted to be in front of clients and I wanted to be a problem solver.

I had the fortune of having one of my professors in college ask me to go meet with her husband who was at the time running financial planning for Merrill Lynch. So, I looked at the opportunity. Rather to go to New York and be a trader, I spoke with Merrill. It made sense to me, financial planning. It made sense where the business was headed, and I went and joined Merrill. So, my first job with Merrill was actually on a financial planning desk answering financial planning questions from advisors all over the country. So, again, a learning experience, building my portfolio, if you will.

So, that when I was ready to go into production, that I would have something to offer clients and advisors. So, I did that for a couple years. Then actually, my last job at Merrill, I was the east division manager for financial planning and that's when I met my mentor and my friend, Bob Costas, who is a legend in the business who suggested I come down from Trenton, New Jersey to Baltimore and start my practice in Baltimore. I did that in January of 1999. So, that's how I managed my way into production as they say.

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I love it. What a great story. So, you mentioned that there were a lot of transferrable skills that you learned selling copiers and then being an analyst at Bloomberg that contributed to your success. Our listeners will soon see that a successful business you certainly did build. So, what were some of those skills that you learned in those early days that contributed to the success of the business you ultimately built?

Leo Kelly:

Sure, in the copier business, I think I really took away two really important lessons. One is how to communicate and deal with people. Selling copiers is an incredibly difficult business. They're not the most loved product by business owners. They're more of a necessity and everybody seems to be pretty much the same. So, you really had to differentiate yourself as someone who they believed in that you would do the right thing for them to be one of their partners. At a very, very young age, I learned how to communicate, how to answer problems, and how to stay in contact with clients and build relationships beyond the transaction. I thought those were fabulous lessons to learn.

Mindy Diamond:

For sure.

Leo Kelly:

I think the other big lesson I learned was how to handle rejection. The reality of that business is it's hard and you get a lot more no's than yeses. So, in our business, especially as a young advisor trying to build a business, handling rejection is as important a skill as almost anything else that you have to deal with when you're first starting out.

Mindy Diamond:

Indeed. Okay. So, let's talk then about the business you built as a financial advisor at Merrill that ultimately landed you in the elite circle of champions. So, what were some of the things that you think you did differently than others to build that business?

Leo Kelly:

Mindy, that's a great question. I think first of all, I was motivated. When I left Merrill, my wife is a pharmacist in New Jersey just starting out, and I was doing well at Merrill. She could be a pharmacist in Maryland. So, we took a 75% pay cut to come down here and start this business. I was only being paid on the assets that I brought in. So, as they say, Columbus burned the ships. We came to Maryland where we didn't know anybody and we were highly motivated. So, that was probably the first reason for success. Specifically, financial planning at the time was still not the core element of financial advice that it is today.

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There was still a large contingency of advisors that wanted to keep the business "old school" and make it about stocks and information about stocks. We were out there solving clients' bigger picture problems. We were talking financial planning. We were building long-term plans. We were doing asset allocation work at the height of the tech bubble. So, we were able to talk to clients in a manner that was different than the norm. That really appealed to folks, and we were able to build a significant asset base in a short period of time because we were using those skills.

Mindy Diamond:

Interesting. But over time, financial planning became more commoditized, probably less of a differentiator. So, over time, what was the secret sauce that landed you in the circle of champions?

Leo Kelly:

There's a couple different pieces to break down in that question. The way we built the business that we built was one, we were incredibly diligent. We were not running a sales operation. We were running an advisory operation. We looked away from products and let's just say some of the hot products that were really the products of the day. We really just focused on long-term financial advisory and it really did pay off. We avoided a lot of the catastrophe of the tech bubble and we were in good position going into the financial crisis, because we stayed focused on what was important to the client. I always say build a business as if the client was the architect. If you stay focused on that, you'll have success.

I think the other area that really helped us build our business to a significant level is we were really out working in the arena with much higher net worth clients and we weren't afraid to be in that arena. We were bringing in much larger clients than the normal advisor. Then I would say the final piece, Mindy, and this was a pet peeve I had at Merrill Lynch and I really do still have it today in the business. That is we invested heavily back into our business.

So, in an environment where advisors were "focused" on payout and taking their money out and sticking in their pocket, we were pouring the money back and we were treating our practice at Merrill Lynch like it was a business. We were investing in human resources, technology, whatever we had to do to get an edge for the client.

Mindy Diamond:

That's the part. The last part you just mentioned, that was the most unique as far as I hear it. In the early days, more than say a decade or 20 years ago, advisors were not doing that. I mean, independence was only for somebody that either was about to get fired or a very rare individual. It was unheard of to do things like that. So, I think that's probably most unique and interesting. So, do you remember how much were you managing when you left Merrill to launch Verdence, which is the business you run today?

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Leo Kelly:

When we left Merrill, we had about $600mm under management. Our headline read $700, but again, the wirehouses include debt as an asset, which I always thought was interesting accounting. So, we were managing about $600mm.

Mindy Diamond:

Okay, so you are now at about $3B, I believe. So, that's five times growth in what period of time?

Leo Kelly:

Well, since 2012, we had really two stages of growth. From 2012 to 2017, we went from $600 million to about $1.2, $1.3 billion. Then we went from about $1.2, $1.3 to $3+ in the last five years since becoming Verdence.

Mindy Diamond:

Okay. So, I'm going to want to spend time really digging into that. What do you think are the things most responsible for it? But if we can just give our listeners a little bit of perspective, Verdence is a business that now manages about $3 billion in assets. In how many offices, Leo?

Leo Kelly:

We have office here in Hunt Valley. We have one in Alexandria, Virginia, and we also have a presence in Los Angeles, California.

Mindy Diamond:

How many staff and partners? How many people work under the Verdence umbrella?

Leo Kelly:

Yeah, all together, including myself, we have 40 people.

Mindy Diamond:

Okay. You mentioned high net worth clients. Give us a sense of how high net worth the average client is and the work you do for them.

Leo Kelly:

Sure. Verdence is actually broken down into different businesses. It's one of the core attributes to the way we operate our business. We call them growth lines. When we talk about the type of client that we have, Mindy, it really has to be broken down into the business unit. So, Verdence family is our multi-family office business, and those are minimum of $25 million and higher.

We have clients from 25 million up to several hundreds million, and those clients have a different delivery model than do other facets of the business. Our ultra-high net worth business is essentially that $10 to $25 million client and then we have our wealth management business, which is the below $10 million. We also have Verdence Pro, which is a pro athlete business where we have former players in the NFL and in college that are managing assets for players.

Mindy Diamond:

Interesting. Okay. What an interesting business mix you've got. So, let's also talk, what does the name Verdence mean? How did you come up with that?

Leo Kelly:

Yeah. When we first went out to get a name for our company, the funny thing is for anybody that ever starts a business, you go in and you think you're going to have a name like Clearview Financial or something simple. Once you find out, not to suggest that people at Clearview, whoever they are, picked a bad name, but what you're going to find out is that every traditional word has been used in one way or another.

So, when we told the folks that were helping us to build a name, one of which is now our chief marketing officer, we told them we wanted to really present our name, what's important to us. One is that we were independent and that we were really honest and true independent. Meaning always the client first, no conflicts of interest. So, Verdence is a combination of the Latin word, Veritas, which is true and independence. So, true independence.

Mindy Diamond:

I love it. That's probably a good segue to a question around being a true fiduciary. I know that that's how you describe yourself. So, here's my question. Most RIAs describe themselves as true fiduciaries. Most wirehouse advisors, they know they're not necessarily held to the fiduciary standard, but they think of themselves as true fiduciaries where they would always put their client's best interests first. So, to your way of thinking, what's really the difference?

Leo Kelly:

Well, I have a saying around here and that is there are no exceptions and then there's everything else. So, being a true fiduciary is that at the very heart of what you do, you're an advisor. You don't float in and out. There are RIAs out there who are great advisors, but they float out of being a fiduciary to sell an annuity or to sell an insurance policy or whatever the case is. Wirehouse advisors, again, I have friends back at Merrill Lynch and other places, great advisors, wonderful people, but nonetheless, there are still products in their mix. They don't even know the fees that are being charged behind the scenes, by some of the bigger wirehouses. So, they can't really be a true fiduciary.

So, for us, the model that we built Verdence on from the very beginning was the only revenue we were going to make as a company were the advisory fees, which would be transparent and fair. The client would know exactly what we were charging for our advice, and that everything else, we would be on their side of the table and we would go out to Wall Street. We would find the best opportunities for them, and we would pass that through directly to them and not make any money on anything else. No soft dollars. I don't even let my guys go out and take a round of golf from a manager, nothing. We are a pure advisor.

Mindy Diamond:

Do you think that an advisor that works at your old firm, Merrill or at UBS or any firm on the street, is limited in what they can get access to for clients?

Leo Kelly:

I think inherently there are pros and cons to almost every model. One of the challenges we had, I can't speak to my friends there. I could speak to what we experienced. We had a couple different challenges. One, hidden conflicts of interest where there was what we call scrape, where the client goes through the system and everyone's scraping a profit. So, fees for spreads or for a product to pay all the different aspects of the large business. Secondly, we found that because of risk issues in big wirehouses, the wirehouses had to manage to the lowest common denominator of risk. So, there were challenges. We had to go find unique opportunities to clients. I can give an example, private equity.

All the private equity deals that were being offered were big, and it was marked as, "Hey, we get KKR." Well, I can get KKR. Getting KKR or any other big name popular private equity deal isn't really the issue. It's those small niche plays that really can make a big difference for our clients that aren't available because of the "risk". So, yeah, I do think there are restrictions in the big wirehouses. I think there are restrictions if you're an RIA and you're too small to take advantage of opportunities, it's an interesting niche right in the middle of all of it where I think you get the optimal outcome.

Mindy Diamond:

The other thing is you describe yourself as a private wealth advisory firm and you mentioned a multi-family office. The term MFO gets thrown around a lot and it's sexy. What does it mean exactly, and what are the family office type services you're offering your clients?

Leo Kelly:

Well, one of the reasons there's so many different offerings is because there's so many different opinions and views of what family office is from the client's perspective. Their needs are quite diverse. So, from our perspective, the way we look at family office is we want to take a family and we want to deliver three specific opportunities for them. It's the three pillars of our family office offering one complexity management, which is time. Time is finite. No matter how much money you have, the clock ticks the same level and at the same speed. So, we want to give clients more time. So, what is that? It's concierge services, it's bill paying, it's basic core services that free the client up to enjoy the lives that they're living, real estate management, et cetera.

The second is capital allocation. I use the term capital, not asset, because a family office client wants to take advantage of the unique opportunities that their wealth brings them. Here's another example where we have an advantage here that we didn't have at Merrill Lynch. They want to bring us opportunities brought to them and have us due diligence to those ideas and give them a point of view. They want us to bring them single one off opportunities to buy into a business or a piece of real estate. They want us to bring them into unique startup deals or funds. They want something that is not mainstream.

That's something we spend a tremendous amount of time and effort and financial resources to build. The third is legacy preservation. That is not just passing the money on, but to educate and to ensure that the next generation understands what the money stands for, what your intentions are, what's the moral fiber that you want to weave into the next generation. That's legacy management. So, those are the three pieces we focus on, and there's a myriad of services that fall under each one of those categories.

Mindy Diamond:

Let's talk then about some of your motivation in building this business. I guess it's a good segue to back up the train and ask you a little bit about your work history before Verdence. So, let's start with the time at Merrill. You spent about 12 years there until 2012, and wondering what was going on at the time that made you decide to explore options elsewhere, at the time you decided to leave Merrill.

Leo Kelly:

Yeah, actually I was at Merrill for 15, because I started in corporate and then went in production '99. So, you're right, I was in production for 12 years. It's interesting, Mindy. I would tell you that up to the very close to the moment I left, I would've said, "I'm just going to retire at Merrill.". I bled Merrill Lynch blue. I loved my time there and I loved my friends and people there. When you're a big asset manager at Merrill, when you have a big assets under management number, life is good. It's almost like working while you're sleeping. It's easy, but that's not what we wanted. So, there were a couple catalysts that really brought us to come to the decision leave Merrill. The financial crisis was a big one.

I call the financial crisis my moment of discovery despite just weeks before Merrill went under being in New York with one of the top people at Merrill and a client who just sold a business and telling us how Merrill was perfectly fine and there was no danger. Watching literally weeks later, the company on the verge of collapse and rushing into the arms of Bank of America. That was somewhat jarring for us. From that point forward, we wanted to have better control of the safety of our client's funds. Secondly, in that process, because of that moment, we opened our eyes and it really was now my duty. Talk about fiduciary duty.

It was my duty to clients, not to just stay at Merrill because it's easy, but to actually look around and understand what was out there and not have staying at Merrill be an opt-out decision, but a proactive decision. When we started to look around, what we found was that the independent space, because of the technology revolution in the early 2000s had become very sophisticated. I looked at Credit Suisse at one point. I looked at Morgan Stanley at one point. I kept looking at that and saying, "This isn't different, this isn't better." But when we really took a hard look at the independent space, we realized this is it. This is the best source of opportunity for clients as well as the best source of our growth if we're independent and we have a different relationship with clients.

Mindy Diamond:

I love that answer and I'll tell you why. First of all, I love the part if you decided to stay, you wanted it to be less an opt out decision and more of a proactive one. The way I say it to the people I counsel all the time is exploration and education gives you an opportunity to either determine if there is in fact greener pastors elsewhere or to stay from a position of greater strength because you've determined that there isn't. I'll ask you something interesting. Just earlier this week, I interviewed Andy Sieg, who as you know is now president of Merrill Lynch Wealth Management.

He talked a lot about the good that's going on in Merrill and talked to the picture of how the interconnectivity between Bank of America and Merrill Lynch advisors gives clients an all under one roof access and some good stuff, undoubtedly some good stuff. But it seemed to me that his perspective is all about the fact probably, and not just him, but every wirehouse leader believing that productivity or being successful and the ability to grow your business, having a $600 million under management and growing, equals contentment.

You are actually describing the exact opposite of that. I agree with that. I actually asked him that question. I said, "Do you think that productivity equals contentment?" He said, "I don't know about contentment, but that's what advisors want, a platform they can really grow and be successful." I actually think advisors want much more than that. So, that's a long-winded way of asking you what do you think?

Leo Kelly:

I think you're spot on. Andy is a terrific guy. Again, I have friends at Merrill and their platform is just different. The way I would respond to that question is a couple. One is we tell clients that we break the business down into three facets. There's custody, which is holding your assets in a safe fashion, which nobody ever thought of until the financial crisis and executing in an efficient manner. There's advice, which is what we do every day, telling folks what to do with their money, how to do, what it means, helping them through decisions. Then there's what I call manufacturing and manufacturing is the production of product to execute on advisory plans, whether it's a stock, a bond, a fund, a private equity deal, whatever it is.

At Merrill or any other wirehouse, they have a shelf that they pull from. If the best option for the client isn't on their shelf, those advisors are not even legally allowed to let the client or sell away. That's illegal to sell away. So, that's inherently an issue for me. I had that issue when I was at Merrill. So, that's the answer to the Andy Sieg question, but I'd love the fact that as an independent, we go anywhere and everywhere to find the best outcome for the client. As an independent, we break down those three different facets. We separate custody, manufacturing, and advice. Everything under one roof is convenient, but it inhibits competitiveness and it's the competitive process that turns out to be the best outcome for the client.

The answer to your other question is contentment. It's a great question. I found myself at Merrill making a lot of money, really in a routine, and going on wonderful trips and so forth, and I found myself not having that contentment. I found myself really starting to feel that entrepreneurial burn. That fire I had when I was 17 selling copiers starting to dim. I started to ask myself, is there a better way? Am I really being a businessman? Am I really being an entrepreneur here? I thought I was a businessman for several years, but I realized what I was, was a practice manager. There's an enormous difference between those two. So, that bubbled up inside of me and the financial crisis was the catalyst.

It wasn't the reason. It was the catalyst that put me back into that lane, that entrepreneurial lane. I'll fast forward. I ended up at Hightower for a little while, and this answers your question. What I remember very distinctly was my first trip to Hightower, I went and I looked at all the different attributes of Hightower and what they were doing. It was my first trip and I came home. My wife, we've been together since we were 18, so she knows me well. My wife looked at me and said, "What?" You could see it in my face. She said, "What?" I said, "I'm leaving Merrill." She said, "You're going to Hightower"? I said, I have no idea, but after what I saw today, I know I can't stay where I am.

Mindy Diamond:

You couldn't unsee it once you saw it. I love that. So, that's my next question for you. So, you left Merrill more than a decade ago to join the first iteration of Hightower. Hightower 1.0, which was their partnership model. At the time, I believe you and every other advisor in that iteration were offered a mix of upfront cash and equity as W2 employees. That was groundbreaking, transformative for the industry. I remember Elliot Weissbluth asking me what I thought. I said, "No advisors are going to go to some unknown name Hightower and go for only 100% when they can get to close to 200% upfront."

But he proved me wrong in a big way. So, my question to you is this. You joined them then. It was about four years into their history and before the firm completely transformed its strategy. So, what was it? Why Hightower? What was it specifically about Hightower that intrigued you, that made you say after visiting them, I'm leaving and why were you willing to go for 100% cash and 100% equity versus an offer much bigger from just about any other traditional firm on the street.

Leo Kelly:

There's quite a bit to unpack there, Mindy. The offer of cash, obviously, the equity didn't turn out to be 100%, but my offer from the other wirehouses was far, far greater than 200. I had a big business and we ran our business like a business which was attractive to them. Very much today, like today, we run our business like a platform business. So, the easy decision was take the check and you're done. Hightower was a unique offering. The answer to Hightower specifically. We had decided that we wanted to be independent. We had gotten that far. But again, there's a certain realization and I encourage new entrepreneurs, never let your ego get in the way and be honest with yourself.

I think when we looked at ourselves honestly, we realized we didn't know how to run a business. I didn't know anything about being the CEO of an RIA at that time. I had to learn. We just thought learning on the back of our clients wasn't fair to our clients that we were already going to create a lot of change for them. So, Hightower made sense. The original reason that attracted me to Hightower was that they were going to be the business wrapper around what would be an independent practice. I could be independent, I could be a fiduciary, and I had this business partner to take care of all of these unique facets that you don't think of sitting in an office at Merrill Lynch.

So, that was an incredibly attractive offering and that's what I saw that day when I was there the first time, but that wasn't the reason. The reason why I chose Hightower was I started to meet the partners. Back then, Elliot was bringing in very large teams, almost exclusively. We were bringing in the big teams from the wirehouses. It was a hyper-growth environment. It was hyper collaborative. There was a lot of idea exchange. There was a lot of energy. I say it all the time and I'll say it in this conversation, it was the best decision I made in my career, because I was able to become an independent.

I was able to learn how to be a businessman in that business specifically, but I also met wonderful people that I'm still very close with, who also gave me tremendous insight on how to be a better advisor and how to be a better partner. That learning experience was invaluable to what is now Verdence. So, it was the partners and going and seeing the partners interaction with each other, that was the difference.

Mindy Diamond:

Okay. So, then five years ago, you moved off the Hightower platform and started your own RIA. So, what was the motivation for that? What changed?

Leo Kelly:

Well, I was heavily involved in Hightower. I was in the advisory council to management, and I was a heavily engaged partner and an energized partner. I would say somewhere several years after I got there, there was a change in focus from what I originally came in. There was talk about becoming a publicly traded company. They were starting to change their model, how they bring in new teams. What I saw was the shift was to a different business model. Again, not to

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say it was a good or bad shift. It was just different than why I came. We were one of the larger teams that we were growing very fast and we had very large aspirational visions.

Hightower, which started as come over and be a crazy entrepreneur and do wild things and grow, suddenly wanted us to conform and that's fine, but our vision was different to the direction that they were going. So, we had numerous conversations with Hightower about what we were trying to do. Over a multi-month conversation process, I think both sides realized we were just headed in two very different directions. So, well in advance. A year before we left, both parties agreed that it was time to split the companies up. We were really excited about going 100 miles an hour in the direction that we envisioned.

Mindy Diamond:

I love the fact what you're saying is no regrets for having joined Hightower. You learned, you met great people, you learned how to be a business owner. Clearly, you might have grown apart, but it set you up for extraordinary success. So, actually, I wanted to circle back to what you said. I mean the firm has grown, your business has grown 5X in little more than 10 years. You said the first tranche of growth came from $600 million to $1.3 billion in the five years between 2012 and 2017, and then the next tranche was $1.3 billion to where you are today at about $3 billion. So, talk to us a little bit about what's been most responsible for those tranches of growth and how did they differ in those two periods?

Leo Kelly:

Sure. The first period is at Hightower. So, in the first period, for us, it was take a step back for a year. In both cases, it's interesting. Our growth happened in even sharper spurts because the transition year, going from Merrill to Hightower, there's really not time for growth. It's really about stabilization, getting our clients comfortable again. If I had just gone to Morgan Stanley, maybe it would've been easy, but this was something completely different. So, once we got everything stabilized, then we could focus on being independent and taking advantage of the opportunities that independence brings in the different relationship model. We were learning how to be independent. We were learning how to be fiduciaries. It sounds simple, right? Just be it.

But when you're speaking the same language for so long at a wirehouse, you literally have to learn to change the way you think about things. So, over the next four years, that's when the growth started to kick in. Part of it was bringing in a lot of new clients and part of it was being smart in the business, but the other part was telling people our vision and starting to recruit folks, bringing in partners from Merrill Lynch and Wells Fargo and starting to bring people who believed in our culture. We haven't talked about this yet, Mindy, but we're culture fanatics. So, when we started to have folks buy into our cultural vision, they wanted to be a part of it and that started the first stage of growth at Hightower.

Mindy Diamond:

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So talk to us, you say fanatics about culture. What does that mean exactly? What does that look like?

Leo Kelly:

Everything we do is about people. So, the clients first, as I said, architect the business that the client would want us to build. Our people are incredibly important to us. I know that's always said and I know it's cliche, but the reality is this is family here. We spend a lot of time together. I care deeply about the people. We care deeply about each other. So, this business is designed not only for the client's success, but for everybody in this building's success. I have a saying here. I want our folks to run 100 miles an hour and feel like they're walking. That's our culture. What I mean by that is everybody's given this God-given gift, whatever it is, and we want to find out.

I think we're pretty good at finding great people of great character who can be great family members and then find out what their unique skill is and then let them do it all day long and they will operate with massive productivity. They'll get better outcomes to clients. Clients recognize their energy and it overall just drives productivity. The only way to be successful with that, Mindy, is you have to have a hyper collaborative culture. Everyone has to work together and trust the culture.

So, that if someone is great at A, they know somebody else who does Z very well got their back and is doing that at their maximum potential. So, if you're going to have that culture, you have to have a culture of trust, you have to have culture of caring. That includes how we compensate people, how we create benefits programs. It's how we interact with each other. It's the time we spend together, the laughs we have in here. This should be a place where we enjoy being and it should be a place where everybody feels confident in the growth of their careers.

Mindy Diamond:

I imagine that all of that translates into something the client sets.

Leo Kelly:

Our clients talk about it all the time. Especially new prospects, they come in and they say, "We just feel it. You guys are different. We feel it." It's the energy level. One thing that we do when we meet a new potential prospect, they may meet 15, 20 people on the team in their process. We're not hiding anybody in the back corner. We want our clients and our prospects to meet everybody, talk to everybody, and engage with everybody because we know we have great people of great character. So, yes, this all drives growth.

I think the important facet to this though is you have to truly be a fanatic, not just say it. You got to believe it and you got to live it. It's easy to talk about all this stuff, and then as I said in earlier in our conversation, there's no exceptions and there's everything else. So, if you're going to have that family collaborative culture, you've got to live it. You can't just talk about it.

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Mindy Diamond:

Yeah, it's got to be true and authentic. I think what you shared about that is a great lesson, even for me as a business owner who I am fiercely protective of culture and being really true to who we are and living it through every person in the organization. What you shared is really a gift, and I thank you for that.

Leo Kelly:

I'm just going to expand on that real quick. There have been on more than one occasion, but I'll never forget the first, when we were still young and still really just taken off. Obviously, no names, but we met with a very, very large producer at Morgan Stanley who came in and sat with us. In two meetings, the person had genuine interest, but it was clear that this person was not a culture fit.

Mindy Diamond:

You had a no jerk rule, right?

Leo Kelly:

At the time, when we're trying to kickstart our growth, this would've been an enormous victory from a numbers standpoint or from a PR standpoint. We were two meetings in and we literally called the individual and said, "Hey, not a fit. We appreciate the time and good luck." I could tell you the individual was stunned, but you have to be true no matter how tempting it is.

Mindy Diamond:

Yeah, that's a great example. That is not easy to do, particularly when you are in building mode, but that's where so many organizations go wrong. They're tempted by especially amongst first responders hiring big names, but it doesn't necessarily do anything to foster the culture. But let's go back to how that culture has really impacted growth, that next tranche from $1.3 billion to $3 billion. I know recently you sold a stake in Verdence to Emigrant Partners, which is a prolific investor in the RIA space. So, why now? What was the motivation for that and how did that impact past growth and future growth?

Leo Kelly:

Sure. I think I heard two questions. One is the growth of how we got up to that point, but I'll take it from Emigrant. When we started talking to potential capital investors, we were a couple years in the business. We were building our platforms out. We have a sophisticated institutional level investment platform, a private equity platform, our family office platform, et cetera, et cetera. What we were doing was we were building a business that was scalable. One thing we focused on, and I think it's one of the reasons why we're growing fast. We think we're on the absolute dawn of another explosion of assets here. We focused on the platform before the growth and we invested in the platform before the growth was here.

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We're never afraid to invest in front of our growth. If you wait until you've already gotten there to put the money in, then your business is always stressed and that slows growth down and the client feels that stress. You never want to hear your client say, "Oh, I remember the way it used to be," or "You're getting pretty big now." What you want the client to say is, "This is great. I saw what you did. That's incredible. What does that mean to me?". You want the client invested in your growth strategy. Our clients are. They get excited about the different changes that we make here in the investments. So, as we were building this platform out, we are really excited about the direction. We measure everything.

We always know when big growth changes are coming and we were excited about the direction we were headed. There was a moment which really changed the direction or the trajectory of Verdence. We were talking to an RIA, a very good one. We were talking to them about joining our firm. At the time, we were smaller then. They were about half the size of us, and the conversation had progressed well. Then one day when we were close to the end, the client looked at our balance sheet. We've got a startup balance sheet and we paid Hightower some money to leave. So, we had some debt that we decided to take. They looked at our balance sheet. When we look at it, we were like, "Yeah, that's no big deal. We're growing. This is our vision."

They didn't see it that way. They looked and said, "Wait a minute. What about this and what about this?" We took a different look at how we're viewed by the outside world. Then we started to look at our growth plan and how we were going to capitalize our growth plan. We came to the conclusion at the time where we didn't need the money and this is the key if you're ever going to take a capital partner on. We were in great shape. We had a great balance sheet. We had clear growth plans. We had plenty of earnings, but we said no. If we're going to really do the growth strategy we want and really accelerate our growth, a capital partner really is going to be essential. I use the word capital partner, not capital. That's really important, Mindy.

We did not select Emigrant because they have money. We selected them because they're a great partner. Going back to culture, we needed somebody who understood our culture, who believed in what we were doing, who understood that we wanted to grow, wanted to be a part of that growth, not just fund it, not just what's my rate of return or send me your books, but somebody, who was engaged with our business and we did a very long search because quite frankly, we didn't want to sell anything.

But we decided that having that capital partner for future growth, having the right capital partner with permanent capital made a lot of sense. I should say too, by the way, we sold very little and we really just sold enough to establish a relationship with Emigrant and none of us pulled a single penny out. 100% of the capital stayed in the business as growth capital to make future investments.

Mindy Diamond:

Yeah, what's so great about the business today is that there is so much choice. One of the places where there are choice is that there are so many investors of all shapes and sizes and kinds that see what you see and what I see, how spectacular a well-run independent wealth management business is. The other thing that's really interesting, and you just mentioned it, is this category of minority investors. So, nobody wants to sell equity. Everyone loves 100% control, but at the end of the day, just what you said, the best investors are ones that are willing to make a minority investment, but be able to add value equal to or greater than the amount of capital they put in.

Leo Kelly:

Well, 100%. Carl and his team at Emigrant are fabulous partners. They're knowledgeable. They know the business. They have connected the partnership. It's not the same as what it was at Hightower because we were all W2 employees together, but they're connecting the principles at these firms and the different level executives at these firms. They're giving us collaboration that obviously, again, that's part of our culture. They're honest. They're straightforward, and I think the test is we're every bit as happy a year later than we were the day before or the day we got the money.

Mindy Diamond:

That's huge. I love it. Okay, so let's talk about the future then. What's next for Verdence and how do you foresee putting that capital to work?

Leo Kelly:

Well, we have been putting the capital to work. So, the future of Verdence now is we have built out the core platform for us to grow exponentially and we want to now build this brand into a national brand. Part of our culture is that there are many people here have been here 20, 30 years, who started. My partner, Avery, and my partner, Brian started essentially doing administrative work and now are full partners. There are executives here that started 12 years ago and have taken on C-level positions. Part of that culture is that you have to be honest and you really have to be honest with your people. What are you building? Are you building something to sell or are you building something? We're building something here.

We're not building something to sell. We want to build a multi-generational company that has a national footprint and we want to be a place that is known as a great place for an advisor to go and grow their business, a place that they're going to love being at, that they trust and that they know they have growth partners, right? Growth focus partners. To do that, we've had to build out our platform. As I said, we've built our platforms out to a level that far exceeds the current need. We've done that with some spectacular people in the investments and the planning and the family office space.

So, as we build out those platforms, now our job is to, A, help our current advisors manage their existing businesses and give their clients absolutely delightful outcomes and grow their

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businesses, bring in new clients that can take advantage of these platforms. We've given them an infrastructure that allows them to spend more time with their clients, which they love. Our other model for growth obviously then is to bring new advisors into the fold and that comes in two forms. One, there's a lot of people here that know the wirehouse business, right?

Tom knew our president came from Morgan Stanley. He managed a very big operation for Morgan Stanley. I was there. A lot of my partners were there. So, we think we're a great home for wirehouse advisors who really want to be in an independent model that affords them the ability to grow their practices larger than they ever expected, which is what we've done with our practices here. The other obviously is other RIAs. We are absolutely in the acquisition space, but again, we're not geographically focused. We're people focused. We want to find people who believe in what we're doing in our culture and want to grow with us over the long term. We're really excited about expanding our footprint.

Mindy Diamond:

I mean, it's a whole another podcast episode to talk about the potential to take what's $3 billion to $6 billion and beyond by adding inorganic growth to what's already spectacular organic growth.

Leo Kelly:

Well, the one thing that I think we offer and the people we're talking to today recognize is we're a proven organic growth engine. We've proven the ability to grow organically through our platforms and through our collaborative culture. The way we look at inorganic growth, quite frankly, is we want to find growth hubs. We want to find new growth engines. So, whether that's an RIA, in Florida, by the way, RIA’s in Florida, we want to come to Florida. Or it's a warehouse advisor who has a great practice and is a great advisor, but wants to be independent. We look at those not as inorganic growth. I just look at those as growth hubs.

If we can bring those folks in and inorganically, sure that helps the business, but the way we view them is what we can make them, what we can build around them, and that's when it really gets exciting to have a conversation.

Mindy Diamond:

Yeah, I love it. How about your succession plans, Leo?

Leo Kelly:

I guess I just do this until they take me out. My succession plan is I'm still pretty young. Thank God. I plan on doing this for a long time. Running this business is the most rewarding, exciting, fun thing I've ever done, and yet I'm working harder than I ever have in my life. I think that's one of the big differences. My wife, as I mentioned with her earlier, she knows we're having a great time here. We're really enjoying this. So, succession plan, what does that look like? We continue to build folks from the base level into the mid-level up to the highest level, running the firms.

I would love to see my kids, one, two, any of them come in or my partner's kids come in, be a part of this experience. We want to continue to build young talent into partners. I don't know who will run this firm in 20 years, but I want to make sure that we've established a sound infrastructure so that we can bring in talent to continue to run the business. That's my dream.

Mindy Diamond:

Yeah, and it's an awesome dream. Just one other question, Leo, any other areas of growth you are working on or expecting to come online that you're proud of?

Leo Kelly:

Yes, absolutely. Our latest growth platform is Verdence OCIO. So, we've just recently launched OCIO. Like everything else we've done, we don't just start with a name and then back into it. We've spent over two years building OCIO and getting ready for this launch. Megan Horneman, our chief investment officer, has built out the model platforms. Matt Andrulot, who will run this for us, who also is one of the best private equity guys in the business. The two of them have teamed together with our marketing head, Michelle Welsh, to really build an outstanding offering from a content standpoint, an investment standpoint, a private equity offering. We're really, really excited about this. I think we're going to see growth in two specific areas.

One is obviously whatever revenue we get from OCIO itself. We think that OCIO will be a growth driver for small RIAs. I mean, there's no question that the power of this offering is going to really open the door for growth. I think the other area where we're equally excited, if not more, is being introduced to people who think entrepreneurian. For a small RIA or a breakaway wirehouse advisor starting their own practice, to have the presence of mind to look at what we're going to offer in our platform versus what they have to build individually and say, "Hey, that makes sense. That's better for my client and better for my growth." That's exactly the person we want to talk to in terms of an acquisition potential down the road. So, great to date before you get married and OCIO is going to be just a spectacular opportunity for that.

Mindy Diamond:

I love it. So, I want to wrap up by asking you three rapid fire questions. I started asking my guests these questions just recently because I think we would love to get a sense of what the most successful in the advisors do and how they think. So, my first question, what is your morning routine?

Leo Kelly:

I get up every morning about 4:30, 5:00. I get out of bed, have some coffee, do some reading, go down. I work out, and then I come up, finish my reading, get a shower. I either head to the office or head out wherever I'm going to meet with whoever I'm meeting. That's my routine.

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Mindy Diamond:

Okay. I love it. How about the best business books you've read that helped inform your success?

Leo Kelly:

Yeah, Good To Great was a pretty powerful book for me. I took a lot of different insights from that book and I read all three of his books. I would say that's probably the biggest business impact of the books. I've read other investment books. I read Warren Buffett's book. I've read obviously the classic Value Investing, which formed my life as an advisor, but Good To Great as a business head.

Mindy Diamond:

I agree with you. I read it too and it rocked my world. How about last question? What was your favorite failure?

Leo Kelly:

Where do I start? My favorite failure was the four plus years from the time I liked girls to the time I got my wife to agree to date me that she turned me down. I failed constantly and I never gave up. I was persistent and eventually got her to go out on a date. We've been together for 35 years since.

Mindy Diamond:

Oh, I love it. Well, you speak lovingly about her. You've mentioned her three times in the past hour and lucky her and lucky you. So, we've taken up enough of your time. This has been beyond delightful, beyond informative. I'm grateful not only for your time, but your generosity and transparency and can't wait to see what the future brings, how you get from $3 billion to that next explosion of growth you're talking about.

Leo Kelly:

Thank you, Mindy. It was an absolute pleasure, and let me just say this was a lot of fun. You are an absolute pioneer in the business. You've been one of the great entrepreneurs in the business, and it is my pleasure to spend this time with you.

Mindy Diamond:

Oh, thank you so much. Leo has built an extraordinary firm, one based on taking culture beyond a cliche and making it a part of every facet of Verdence. Yet it's his notion of designing a firm as if the client is the architect that really resonates, valuable advice for any advisor or business owner considering their own practice model. I thank you for listening. I encourage you to visit our website, diamond-consultants.com, and click on the tools and resources link for valuable content. You'll also find a link to subscribe for regular updates to the series. If you're not a recipient of our weekly email, Perspectives for Advisors, click on the articles link to browse recent topics.

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