Considering a Move? Here's What You Need to Know: A Special Industry Update

A conversation with Jason Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Considering a Move? Here's What You Need to Know. It's a special industry update with my partner 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 Part 1 of this industry update, Louis Diamond and I discussed questions you need to ask yourself before even considering a move. That is to determine the following; is there enough to gain from going through the hassle of a due diligence process? In this episode, we're going to pick up where we left off for those who answered yes to that question and are motivated to explore options elsewhere.

Said another way, you have determined that there's enough meat on the bone to continue the conversation. Our goal in this episode is to share four key points to help make due diligence more thoughtful and strategic. There is a lot to discuss, so I've invited Jason to join me. So let's get to it. Jason, welcome.

Jason Diamond:

Thank you so much for having me, I'm thrilled to be here.

Mindy Diamond:

So for starters, Jason, why is it so important to get the due diligence process right? Why does it matter?

Jason Diamond:

Well, first and foremost, it's obviously a critical decision. I mean, this is your livelihood at the end of the day, but I think it's more that this is where we see advisors get stuck. I think there's a little bit of this inertia trap, where they know things aren't perfect, they probably know they should be looking elsewhere, but they don't know where to begin. So they get trapped or stuck either by overwhelm or confusion or lack of clarity or just anxiety about the process. So you're an advisor, you might say to yourself, "I've determined that I'm motivated, I know that I want to start the due diligence process in earnest, but what do I need to know?"

Mindy Diamond:

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Yeah. And that's what we're going to talk about. And I know we've identified four important focus areas, but I will say one thing, and I want to ask you about this, one of the reasons that people get stuck before they jump in is because they've either watched their friends and colleagues move or they've spoken to their friends and colleagues that moved. So to what extent does what we call the friend factor play into this? How does it help or hinder an advisor's thought process?

Jason Diamond:

Now, look, there's no question it can help because I think it gives advisors confidence and comfort seeing, "My friends and colleagues have done this before. They've had success porting over client assets and avoiding legal pitfalls, so it means it's possible." And it can also very well inform the solution set, meaning, "My colleague's moved to X, Y, Z firm, maybe X, Y, Z firm is a good fit for me." But the key word there is maybe. I think the risk of the friend factor is there's no one-size-fits-all answer to this. Just because it was right for John Smith down the hall doesn't necessarily mean that it was right for you. And I think there's real risk in playing follow the leader and not conducting your own thoughtful strategic due diligence options because your colleague may have looked at 10 options, but you only are aware of the one he ultimately ended up at, and the other 9 options could actually be worth considering for you.

Or maybe there's other options that weren't even on his or her list that are worth considering. So I think it's a little bit of a buyer beware. I think the friend factor can be a good thing and can be a help, but it can also be a hindrance and can lead a little bit to this indecision trap.

Mindy Diamond:

Yeah, I don't disagree with you at all. In fact, I think that the opposite of what you said is also true, where an advisor talks to a friend who says, "Oh, worst move I've ever made." And so not that you don't pay attention to that feedback, but even though something wasn't necessarily right for your friend, doesn't mean you automatically discount it. You go in buyer beware, but you need to make your own decisions. I think that's what we're saying.

Jason Diamond:

Yeah, 100% agree.

Mindy Diamond:

Okay, so what are the four focus areas, if you will, to really think about before you jump into due diligence?

Jason Diamond:

So the first is, and for those who listened to Part 1 of this industry update podcast, it's using a lot of the topics that Louis and you, Mindy, spoke about. So it's soul-searching, introspective-type questions like how important is transition capital? How important is self-branding? What are you looking to solve for?

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What works? What doesn't work? It's using those answers to come up with a curated short list of options. That's step one. And then the next thing we want to talk about is what does the actual due diligence process look like? What are the nuts and bolts or the logistics of it from the basics? And then beyond that, what's the 2.0 version? What are the meaty questions or the detailed or the nuanced questions that are not mandatory parts of the diligence process, but that, in our experience, are critical to have a very successful or a most successful process as possible?

And then lastly, and I would argue this is maybe the most important is we've obviously been doing this for over 25 years, what are the common mistakes or traps that we've seen play out and how can advisors avoid them when going through this process and then even post-transition?

Mindy Diamond:

All right, so that gives us a structure for our episode. But before I think we talk about how you get from here to there, here being I'm at my current firm, there being I've moved to a new firm, I want to define something. In the first of the four areas, you mentioned curating the right list of options, and we talk about those options by evaluating buckets, and we'll explain what that means in just a moment. But when I started this business, now almost 27 years ago, there didn't used to be buckets. It was you were either at a wirehouse, at a regional firm, and that was about it. I mean, were there people that were independent? Sure, but it wasn't really a mainstream option. Now, there are legit options all across the landscape. So what do we mean by the term buckets, how we think about it and why does it matter?

Jason Diamond:

Yeah, it's really just a more streamlined way to think about the industry landscape rather than listing off or thinking about 500 or 1,000 different firms, because there quite literally are that many, we think about it higher level than that. So what are the models of firms that each of those firms fit into? So one bucket or model is the wirehouses, another bucket or model is the regionals, another is the boutique firms. And then there's several options within the independent spectrum as well. And our view is that every firm on the landscape fits into one of those seven or eight buckets. It's just a really nice simplified way to think about the curated list of options because like I said, rather than having to evaluate, "Are 500 or 1,000 firms right for me?" you can start by saying, "Well, is this bucket right for me?" And then if so, what are the firms within it that may or may not make sense to look at?

Mindy Diamond:

Yeah. We always say the word bucket is an inelegant term to describe what we mean that think about what has become an overwhelming or exponentially expanded landscape. Think about it in categories. First step is determine which category is right for you and then begin to get drilled down into which firms in each of those categories is right. Then how does an advisor who's determined that in fact there are enough pain points, enough drivers, enough curiosity to explore, how do they go about determining which firms and models to look at?

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Jason Diamond:

Yeah, so again, I think step one is determining which models to look at. And that is exactly the purpose of Part 1 of this conversation that you had with Louis. It's all of the introspective or soul-searching questions that will help to inform which models make sense to look at. So I'll give a couple examples. If you had, through that exercise, determined that transition capital is critical, then many of the independent options may not be the right fit because they don't come with the same transition capital as a lot of the captive traditional options. If you determined that self-branding and doing podcasts were an important piece of your future or what you wanted to achieve, then the wirehouses are probably not the right bucket to look at. So I think the goal is to use the soul-searching answers to inform what the types of firms may make sense to look at. And then it's an à la carte menu approach from there.

You maybe take a couple from Bucket 1 or Model 1, a couple from Bucket 2, and we add and subtract. It's a curated, iterative process, but the gist of it is it's using the things you like, the things you don't like, the things you want to solve for to inform the shortlist of options.

Mindy Diamond:

What happens if you do it the other way around? What happens if you begin to take meetings either because your friend is at another firm and so you said, "Sure, I'll meet your manager for lunch." Or you got a call from somebody and you take a meeting. What happens if you do it that way as opposed to the strategic, thoughtful approach?

Jason Diamond:

Maybe nothing. Maybe you get lucky and the firm or the manager you're meeting with turns out to be the perfect fit and then we tip our hat. But I think the reality is, you don't know what you don't know and there's real risk in that. Even if it is the perfect firm or model, I know I would feel better knowing that I dotted all my I's and crossed all my T's and I evaluated, "What are the other firms or models that might've also made sense to look at?" I just think this method or this approach is a much more streamlined and a much more thoughtful way to go about the process. I think where we see people dive in willy-nilly is where we see people get overwhelmed or get bogged down in some of the minutia and they miss the forest through the trees. So I don't think there's anything inherently necessarily wrong with diving in and taking a meeting, but we find that this thoughtful bucketed approach leads to a much higher degree or likelihood of success.

Mindy Diamond:

Yeah. And by the way, it's worth noting that success may mean opting to stay right where you are. It definitely doesn't always mean that you're going to move. We've worked with so many advisors that take the time to go through a thoughtful due diligence process and either at the end of it, after meeting five firms or just after getting educated about what the options are, come to the conclusion that there isn't anything better enough. And that's success too. So success isn't necessarily about the outcome, it's just making sure you get there the right way. Okay, so let's go to number two then. So now that presumably the advisor has come up with at least a preliminary list of options to consider, what does or what should the actual due diligence process look like?

Jason Diamond:

Our typical guidance is that it makes sense for an advisor to talk to, you want to pick a middle ground number of firms, I don't think you want to talk to one firm because I think it's important to have comps and I don't think you want to talk to 20 firms because I think A, it's a lot of time investment and it can be a little overwhelming and confusing. So I would say, typically, and there are certainly exceptions to this, but typically we're talking about three to five firms at a time to really conduct serious due diligence on. The process will obviously vary depending upon what firm or type of firm that we're talking about, but the general outline is as follows; it's an introductory meeting, which is increasingly held via Zoom, in a post-COVID world, that's certainly the case, a technology demo and some advisors will say things like, "Technology's not that important to me," it's still an important piece of the puzzle and something you need to vet.

It's a book mapping exercise, obviously critical to make sure from an investment standpoint and a product and solution standpoint, a new firm can support you. And then it's things like platform deep dive and that will certainly include advisory platform, investments platform, banking and lending. It's a little bit of the more in the weeds capabilities type stuff. And then typically, shortly thereafter or somewhere in that process, a firm will present an offer and potentially a proforma or some sort of pricing to show how your business would price or what your payout would be on their firm or platform. And then the last step would be a home office visit. It's oftentimes not a required step, but we think it's a very important step. It's obviously great to see the physical bones of the firm that you're talking to. You get to meet the key stakeholders and the senior leadership, get to bang out a bunch of sessions back to back to back. So the home office visit, a lot of times, is what solidifies or really nails home the relationship.

Mindy Diamond:

So let me ask you a question. How long does it typically take to get from Step 1, let's say, we're you are beginning to lay out a list of options to, say, Step 5, which is a home office visit? How many meetings are there in between and does it take days, weeks, months? What does that look like?

Jason Diamond:

So a lot of it really does depend on the advisor's appetite and willingness to engage, because most firms are willing to move at the speed at which the advisor, the recruit wants to move. So we like to say typically you're probably talking about two to three months for a really thoughtful process. I mean, it's not that many meetings. If you think about the process I just laid out, it's an intro meeting, a tech demo, and then let's call it two to three other virtual meetings on things like book mapping, investment platforms and other capabilities. So maybe you're talking about five meetings and then a home office visit, it can move fairly quickly, assuming the advisor is motivated to, but most advisors don't like this to feel like a full-time job. And oh, by the way, you're probably having those same meetings with two or three other firms, as I mentioned earlier. So I think it's probably good, in an ideal world, to leave yourself around three months for this sort of diligence process.

But again, we've certainly seen this play out much quicker than that and in some cases, it plays out over we've seen years.

Mindy Diamond:

Yeah, so that's a point worth making. We have absolutely seen it play out over years because the first part of what you said, where it takes three months, is how long it takes when it isn't a fire drill but an advisor wants to move through the process fairly quickly. The person that takes years is less motivated to move. It's certainly not a fire drill, probably is some version of mildly curious and is casually taking meetings. And I think that while the process itself often is an intro meeting, a tech demo, a book mapping exercise, a platform deep dive, there are often many meetings in between where the advisor opts to meet with the recruiter or the representative, the branch manager from another firm, because what he's trying to determine through this process is really a sense of culture. What's it going to feel like to work for this representative?

Jason Diamond:

No, I think that's really well said. I mean, I think about it in terms of what is the firm going to require you to vet? Any firm, even if you said technology is not that important to you, they're probably going to insist that you look at a tech demo. Same with investments. I mean, most advisors will tell you investments are important, but there are some steps that the firm is going to insist or require you to take as a recruit. There are plenty of other steps where the advisor is driving the bus. I mean, I'll give you some other examples of that. We will often encourage advisors to speak with legal counsel and that can be legal counsel of the firm that they're thinking about joining, but probably more importantly your own legal counsel. Another, I think, really exciting step that we've seen more and more advisors utilizing in recent years is calls with other advisors.

And you can do these name-blind, they can be anonymous, but finding an advisor who's at the firm you're vetting, either who came from your current firm or who maybe does a similar type of business than you, I think, is a great way to vet a firm and really understand what is the advisor experience like, because most advisors are straight shooters and they'll give it to you straight. So I'll give you an example. We were working with a large wirehouse advisor in the Northeast and he did all those initial steps I laid out, the tech demo, the book mapping exercise, and he was feeling like, "Well, this is sounds great, but I'm certain there are gaps in the platform that the firm is just not telling me about." So he probably did three or four different calls with advisors at the firm he was vetting, some were from his current firm and some, like I said, were just doing similar products or types of business.

And he felt like that was way more impactful than the basic diligence steps that the firms laid out because he was able to ask in the weeds questions that only other advisors would know. Literally things like, "What is it like when you log on in the morning?" "How does the technology compare?" So I think a really cool way to go about vetting a firm and something we're seeing more and more advisors utilize.

Mindy Diamond:

So maybe a dumb question, but when you say a name-blind call, logistically, how does that even work?

Jason Diamond:

So in this instance, we literally would set up conference lines, bridge lines, and we would just have both parties dial in and the advisor who was being recruited used a pseudonym, he dialed in as John Smith. The advisor who's at the firm already obviously does not have the confidentiality concerns, but for the advisor who's being recruited, yeah, he basically just used a fake name on a bridge line. Pretty funny.

Mindy Diamond:

And we get asked this a lot so it's worth talking about, how worried does the advisor that is being recruited need to be about confidentiality? So how scary a step is that to talk with an advisor who works for another firm?

Jason Diamond:

Well, look, it's not just that step. I mean, the reality is, all advisors should be worried about confidentiality, particularly if you're going through this process. This is your livelihood, so you should be worried. But I think there's an element of trust that has to go into this, where all firms who recruit understand the need for the utmost strictest confidentiality in this process, and you just have to take that leap of faith and trust that nobody is going to put you in harm's way. I mean, no firm would ever recruit again if they violated an advisor's confidentiality. So I get it, it's scary, it's your livelihood, it's your life's work. But I do think ultimately, if you follow sage advice and counsel and you do things the right way, like, for example, name-blind calls via bridge lines, you have nothing to worry about in that regard. Or I shouldn't say nothing to worry about because like I said, it should be a worry, but you have nothing to fear is maybe a better way to say it.

Mindy Diamond:

Yeah, I agree with that. One other question, you talk about the importance of hiring one's own legal counsel. Two questions about that. One, so at what point in your due diligence process is it important to hire legal counsel? And two, as you mentioned, most firms that are looking to recruit an advisor provide their own legal counsel, so why then would an advisor who's being recruited need to spend the money on their own attorney?

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I'm going to answer these in reverse order. You don't have to spend your money outside your own counsel. It's certainly not a requirement. We strongly encourage it because the reality is, the attorney that's provided or appointed by the firm is inherently conflicted in some ways. Of course, he's looking out for your best interest as the recruited advisor, but he's also looking out for the best interest of the firm, especially since they're the one paying his bills. So having a completely objective third-party attorney, I think, is worth the money. Somebody to just bounce ideas and questions off of, somebody who can help you with a script upon joining a new firm, what can or can't I say to clients, contract negotiations, all of that stuff, I think it's critical. When to engage? I don't think there's a right answer here. I think the answer is you engage an attorney when you need to. So certainly, through those early diligence steps I laid out, like tech demo and book mapping exercise, you probably don't need an attorney yet unless you have a really nuanced contract situation.

But as you get further down the process and as you start to talk about things like an offer from a new firm, that's when it's probably worth engaging with an attorney. So if you use the baseball analogy, I would say you're probably talking about maybe the sixth inning of the diligence process is when you would hire an attorney. What are your thoughts on that?

Mindy Diamond:

Yeah, no, I agree with that. I mean, I think probably the way most advisors who think about it, it's at the point where they're fairly certain they are going to move. They may not know yet exactly where they're going to move, but they're fairly certain that a move is likely. And they're beginning to worry about things though, but how possible is it? Is it a protocol move or a non-protocol move? And what does this clause in my contract mean and how will it all work? So whether it's the sixth inning or the eighth inning depends upon the advisor, but I think the common ground is usually about when you're pretty certain you're going to move.

Jason Diamond:

Yeah, I think that's fair. I think that's well said.

Mindy Diamond:

Okay. So in terms of that process, the intro meeting, the tech demo, the investment platform, vetting, that is table stakes to us. That's different firms may do it in different order and one may make it four meetings and one may make it three, but in general it's all the same formulaic. But we know that there are many nuanced or meaty questions, if you will, that advisors will want to ask to better elucidate if there could be a better fit or a better home. And those questions go beyond, "Tell me about your technology." So let's spend some time talking, Jason, what are those meaty questions or questions that many advisors may not normally think to ask?

Jason Diamond:

Yeah, it's a good question. And look, I don't mean to minimize or to say that those previous steps we laid out like the tech demo and the investment mapping process are not important, because they're certainly critical. It's just that I view them as steps that you don't need to know. I understand it gives peace of mind and comfort knowing what lays ahead, but the firm you're vetting will make sure that you handle all of those. These next questions or topics that we're going to talk about are things that if you don't think to ask or that you don't make a conscious effort to ask, they're probably going to go unvetted because the firm very well may not volunteer the answers, and it could lead to some potential pitfalls or red flags down the road.

So I'll give some examples of what these questions are. These are going to vary quite a bit depending on the firm or the type of firm that you're looking at. They're probably a little bit, I would say, more important with the less traditional firms. So I'll give an example of obviously we've seen quite a bit of movement into the boutique space and even the RIA space. So firms like Rockefeller, which is a boutique firm in the traditional W-2 space, or even firms in the RIA space, like a NewEdge, which is basically a multi-family office or an RIA where advisors typically join as an employee. Firms like that will have a very different list of questions you need to and should ask.

So it's things like, "So you took private equity money, what does that mean for the future vision of the firm? Does it mean an IPO or a sale to another private equity firm, or a sale to another wealth management firm?" "What are the pros and cons of working for a firm without a balance sheet?" Most traditional firms have their own balance sheet and many of these other firms do not. "How do you access banking and lending? Is it open architecture or do you do it in-house?" "Do advisors get compensated for banking and lending?" "How do clients respond to things like having a lack or a relative lack of a brand name?" "What's the client experience like?" "Are there multiple statements?" So those types of questions. There are also certainly questions you can and should ask even if you're vetting firms like a wirehouse. So it's things like, "Well, how do I know this is a different type of wirehouse than what I'm used to?" "Are advisors free and autonomous to make important business decisions themselves, or am I going to be burdened by red tape and bureaucracy?"

So I think these questions apply regardless of where you're looking, although the list of questions is likely to be very different from firm to firm.

Mindy Diamond:

Yeah. And I think with respect to the last question, I think the notion of is this firm, if I'm currently at Merrill Lynch and looking at Morgan Stanley, two wirehouses, the assumption may be it's all the same, but they'd be wrong. The degree of autonomy and freedom and flexibility and control the advisors have varies by firm. And it's important not only to ask the person recruiting you, the manager, how much autonomy and control do the advisors have? How do you think about who owns the business, who owns the clients? But I think what's really important is to say, "Let me share some examples with you of things I've had a hard time getting done or approved at my current firm. How will they be handled or approved or vetted? And how much time will it take to do so at your firm?" By giving specific examples, it's the very best way of understanding how one firm works versus another.

Jason Diamond:

I totally agree. Specifics are key because otherwise I think you give the firm a little too much wiggle room to be political and dodge the question. So if you keep it vague and say, "Is there red tape and bureaucracy?" a firm's going to say, "No, of course not. We're very business-friendly." But when you ask specifics like, "How long would it take me to get X, Y, Z approved?" they have to give a much more direct answer. I think that's really good advice. And like I said, I think there's a genuine case to be made that you can ask a similar style of question regardless of the firms or models you're looking at. Obviously the details will vary, but I'll give you an example. We were working with a wirehouse advisor out West, in California, and he knew he wanted another traditional W-2 option, but didn't know if it was another wire or if it was a regional or if it was a boutique firm. So the advice we gave is you have to ask these types of questions to all three of those buckets, the wirehouses, the regionals, and the boutiques.

When he was talking to another wirehouse, the question was, "How do I know this is a different type of wirehouse? Aren't all big firms the same? Why is my life going to be better here than it is at my current firm?" When he was looking at the regional firms, it was a little bit of a different tenor of question, it was, "How do I know the firm is sophisticated enough and the brand is sophisticated enough? And can you replicate all of the same capabilities that I can do at my current firm?" And then when he was looking at the boutique firms, it was, "How do I know the experience is going to be seamless and how do I know the platform is fully baked and robust enough to support my business?" So slightly different questions, but trying to get at the same thing, which is, "Is my life going to be better at this new firm?" in addition to, of course, "Can you support my business? Will this new firm enable me to live my best business life?"

Mindy Diamond:

So let me unpack that a little. Talk to me about the first one. An advisor is looking, he's thinking about moving from one wirehouse to another, so how do you get under or you ask the question, "How do I know it's different enough?" And then the manager at the firm looking to recruit you gives you the talking points, the brochure, if you will. How can an advisor looking at that other wirehouse trust? How do they really ascertain the answer to the question? Is it by giving examples of some of the stuff that they're doing and determining how it's handled or how the firm thinks about it?

Jason Diamond:

Well, yes, that's definitely part of it. But I also think this gets back to a little of what we spoke about before, with speaking to advisors that have gone before you. I really just feel like they're the best resource and they're always willing to share, not always, but 99 times out of 100 advisors are willing to share their experience with other advisors. And I think you're more likely to get the unfettered, unfiltered version of the truth from another advisor. So yes, it's important to ask the detailed questions, but I also like the advice we gave before, which is talking to other advisors that look and feel like you and/or other advisors that have just gone through a very similar process to what you're going to go through. Probably the best way to get to the truth.

Mindy Diamond:

Yeah, love it. I agree with that totally.

Jason Diamond:

So let me ask you this one, because you've obviously had tremendous experience transitioning advisors to every firm and model and bucket on the street. So probably the question we get asked maybe most commonly, and it's the right question that advisors should be asking is what are the traps I might walk into, the landmines? What are some mistakes my colleagues or my peers have made, and how might I potentially avoid them? So I'm talking about things that could potentially derail a successful move. Can you give a couple of examples and maybe some strategies to combat some of those?

Mindy Diamond:

Yeah, great question. So I think the most important one is an advisor not going deep enough or asking the right questions during the due diligence process. And that most often happens when an advisor rushes through the process, when an advisor either has a timeline in their head, "I want to get this done in three months," or doesn't take the time to have multiple meetings to really assess culture so gets it wrong. And I know you mentioned offline, Jason, you have an example of this one.

Jason Diamond:

Yeah, so look, I think we've unfortunately probably seen this one play out quite a few times. And a lot of times, this is a case of you don't know what you don't know. But we were working with an advisor, a wirehouse advisor who was transitioning to a boutique firm. Thankfully, ultimately, they got it right. But there was a little bit of a scary moment, I think, during the transition process, when the advisor was just about ready to transition and realized that there was a specific type of loan that he had in just a small sleeve of his book, but it was not properly vetted by the firm he was moving to. I think they talked about it in broad strokes, but they didn't talk about it in enough detail. And it was ultimately potentially one of those situations where if he couldn't solve for this, he was at the risk of not being able to move those client accounts over.

So there are countless examples of this, but I think you said it well, oftentimes this is just a matter of be thorough and take the time to ask every single question related to your book of business and your clients.

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So where did that go wrong? Was that the firm's fault for not asking certain questions? Was it the advisor's fault for not really thinking through his or her book? Where did it fall apart?

Jason Diamond:

I would argue both, I mean, or neither. It's nobody's fault. I think it was an example of something that neither party or that the new firm had never seen before, it was an unusual type of product. But ultimately, I mean, I think the buck stops with the recruiting firm. It's incumbent upon them to really vet an advisor and make sure they can service all of those capabilities. But to your point, this was an instance where both parties were trying to move fairly quickly and it just got missed. So not ideal. It certainly happens, but I think taking your time and being as thorough as possible is probably the best strategy to combat this.

Mindy Diamond:

Yeah. And I think the best advice there is to literally take the time to walk through every single client you service and think about every single product item, service, every single thing, tool you use to service that client, and to ask the question of the firm looking to recruit you, "How do you replicate this? How can I do this or accomplish this on your platform?" So I think the next one, the next potential mistake we've seen is not going deep enough when vetting the financial stability of a prospective firm. And again, that's probably a question or a potential pitfall that is more relevant when looking either at firms in the independent space or in the boutique space that are backed by private equity or the like. And I remember an example from many, many years ago, an advisor I didn't work with, but I worked with subsequently, who left a wirehouse firm to join an established RIA.

And because it was a move that she, it was a female advisor, had never made before, didn't really know the right questions to ask, and because the RIA had never recruited a wirehouse advisor before, they didn't know what questions to ask or what potential landmines. At the end of the day, the advisor didn't go deep enough to do what we call reverse due diligence to understand the financial stability of the firm. What did risk management look like? How well capitalized were they? So I think that that's really important. Number three, this is a big one, overestimating client loyalty and portability. So while it's instinct to overpromise and I manage a $700 million book, that's great, but if you really look at that book, what is the genesis of those relationships? Meaning did you self-source them or were they referred by your firm? And who are they more loyal to? And really being clear, item by item, client by client, about how loyal they might be and how likely they are to be portable or move with you is really critical in getting it right.

Jason, I know we talked about some strategies to help combat that one.

Jason Diamond:

Yeah, this is one where I like the football field or the weighted average approach, where you literally go through your book, you list out every single client and you score it. And that can be whatever, 1 to 5, 1 to 10 with 10 being most likely to move, and 1 being there's no way this client moves with me. And just put a number next to each client to the best of your ability. And you come up with a weighted average or base case asset portability metric. There's no great answer for this because there will always be some surprises. I think there will be surprises both ways; clients that you thought would follow you that do not, and clients that you thought had no chance of following you that ultimately will. But I think what we see is that most advisors who are really honest with themselves and who really understand their client relationships, you can do a pretty good job of estimating a ballpark portability number.

You certainly don't have to get it right down to the dollar, but you want to have some sense of what your portability metrics are going to look like. Because the reality is, if you're managing, let's say, a $500 million book, but only 20% of your book is portable, it probably makes more sense to stay put. I mean, there are maybe some other circumstances that would change that answer, but if you can't assume a relatively certain portability metric, a lot of times, staying put is the best path.

Mindy Diamond:

Yes, I agree totally. And then I think the next potential landmine or mistake is relying on a handshake or verbal promise. So particularly when you are exploring the bigger firms, the wirehouses, those firms are loathed to have an advisor sign a letter of understanding or a signed contract while the advisor is still employed by their current firm. But there are memos of understanding, even if you don't sign it, that you can get where you really have the opportunity for you to review and your legal counsel to review every single line item so that you have clarity around what they're offering you and what could potentially go wrong. Because what you have to remember is that you are negotiating with a representative of the firm today, but what if that representative of the firm leaves and five years go by and somebody else says, "Well, we have no written documentation that that promise was made." So it's critical. And the final potential landmine is the overestimating your partner's and support staff's loyalty.

So the example I can give you on that is years ago I had worked with a team, a very successful, very significant team that was really, really excited about the notion of making a move. Both partners were on the same firm, they were equally excited. Because legal counsel had guided them rightly so, it was going to be a non-protocol move, and actually the team not only was a non-protocol move, but they had garden leave, so the contract was pretty onerous, they were worried about involving their support staff. So essentially, they were making this decision, they made a commitment to move, but had no real sense how in or how supportive their support staff would be in joining them. So here they were at the one-yard line and they began to loop their support staff in and realize that the support staff was terrified, and that a key support member, their lead client associate, would never have moved. And it derailed the whole thing.

So it is a fine line between making sure you're not violating your employment agreement, but making also sure that you know you have the support of your team. Do you agree with that one, Jason?

Jason Diamond:

Yeah, I do. And maybe, I don't know if you have any advice, what do you think is the right time? Because we get this question a lot, "When should I tell my support staff or my team?" Because like you said, I think it's a balancing act. You can't tell them too early because there are confidentiality concerns. And what if you're not that serious about moving or you're just kicking the tires? There is clearly a middle ground there. Do you have any sense of what that middle ground is?

Mindy Diamond:

Yeah. Look, we are not attorneys, so you need to always, when considering a move, you need to follow the advice of legal counsel. That's the disclaimer. But to avoid this last pitfall or the example I just gave you, at some point in the process, whether it be because you want a key support person to vet the technology from an operational perspective and you just don't have the ability to vet the operational part of it because it's just not in your wheelhouse, at some point, you need to involve the support staff. So it's art, not science. And I don't think there's any one right time to do it, it differs by advisor, but it is important to get that support or buy-in.

Jason Diamond:

And I think for a mega team in particular, where sometimes they'll have 10 support staff, it's not an all or nothing answer. A lot of times, we see the tiered approach where maybe you bring over your most critical client associate over the wall first, to your point, to vet the client technology or to help go through the book, things like that. And then maybe shortly thereafter, it's Person 2 and 3 and then Person 7, 8, 9, 10 later down the road.

Mindy Diamond:

Yes, that is absolutely right. And we see that most often.

Jason, I think this was a really enlightening conversation because even once an advisor makes the decision that they want to move, there's still a lot of A, potential landmines and things to be aware of. So thank you for joining me today.

Jason Diamond:

Oh, thank you so much for having me. This was a blast.

Mindy Diamond:

You bet. So no doubt, the process of considering change can be a daunting one, but when approached first from the perspective of, "Should I consider a move?" and then conducting due diligence with a goal and a plan, a thoughtful plan, the path becomes much clearer. I thank you for listening, and I encourage you to visit our website, diamond-consultants.com, and click on the Tools and Resources link for valuable content. You'll also find a link to subscribe for regular updates to the series. And if you're not a recipient of our weekly email, Perspectives for Advisors, click on the Articles link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full-on exploration requires.

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