EPISODE TRANSCRIPT

Advisor Transition Report: An Update on Advisor Movement Over the Course of 2022

A conversation with Louis Diamond and Jason Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is An Advisor Transition Report: An Update on Advisor Movement Over the Course of 2022. It's a special industry update with Louis Diamond and Jason Diamond. 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. 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.

In Q3 of 2022, we embarked on an informational journey to explore trends and advisor movement over the first half of the year. Our goal was to answer the questions we regularly hear from our advisor clients. More specifically, why are advisors changing jerseys with such frequency? How are some firms able to recruit consistently and successfully while others struggle to do so? Where are advisors moving to and from? What are advisors being paid to make such moves? And that report was met with incredible enthusiasm throughout the wealth management community, including widespread sharing by industry leaders, the media, and advisors alike.

No doubt it's an enormous effort to pull data from industry sources together, curated in a way that's digestible, then add commentary based on our own unique experiences and perspective. But it was well worth it, and not just because there's no other singular source of this information nor anything as comprehensive and timely. The truth of the matter is that readers shared how valuable they found the information to be, and even more so, the analysis filled in knowledge gap that exists and changes over time. So here we are again eight months later, our goal, a loftier one, with our sights set on analyzing the entire year of 2022. I'm grateful to share the second edition of the Diamond Consultant's transition report, what has become an annual review of advisor movement in the wealth management industry. The thought leaders behind this project, Louis and Jason, have the mics on this one. There's lots to discuss, so let's get to it.

Louis Diamond:

Jason, thanks for joining us today, and for captaining the ship on the creation of this really, really exciting report.

Jason Diamond:

Oh, thanks for having me. I'm thrilled to be here. And honestly, the deals report was your brainchild, so maybe you could tell us a little bit about what the rationale was and the why behind the report.

Louis Diamond:

Advisor Transition Report: An Update on Advisor Movement Over the Course of 2022

A conversation with Louis Diamond and Jason Diamond.

Absolutely. So this is the second time we've produced this report. The first one covered the first half of 2022, but we decided it would be more relevant and just a little bit more exciting to look at a full year of data. So by looking at 2022 move data, we tried to really get into the weeds on which firms are having the most and least success in recruiting, so that advisors can really look and say, "Hmm, is my firm retaining advisors or losing advisors," and what that means. “If I'm going to consider options, who's really popular, who's doing really well? Are there any new business models that are really attractive right now?” And I think, too, what we can add differently aside from the data analysis is just our unique vantage point. Given where we sit as consultants and advocates for advisors, we've participated in many of the industry's most influential transactions, and we have our own proprietary data and our own view on things.

So layering the data that you'll talk about with our own experience, with our own commentary, we thought that this would be a helpful report to give advisors, just a quick thumbnail sketch of what's going on across the industry. Because we do get a lot of questions like, "What are deals? How have they changed? What firms are winning and losing? What's going on in the independent space? Is the breakaway movement for real? What are the most influential transitions of the year?" So those are some of the reasons why we did the report, and we'd love to hear from you how we even gathered the data. Where did we begin and what was your sources and methodology?

Jason Diamond:

Yeah, absolutely. First of all, you said this, but the reality is, the raw data is only half the puzzle here. So for the data side of things, our primary data source is discovery data. We are very honest in the fact that advisor movement data is notoriously hard to come by. Oftentimes, it's incumbent on the firms to self-report it or what discovery uses is CRD registration changes. So basically, a tracking of an advisor leaving one broker-dealer and joining another. We also use publicly available news sources like AdvisorHub, InvestmentNews, and Wealth Management. And Cerulli Associates have some really compelling soundbites and data as well that we incorporated. But again, I think that's only half the puzzle. The other half is our own anecdotal experience, our own proprietary data, and just our insights, because the data in and of itself tells a little bit of a story. But oftentimes, it's not a complete story, or in some cases, it's even a misleading story. So we try to layer in our own insights into the raw data piece as well.

Louis Diamond:

Excellent. And what was the driver of movement? So we'll get into the numbers and what firms won and lost, and all those details. But at a macro level, what do you see as the factors driving advisor movement in 2022?

Jason Diamond:

Yeah, that's the $64,000 question. And certainly, that's what every firm wants to know is what's causing advisors to move so rapidly? And I view a couple of key factors. First of all, it's a greatly expanded

industry landscape, which means an advisor is much more likely to find their version of perfect or their version of ideal today than they would've been, say, five years ago. And there are new options added to the landscape quite literally every day. We continue to see some advisors moving the combination of that expanded landscape, but also frustrations or limitations with their current firm. Think of it like pushes and pulls, so the pushes are things that you find limiting or frustrating at your current firm or model.

But then the other side of that equation is you need to have something else out there that you view as a better mousetrap. And then one more note is I think it's cool to see advisors starting to think about their business as a business. And that's not entirely a new phenomena. We've seen that, really, the last couple of years. But advisors taking a long-term view of, not just am I in the right seat today but am I in the right seat long-term? Is this the best possible place for me to grow my business and the right legacy for my business as well?

Louis Diamond:

Very good. I would completely agree with that, that advisors move for many different reasons. You really can point to maybe a specific catalyst or a straw that broke the camel's back for an advisor move, but typically, we can group overall advisor sentiment and movement into the reasons that you laid out, and I would completely agree. And on the topic of an expanded industry landscape, I think that will be a major theme of this report, and that there isn't one winner or loser in the recruiting war, that there's many firms that have become viable homes for advisors.

And our hypothesis is that's one of the many reasons that recruiting momentum was really strong in 2022. So in this report that we shared the link of, we covered 10 key takeaways, kind of an executive summary of sorts to drive the analysis. So we don't need to bore our audience with all 10 takeaways, you can see that in the report. But Jason, let's look at a couple of the most pertinent takeaways. We'll say the ones that are worthy of expanding upon. So I'll ask you to talk about, I guess, your favorite takeaway or the first one on our list.

Jason Diamond:

Yeah, absolutely. And let me just back up for a second and say spoiler alert or let us ruin the surprise for you. If you are looking for, one, this is the winner or this is the loser, you are not going to find that in our report. Because what you just said is spot on, that the winners and losers are bifurcated, and there's multiple winners, multiple losers. And I think that's part of what's so exciting about the landscape today is just how many legitimate options there are. So as a reminder for those who read or maybe didn't read our first version of this report, we're only concerned with experienced advisor movement data. We define experienced advisors as those with the length of service greater than three years. I think you'll see firms reporting stats about the number of advisors they've added, or you'll even see some other industry publications quoting advisor movement numbers, and they're using no benchmark or no criteria as far as a length of service goes.

And what that does is, it means that you oftentimes end up with trainee or junior level, or entry-level advisors being counted as competitive hires. And in our view, while those certainly count in some regards, non-experienced advisors are not what we're trying to capture here. We're trying to capture productive experienced advisors with the book of business. So we look at advisors with the length of service greater than three years, and there were 9,006 such advisors who moved firms in 2022. So that's about 750 per month. That's actually slightly up from the number we reported for the first half of 2022. And I don't know if this context is helpful, but Cerulli estimates a total advisor population of about 300,000 in the US.

Louis Diamond:

Perfect. And how do you think this number compares to 2021 and 2020, even just anecdotally, because we didn't do the report then.

Jason Diamond:

I think it's pretty much in line. Usually, we see around 4% to 5% of advisors switching jerseys each year. So 9,006 is slightly below that number. But again, remember, we're only looking at experienced advisors. We're also not counting advisors who dropped their Series 7 and went fee-only. So I think that the headline number is, more or less, in line with the number of moves we've seen in previous years, but I think it's the deep dive or the look under the hood that is different, which is a good segue I think into our next point. So, Lou, do you want to talk a little bit about who are the winners and losers on both the wirehouse side and also the independent side?

Louis Diamond:

Yeah, absolutely. And like you said earlier, we can't really point to a recruiting MVP or a least valuable player because there really isn't one clear answer. But looking at the channels in particular, so in the report you'll see that we broke down the channels into wirehouse, boutique, regional, and independent. Wirehouse, boutique, and regional are all W-2 options. Independent is as it sounds, either 1099 independent contractors of an RIA or of a broker-dealer. And again, independent isn't fee-only advisors, it's hybrids or dually registered folks. Looking at the wirehouse side, zooming in, that was actually the channel that experienced the most attrition. The wirehouse channel, overall, lost about 504 advisors over the year while gaining 1,339.

So of the channels, wirehouse has lost the most, and independent actually gained the most with a net increase of 673. But looking at the four wirehouses in particular, I'll double click into the data. I guess we'll start with the bottom. Who lost the most amount of advisors on a net basis? And that would be, this year, Wells Fargo. This is a little bit misleading, because Wells Fargo, when advisors move from their W-2 private client group to their independent side, FiNet, which was a major trend this year, and we'll expect it to continue in 2023. That appears as a loss for the wirehouse side because they're going independent. So not truly leaving the firm, a little bit misleading. We actually saw Wells pick up their

recruiting momentum this year after a number of years of negative headlines. They actually did quite a nice job gaining 326 experienced advisors. But again, the FiNet numbers probably dragged down their net a little bit.

Next up would be Merrill. They lost, on net, 155 advisors while adding 441. Merrill is a little bit tricky of a case for our analysis because, I would say, they're guilty the most of adding advisors who don't really have books of business, even those that have three years length of service or more, maybe it's someone with five years length of service who has $40 million coming from a bank, and that is juxtaposed against losing a billion-dollar corner office team. So I would say all these firms are somewhat guilty of that, but Merrill more so, because of their recruitment focus, which is on low length of service folks rather than competitive hires. So Merrill was the second biggest loser on the wirehouse side, losing 155. But again, we think it's actually probably a little bit greater as far as the magnitude and scope of those advisors, and what they meant for the Merrill Lynch culture.

Next up on the list is UBS. UBS, I would say, is a tale of two halves. They lost, on the year, 87 advisors, gaining 127. The first half of the year, this looked very different. They were more negative than positive, had barely recruited advisors because their stated strategy was to focus on organic growth and really not recruiting competitively except in select circumstances. But that really changed in the second half of 2022. We put in the report, but they had a get-it-while-it's-hot recruitment deal that was, honestly, pretty above market. It was, in their view, fully guaranteed, meaning, there weren't backend hurdles for an advisor to hit, and that really increased advisor movement. They saw an over 70% increase in advisor gains in the second half of 2022. And we think it's largely due to this get-it-while-it's-hot deal that had a drop dead date and catalyzed advisors to move sooner, and probably even got some teams that wouldn't have moved if it wasn't for a crazy once-in-a-lifetime deal.

And then I would say the top gainer, both as far as headcount gain but also on a net basis, was Morgan Stanley. They were up 189 advisors on the year, so the only one that was positive, and gained 445 advisors. Not totally surprising. Morgan, of all of these, is the most... We'll say open to experienced advisor recruiting, probably similar to Wells Fargo. So the full year, they were active in adding advisors. But advisors, too, are really resonating with their acquisitions of E*TRADE, of Eaton Vance, of Solium Capital, and tends to be the wealth management focus of Morgan Stanley leading today. So all four gained meaningful headcount, but obviously, the net numbers in attrition somewhat tells a different story. Let me pause for a quick second and let me move to looking at the independent side of the ledger. So we just talked about the wirehouses and the channel, overall. On the independent side, that channel was up 673 advisors on the year, gaining 6,800-plus advisors, and again, up 673. And they were the winning channel based upon our analysis.

Indie side of the ledger, I'll say the big got bigger or the rich got richer. The biggest and most established independent broker-dealers were by far the most successful in recruiting new advisors in 2022. I think in part it's the larger firms have the ability to pay more, to bring recruits over, more competitive

economics, but I think it's much more about stability, the story that they tell around scale, and likely for not being sold. There's been a lot of consolidation at the BD level, so advisors who are going independent for the first time or moving from independent to independent, they tend to prioritize these larger firms because they tend to have the scale to invest in technology and platform. LPL was by far the largest gainer of advisors. This was a little bit misleading because in their banks and credit union business, they added some mega bank programs, so that changed the numbers. Cetera was up over 400 advisors, also a little bit misleading because they already owned First Allied, was a broker-dealer, part of their holding company, and they merged First Allied, which is about 345 advisors into Cetera.

But still, they retain those advisors and it is a win. And then FiNet was up 270, we'll have to give FiNet a nod because we have to account for the lost advisors on the W-2 side, they were up 270 advisors on the independent side, and most of this, almost all of it, was advisors moving from W-2 to independent. And a couple other MVPs of the independent channel, Ameriprise on the independent side did a really nice job gaining over 200 advisors. Cambridge and Raymond James did a nice job. And then we also called out Purshe Kaplan Sterling or PKS. They gained 76 advisors. We added them because they're the ultimate proxy for advisors that are running RIAs as hybrids. So you can see by, at least, our proxy here that the hybrid RIA channel, so those launching an RIA and keeping their brokerage business had a nice gain, and PKS is the leading BD for those having RIAs.

Jason Diamond:

Let me ask you a question. So you spoke... And just to rewind to your wirehouse story, and we're going to talk a little bit about predictions for the future, but you mentioned Merrill adding more low level or junior trainee type of advisors. My understanding is, and in reading the news, and just from even speaking with Merrill leadership, they're slowly starting to get back into the more traditional competitive recruiting game. Do you see that playing out differently? When we tell this story again a year from now, do you expect that number to look different?

Louis Diamond:

I think to an extent, so far, that hasn't really materialized. I know they are more open to the executive-level experience advisors, the typical pool that UBS and Morgan, and Wells Fargo are fishing from, and quite honestly, what Merrill has always recruited. But it's not, I would say, as aggressive of an approach as you see with those other wirehouses. So I think they'll continue to gain some very selectively and, I think, focus on the private banker segment more so than they have. And then I think continuing with their low LOS strategy is, again, I think, will be somewhat whitewashing the true story, which is losing some very large teams. And as of this recording, we've seen three, actually, $10-million-plus teams leave already and it's only February of 2023. So I think when we tell the story again next year, it's going to be about very large teams leaving and likely replacing, once again, with somewhat inexperienced hires.

Jason Diamond:

Yeah, I think that's right. And I think the one, maybe, gap that we didn't touch upon is we spoke about the wires on the traditional firm side. I just want to briefly mention some other W-2 models, so the regional firms and the boutique firms, and we'll talk a little bit more about how the regionals and boutiques have represented the best of both worlds where you have these flatter management structures, less bureaucracy, less pressure to cross-sell, less red tape, strong cultures, payout grids that change less frequently. But still, the scaffolding and support, and in many cases, the brand of a big firm.

So worth mentioning, the regionals, I think, had a really strong year, raw data skewed a little bit because we categorize Edward Jones as a regional firm, and Edward Jones was down fairly tremendously. They lost almost 400 advisors and only added just less than 200 advisors. And then on the boutique side, no surprise for anybody who reads AdvisorHub on a regular basis, but First Republic and Rockefeller continued to crush it, especially with those top of the food chain types of advisors. So maybe the inverse I would call of the Merrill strategy, they're really targeting the $5-million-plus corner office type teams.

Louis Diamond:

Exactly right. And can you talk a little bit about another... We'll say zoomed in analysis that we're working on that will be released in March.

Jason Diamond:

Yeah, absolutely. So I think one of the things that we were curious about on the heels of this report, so we put together this report which shows... I don't know. 391 advisors left Edward Jones, but perhaps that doesn't say enough about, okay, well, where did those advisors move to, right? And we tried to touch on that a little bit, but within the confines of our report, that covers almost every firm and model in the industry, it's hard to go deeper into each of those. So we're excited. We're going to be publishing in about a month's time, maybe a little less than a month's time, zoomed in reports or micro reports on select firms. We're going to start with UBS, Merrill, and Edward Jones. So it'll really just be shortened or abbreviated version of this report, but exclusively focusing on each of those firms, and a zoomed in or a under-the-hood look at what's driving the movement, where their advisors are leaving to, where they're gaining advisors from, et cetera.

So, excited about that. More targeted to advisors who are at those current firms or who are considering those specific firms. But I do think that deep-dive analysis will be helpful because the reality is some of the raw data can certainly be misleading. And you spoke about some of the ways in which that's true with advisors, for example, sliding between channels, like the Wells Fargo moving from PCG, their W-2 channel, to FiNet for example. It's actually a very good segue. One of the themes we highlight is firms offering multiple affiliation channels or flexible ways for advisors to affiliate with them. Can you talk a little bit about that?

Louis Diamond:

Yeah, absolutely. This was probably a theme in the first half of the year, and it's likely going to be a theme for 2023 as well when we go back and do this report. But firms continue to innovate and find flexible ways for advisors to affiliate with them and really alter what the relationship with the firm looks like. So for example, Wells Fargo, we've talked about PCG, W-2, and FiNet. That's been around for a while, but I would say that the acceptance within the firm of advisors going W-2 to independent really picked up. And it's very successful in retaining advisors because, my guess is, many of the advisors who went to FiNet from W-2 land probably would've gone independent at another firm if that wasn't an option. We saw Stifel dust off an independent arm, been rebranded Stifel Independent Advisors, and that's in partnership with their W-2 model.

LPL always had multiple channels, but they really pushed their chips the center of the table, pushing Linsco, which is their independent employee model. So W-2 option for the first time and strategic wealth services, and hybrid RIA, and their core affiliation model. Ameriprise has always had both independent and W-2. Raymond James has been a leader in this advisor choice concept, so W-2, independent RIA. So I think we'll continue to see more firms doing this. A question that we get often is, "Will Merrill or UBS, or Morgan Stanley create an independent arm?" We still think the answer is no, at least for now. Andy Sieg in this podcast, when we had him on, he addressed that question head on and legitimately said no. And we haven't seen any movement from UBS or Morgan Stanley.

But I would expect other regional firms, and even firms that have these multiple channels, continuing to find new ways to meet advisors where they are. And it's smart from a advisor retention standpoint, advisors don't have to leave to alter their relationship with the firm, and also from a recruiting standpoint, because it's an ultimate hedge that, okay, come over as a W-2, but don't worry, if you want to be independent 10 years from now or five years from now, you can do it without having to repaper. So you were able to kill two birds with one stone, especially with multi-generational teams.

Jason Diamond:

So let me ask you a little bit more about that, and I'll give two different scenarios. So the one is the Wells Fargo situation, which I think is unique. I mean, we're hearing from Wells Fargo advisors who are currently on the PCG platform or another channel within Wells that want to slide into FiNet, and in some cases, they're facing two-plus year backlogs. Let's table that because I think that's probably a situation that's unique to Wells. But backlog aside, is it as easy as you just described to slide from one channel to another? Is that literally as simple as flipping a switch, and then I'm W-2 one day and 1099 the next?

Louis Diamond:

Yeah, I think slide's probably a bit of a generous term and exaggerates the amount of work that goes into setting up an independent business. I think from the client standpoint, it is typically just a one-page form, and there isn't really terribly much change, which is probably the most important. But certainly on the advisor side, you're still finding office space, creating LLCs, creating a website and a brand, procuring health insurance, and truly altering the way you do business. And of course, there is some politics

involved. If you're especially a larger team, do you have to go and notify your branch manager, who is counting on your revenue, that you're going to go independent. So it is there, except with the Wells Fargo situation that we're hearing, at least, they don't block advisors from moving. But it's certainly still a lot of work. But I would say less work and less risk than leaving the firm all together.

Jason Diamond:

Yeah, I think that's well said. I think I agree that the internal politic, oftentimes, hear from advisors who say things like so-and-so, at this firm, told me if I'm not happy on the W-2 channel, well, I'll just slide right into the 1099 channel.

Louis Diamond:

Exactly right.

Jason Diamond:

And it's certainly true, and your point is a valid one, that from the client perspective, it probably is just about that simple, but there's always a little bit more to it than that, either logistically and operationally, or just from an internal firm politics perspective.

Louis Diamond:

Absolutely. So let me ask you a question about... This is one of the takeaways too. When advisors are leaving a particular channel, let's say I'm a wirehouse team and I'm looking to transition, are they more likely to move to another wirehouse? Are they more likely to go independent or go to a boutique, or regional? And really the same question for if I'm independent, do I go back to a wirehouse, do I go to a W-2 firm, or do I change my independent affiliation model? How would you answer that?

Jason Diamond:

Can I just answer that with a yes? I'm kidding. But that is the answer, is that all of the above, and I think that's what's so cool or exciting about the landscape and the movement we saw in 2022, is that advisors are moving to and from quite literally every pocket of the industry. Certainly some models had more success than others, but there's no one blanket statement you could say like, "Oh, well, the wirehouse model is dead," or, "The regional model is not effective." Every single model had some success. When you look under the hood about where are advisors moving to and from, I think the interchannel move is still the most common, meaning, advisors staying within their current channel and switching firms. So to give an example of that would be like an advisor moving from Merrill Lynch to Morgan Stanley, meaning, staying within the wirehouse channel. That is particularly true on the independent side of the ledger.

So independent advisors almost never go backwards or move back into a captive W-2 employee model. We call those colloquially break-back advisors. It's a rare phenomena. Typically, advisors who are independent, stay independent, which is not to say that they do not move, because they certainly do, as

you alluded to with the number of independent advisors who made a move in 2022. But the two common moves that an independent advisor would make would be either moving to another or a different independent broker-dealer or sliding more into the RIA channel, whether that's starting your own RIA or affiliating with an existing RIA. I think it's also worth noting here that the lines are increasingly blurred between the two models. In fact, many broker-dealers hold themselves out as RIA-like models. We view the difference as third-party institutional custody, I think, is an important piece of the RIA versus many broker-dealers that are more captive custody and clearing solutions.

But I do think, probably what I'm most excited to see for 2023 is how does the story you just asked about continue to play out? Do we see wirehouse teams sticking in the wirehouse channel or do more and more of them look towards independence, or look towards boutique firms, which like I said, many view as the best of both worlds. Same deal in the regional and boutique buckets. Are those advisors happy in that lane or are they likely to go to the independent channel, or to a different bucket, or model?

Louis Diamond:

Mm-hmm. Well said, and let me ask you this. So we saw this year that the wirehouse has lost the most amount of advisors on a net basis, independence gained the most. Do you view the wirehouse model as broken, and if we do this report in 2030 or 2035, are the wirehouse is still going to be a player?

Jason Diamond:

The wirehouse model is absolutely not broken. It has its flaws, it has its warts. I think even wirehouse leadership would admit that. But the wirehouse model will always be a player in our industry, and there's a couple reasons for that. Biggest reason is that there are just some advisors who are just most comfortable in that model, of a really big established brand name, the biggest and most sophisticated brands on the street, all resources under one roof. They're just a really known entity. I think most advisors know exactly what they're going to get from a wirehouse. It's not to say there's not differences among the various wires, because there certainly are, but the model as a whole. I like to say that the death of the wirehouse space is greatly exaggerated.

The other thing that this data doesn't shed any light on is size and productivity of advisor, and I think it's an important point. So you look about at the number of advisors who either left or joined the wirehouse space, you have to recognize that the wirehouses are often the most productive and largest advisors in the industry. Certainly when you compare them against the independent space, that's true, particularly the independent broker-dealer space. So even though the wirehouse is maybe adding fewer advisors on a headcount basis, the advisors that they're adding are often mega teams. Certainly true that they're also losing in many cases, mega teams, but the size of advisor is an important piece of the puzzle. And the reality is the biggest and most productive teams in the industry continue to work at wirehouses. I think the point we just make is that while wirehouses will continue to have success, they are not the

only legitimate option for big teams anymore. When that might have been the case 10 or 15 years ago, a team at Morgan Stanley had two options, either stay put or consider another wirehouse.

Louis Diamond:

Yeah, I agree with you. I think you're right. The size and productivity of wirehouse teams drives it. And quite honestly, I think the wirehouse approach is we can be more productive and more profitable with less headcount. So headcount isn't the end all be all. As we innovate on our technology, and teams add specialists and specialties, then we can really add more clients and more revenue per advisor without necessarily adding the same number of folks. So I think that's exactly right. Let me talk about deals. I think a lot of people are probably interested in that. That's not one of our takeaways, but we have a whole segment in the report that you can look at for more detail. I'll just briefly touch on what we saw for deals in the calendar year 2022.

Almost every year, I would say since the financial crisis, we talk about deals being at a high point or a high-water mark, and honestly, it's true every year. The length of deals has sometimes expanded, which increases the size. Maybe it's inflation, but I think it's also expectations are, "Okay, I'm expecting 300% because that's what it was last year." It's hard to go backwards and do something less, and we certainly saw that play out in 2022. The baseline deals or headline deals, it stayed relatively consistent with the year or two before, but there were certainly some major outliers that really paid up for the largest teams in the industry. And I would say the top deal for the biggest teams went up for the top bid. So the valuations for businesses went up for the ones you'd expect.

But even for ones that, or let's say, are below the mega team threshold, we saw deal structures get more advisor-friendly. So backend's being a little bit easier to hit or being frontloaded, meaning, having to hit backends earlier in the deal where growth isn't as tough to achieve as it is later in the deal. We saw some firms paying back sunset deals or paying off forgivable note balances. So a lot of creativity, because I think the big theme of this is there's a lot of suitors for advisors. So firms either had to step up and pay more than they have in the past or had to meet advisors where they were and write more creative deal structures. So I would say baseline deal for a million-dollar-plus team looking in the wirehouse segment is north of 300%. That isn't new. But certainly some deals, whether it was UBS' guaranteed structure or the larger upfronts that we saw from like the Wells Fargo, I think bucked the normal trend.

And then on the independent side, deals definitely spiked there. Part of it was net interest margin and the broker-dealers making a lot more money on cash given the interest rate environment. But it's also, again, these broker-dealers are fighting against each other, but also against the RIA segment where there's more creativity and flexibility, and more control, and advisors get 100% payout, and really just pay for what they need. So on the independent side, really, every firm increase their baseline recruiting offer. Independent deals are much less because there's higher payouts, but they really range from

probably 30% of a trailing 12 months production or gross dealer concession, all the way up to 125% or above, depending upon broker-dealer and the note.

Another notable change was some broker-dealers began to structure deals as basis points and assets rather than percentage of production. So for example, a $350-million group that's doing a million and a half of production, they would benefit immensely from a deal based upon assets rather than production. And we did see that swayed decisions because, honestly, it makes it so that other deals are completely uncompetitive. So I would say advisors leave for many reasons. Economics, though, have to make sense. And this year, economics spiked, and we'll expect to see that going forward regardless of where the market is or where interest rates are, because advisor expectations are now at a certain point, it'll keep going up. And the competition to recruit the industry's best is only getting fiercer.

Jason Diamond:

Well said. And I think one of the things we'll talk about is we're going to run through some representative deals here that we saw play out in 2022. Deal is one piece of the puzzle, it is not the be-all, end-all, whether it's an independent firm or a traditional W-2 model, firms need to deliver beyond just the deal piece. In our view, advisors seldom move exclusively because of deal, although it is certainly an important component of the pie.

Louis Diamond:

I would agree. It sometimes gets a firm invited into the conversation. So if, let's say there's five firms someone might consider, maybe they wouldn't consider your firm if the deal was below a certain threshold. But after that, once that, I would say, need is met, then platform has to check out, technology has to check out, and most importantly, the advisor has to answer the question, "How is this going to be better for my clients?" So I would agree. Deal gets you invited to the dance and sometimes can tip a decision over the finish line if it's a toss up, but it's not the only factor that advisors weigh.

Jason Diamond:

Yep, well said.

Louis Diamond:

So let's talk about a handful of representative deals. So we call these mini case studies, looking at some major advisor moves, not necessarily the largest, but what we thought were the most influential in advisors changing models. So in my opinion, the deal of the year, the most influential deal across the board, not the largest, most influential based upon what we saw advisors say and how it catalyzed, honestly, a very large population of this firm's advisors, was Jennifer Marcontell moving from Edward Jones as the largest or second largest individual producer to the independent side of Ameriprise. So can you talk about this deal and why you saw it as being so influential?

Jason Diamond:

Yeah, absolutely. I've been excited to talk about this deal since June or July. I think it was July 1st when Jennifer and her team broke, and I've been excited to talk about it since. And I will caveat that we did not personally represent Jennifer, but I think we have some good insight in it from speaking to Ameriprise's leadership and just from speaking with other advisors on the street. So that'll give just some basic stats. So the team was about $10 million in revenue on $1.7 billion in assets. They were based in Texas, in the Houston area. Why the deal, to your point, was probably the deal of the year is because it signaled the first of many major departures for Edward Jones. It was the opening of the floodgates, if you will. I think there was discontentment bubbling for a long time with Jones' weak technology platform, limitations on investment platform, failure to allow teaming, a culture that's very different than it once was. All of those frustrations had been bubbling.

But people didn't really realize or know, or feel comfortable that they could leave the firm, because Ed Jones had this reputation of being litigious. And Jennifer's move, and her successful move, and I know for a fact that it was a successful move in speaking with some of the folks at Ameriprise, really signaled to other Jones advisors that this is a legitimate option. So why would Jennifer, who's managing one of the most, if not, the most sophisticated book at Edward Jones, move to the independent channel of Ameriprise? First and foremost, almost every Ed Jones advisor who conducts diligence looks at independent options. Occasionally, they'll consider W-2 options, but the Ed Jones model is already independent. They're not in the traditional branch construct. They're more or less doing things themselves anyway. So the leap to independence makes a lot of sense. Ameriprise, I think you certainly have to talk about the deal as one factor in her choosing Ameriprise, because as you mentioned earlier, Ameriprise along with probably Wells Fargo FiNet is the first or second most aggressive payer of transition capital in the independence space.

But again, deal alone is not enough. Ameriprise's version of independence is much more scaffolded and supported than many other independent broker-dealer models, and they're more expensive, as a result of that, on an ongoing basis. It's definitely not the cheapest platform. But for advisors who are really interested in growth and who don't want to be left to do all these little things themselves, even if you look at things like marketing, oftentimes, Ameriprise advisors' websites look similar to each other. That's a real appeal to a lot of advisors. It's independence but with guardrails.

But again, I think what's so interesting, at least in my mind about this deal, is not even so much why did Jennifer choose Ameriprise or what was so attractive about the Ameriprise model? It's more what it signaled and what it led to, which was a real opening of the floodgates at Edward Jones. And for what it's worth, we consider that a move from a regional firm to an independent firm, a regional firm in Edward Jones to the independent side of Ameriprise. And maybe the next one we'll talk about, and I'm interested to hear your thoughts on this one, Louis, is a move from a regional firm to another regional firm. And I find these same channel moves interesting because, obviously, it's not a commentary on the channel itself. The advisor or the team decided to stay within the same channel. So can you talk a little bit about the Wise Investor Group move?

Advisor Transition Report: An Update on Advisor Movement Over the Course of 2022

A conversation with Louis Diamond and Jason Diamond.

Louis Diamond:

Yeah, definitely. So we were fortunate enough to count the Wise Investor Group as clients of ours, and we facilitated this mega transition. The team was managing close to $2.7 billion in assets at RW Baird in Virginia, and they moved to the W-2 side of Raymond James, Raymond James & Associates. This was the single largest team at Baird. And like you said, oftentimes, moves within channel, it signals something different than you'd expect. Because, clearly, they liked the idea of a W-2 firm, so it wasn't an indictment on that. It was, in general, focused on culture, and certainly Baird does, as does Raymond James. So what would incentivize these advisors to move? It certainly wasn't deal. Raymond James isn't the highest payer. From experience and just from reading tea leaves on this one, I would say it came down to the technology. So Raymond James, given its scale and immense success on recruiting, has invested much more heavily in technology in keeping up with pace while Baird and other regionals, maybe, are a little bit behind the eight ball.

It also is about culture. Even though a firm might be advisor-friendly, if it stays stuck in its ways, stuck in the year 1997, it's somewhat hard for the culture to keep innovating. And also I would say more so on the investment platform, wanting more sophisticated services, better access to alternatives in lending. So it was about, I would say, more the client-facing side rather than the advisor-facing side. Because I would say it's relatively similar, in a feel, to work for Baird as it is for Raymond James. Let's talk about one more representative deal, and there's a handful of others in the report. But the deal was Paul Vasady-Kovacs who left Merrill in New York City for boutique firm, First Republic Private Wealth Management. Now let's talk about that one.

Jason Diamond:

Yeah, absolutely. Another one that we were lucky enough to participate in, and Paul and his team managed, produced just over $7 million in revenue. I like talking about moves like this because they're representative of many of the largest transactions we saw play out in 2022. And here's the gist of it. You have a sophisticated corner office wirehouse team like Paul Vasady-Kovacs. The conversation often starts with at least some curiosity about the independence space, right? Tell us about all these models of supported independence. What would it look like to start my own RIA? Tell me about a roll up or an aggregator-type model. Certainly plenty of teams ultimately go down that path, but what a lot of big teams decide is that's just a bridge too far. But they also feel, "I just am fed up with the wirehouse world and I know I don't want another wirehouse." And that's where the boutiques come in.

And the boutiques, like I said earlier, are viewed as this best of both worlds. And that's exactly what the case was here. Paul and his team ran a really clean, high quality book of business. They did explore, have some preliminary conversations around the independence world, but ultimately decided that the boutique firms were just this perfect middle ground, and they fell in love with the culture of First Republic, which is all about access to management, referrals from the bank, a really flat org, a management structure, just a place where you generally see really happy and contented advisors. And

Paul just viewed that as the perfect fit coming from a wirehouse, because he felt like the model still offered all of the resources and support, and capabilities on both investments, and tech and platform that he was used to, but in a much more nimble boutique culture that feels a lot better to him and his team, and ultimately, I think, to his clients.

As you said, there are several other representative deals in the report, so I would encourage you to check those out. But maybe just... I know we're coming up on time here. So to wrap up, Louis, let's look into your crystal ball. Tell me a little bit about what do you view for the future? When we have this conversation again next year, what are we going to be talking about? Any high-level takeaways or predictions for the future?

Louis Diamond:

Yeah, definitely. So short of another Black Swan event like a pandemic which, actually, for perspective, 2020 was one of the most active recruiting years we've ever seen. I would expect somewhat similar advisor movement flows as we saw this year. I think we'll see that additional options for advisors, and also the reemergence of Merrill and Wells Fargo as legitimate options for teams is going to be too good for many to pass up. So you have this expanded landscape like we talked about a lot today, but also recruiting deals, I think, are going to keep going up, especially for larger teams. That should incentivize some.

And then we talked about this increase in affiliation channels, whether it's the ability to go independent for the first time or even just a more white glove, we'll say higher end affiliation model within a firm is going to drive movement. So we're pretty excited about what's to come. But right now, we're recording this in February of 2023, and we've already seen some of the biggest moves we've seen in a while. So I think the trend for 2023, it may not be advisor headcount that we're most excited about, but it's the size and sophistication of teams, and what those moves mean for the future of recruiting. So let's wrap up, Jason. Thank you for joining us and sharing your perspectives, and for really being the author of this report. We appreciate it.

Jason Diamond:

Yeah, thank you. It was a pleasure to work on... Honestly, one of the things I enjoy most about it is we obviously talk about a lot of this stuff day in and day out, but it's really interesting to see how the raw data stacks up or compares to our own anecdotal experience. So, absolutely thrilled to be on. I really appreciate the time and thanks for having me.

Louis Diamond:

Definitely. And we threw a lot of numbers out there, but there's way more in the report. So I would encourage anyone listening to go and download the full report. It can be found on our website at diamond-consultants.com\transitionreport2022-2. Again, that's diamond-consultants.com\transitionreport2022-2. And I think you'll all be very pleased with what you find there.

And if you have questions, you can certainly feel free to reach out to us if you want a zoomed-in version of any of the data. Thanks so much.

Mindy Diamond:

While accurate advisor movement data is notoriously difficult to obtain by design, this report serves as a framework for advisors who are curious about a changing wealth management industry landscape and the impact of those changes on their businesses. The good news, as Louis and Jason shared, even with massive headwinds, 2022 was an active one, and we look forward to sharing more of the same for 2023. I thank you for listening, and I encourage you to visit our website, diamond-consultants.com, and click on the tools and resources link for valuable content. You'll also find a link to subscribe for regular updates to the series. And if you're not a recipient of our weekly email Perspectives for Advisors, click on the article's link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full on exploration requires.

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