MINDY DIAMOND ON INDEPENDENCE

A PODCAST FOR FINANCIAL ADVISORS CONSIDERING CHANGE

EPISODE TRANSCRIPT

Industry Update on 2023: 10 Emerging Trends to Put on Your Radar

A conversation with Mindy Diamond and Louis Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is an Industry Update on 2023: 10 Emerging Trends to Put on Your Radar. It's a conversation with my partner Louis 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. 2022 is likely to be recalled as one of the most interesting and contradictory years in history, a volatile market, continued inflation, talks of recession, all of the things that make navigating one's financial life more difficult, and the role of financial advisors that much more important to their clients.

That is, this is the time when advisors truly get to show what they're made of. Yet throughout all of this, advisors thrived in ways like never before with the benefit of an ultra-robust seller’s market plus transition deals and M and A multiples off the charts. In our annual review for advisors, we look at the 12 months which passed, the trends that evolved and their anticipated impact on our expectations for the new year ahead. It's a topic we also cover in detail for wealthmanagement.com, so be sure to see this episode's page for a link to that article.

In this episode, we're focusing on how the trends of 2022 are already coloring what we are expecting to see as the driving forces for change in 2023. That is, recruiting activity, where advisors are going, the state of deals and much more. So I've asked my partner, Louis Diamond to join me in breaking it all down and let's get to it. Louis, thanks so much for joining me.

Louis Diamond:

I'm really excited to dive in and talk about 2023.

Mindy Diamond:

Okay. So first, let's do a very quick rundown on some of the most prominent trends we saw in ‘22.

Louis Diamond:

Absolutely. So when we did this episode last year and we wrote this year-end recap article, we predicted that 2022 would become the year of more in which multiple constituents from the advisors to their clients, to their firms would expect more from each other. And that led to really this year we call a year of abundance. That is growing desires amongst each group really created a proliferation of choice with an expansion of models, opportunities, and even more aggressive deals to match.

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And that resulted in a very active stream of movement. In fact, in our report we saw that an average of 708 advisors with an LOS greater than three years moved each month through June of 2022. And while we're still crunching the numbers for the full year of 2022, we're expecting it to be another record year of movement just looking at the deals that we facilitated, but also just keeping up with headlines. So advisors around the move, where do they go? The real answer is there wasn't one winner in this really aggressive recruitment year.

We saw that in each kind of different category, maybe there was a standout, but what's real evident right now is that it's not one or two firms that advisors are choosing. There's multiple winners and advisors have more choice. And this proliferation of choice dominated this year. For example, Rockefeller and First Republic, while the media loves writing about them, we love talking about them, they crushed it with some of the largest teams in the industry, but they don't recruit all that many advisors relative to who's moving because of their selectiveness and what markets they're in.

So what we saw was the wirehouses really picked up a larger share of advisor moves this year after somewhat slowing down since Morgan Stanley and UBS left Protocol. So most advisors who changed firms this year stayed within their channel. So in other words, moving from wirehouse to wirehouse or independent firm to independent firm. All that said, Independence was still a really popular option for teams, but we did see a bit of a pullback in the breakaway movement, and we think it's because the wirehouses have become more compelling options and then even have firms like Raymond James and RBC and other regionals that are for many versions of Independence that feel like they have more autonomy and also with very aggressive deals to match.

So in all in all another really compelling year of recruiting, we expect there to be more options and more models created to really pick up where 2022 left off. And lastly, we expect that there's a lot more to be said about recruiting deals. And while advisors move for many reasons other than the economics deals certainly can be a leading indicator of advisor movement. So I'll turn it over to you, Mindy, let me hear what we saw for the year in recruiting deals.

Mindy Diamond:

Yeah. So love the topic because, I and we have been saying for years that deals are at a high watermark. We weren't lying. We really believed that they couldn't and wouldn't go any higher, and they really truly were at the highest point we had ever seen. I'm at this 25 years and the 300 to 350% deals we've seen for years really were the highest deals ever. But just when we thought deals couldn't go any higher, we were proven wrong. So what drives that? The reason for it is every quality firm, and actually probably every firm on the street, is looking to win the race for top talent, but that's because there's more competition than ever before. So let's assume you are Morgan Stanley.

Five years ago it might have been that the only competition for a UBS or Merrill Lynch advisor was Morgan Stanley, UBS, let's say Wells Fargo and the occasional folks who might have gone independent. But fast forward to 2022, and that same UBS or Merrill Lynch advisor is looking not only at Morgan

Stanley, but if they happen to be in a market that First Republic or Rockefeller are interested in, they're definitely looking at that they may not be entrepreneurial enough to really want independence, but they're definitely interested in that. And then there's so many regional firms that have really stepped up to the plate. And so more competition has really driven deals higher.

Louis Diamond:

And what I'll add to that is this year we saw UBS and RBC in particular; we think really elevate the market for recruiting deals. Both firms had an exploding offer situation at the end of this year where advisors who joined by a certain date got a very, very aggressive deal, far more aggressive than we've seen anyone do in many, many years. So typically what happens is, when one firm or two major firms step up their deals, expectations are reset across the market. And it might take some time, but we do expect that this upward pressure that the UBS's and RBC's have had is going to force other firms to kind of step up in competitiveness.

So this year we did see the headline deal numbers increase as to your point, having kind of stayed consistent for a long period of time, we saw deals become more advisor friendly, meaning easier to hit back ends, shifting more of the bonus opportunities to the upfront or to earlier years. And just firms in general being a little bit more creative with putting out deal structures that met advisors where they were. So I think it was a really good thing for advisors. And typically like what you said with more competition, it just drives deals higher and higher.

And all of that is with the backdrop of valuations for RIAs and independent firms staying at an all-time high, and that in a way is also competition for big firms because advisors, especially larger ones, have the opportunity to not only monetize in the short term by changing firms, but they can also think longer term and go sell their business for a record multiple at long-term capital gains. So again, lots and lots of competition drove recruiting deals higher, and we expect that trend to remain for 2023.

Mindy Diamond:

Yeah. In a big way. And I guess at a core, it's really the theme or the notion of abundance, the overall sense of wanting more and believing that they deserve more in a world where value and choice dominate. And that really permeated the industry driving movement and change. I think if you capture it, what we heard most often from every advisor we counseled in 2022 is that they were driven by an evolved mindset, if you will. This sentence probably sums it up. I believe my book has great value, and if I don't feel well served where I am, I know that there are many options available to me in this strong sellers' market.

So these advisors may not have used those exact words, but it is the notion of advisors thinking of their business as a business that really drove movement and drove change. So let's fast forward now and focus on how we expect the activity of 2022 to impact next year, to impact 2023 and beyond. So here's what we foresee. The 10 emerging trends for '23. I'll take number one. First and foremost, the big firms have worked harder and will continue to work hard to “incent”, and I'm using the word incent in air quotes, to strongly suggest and incent senior advisors to opt into retire in place programs.

They will do that by increasing deals and more aggressively pushing advisors to sign on sooner. So it used to be that it was only the advisor that was say five or 10 years from retirement that were being incent to sign on to these programs, and now they're looking to sign on advisors for life. The thing of it is that many advisors won't bite. They won't be pushed into signing those deals, at least not blindly, because they are worried about being locked into the firm and losing optionality and they're worried about the potential negative impact on the next generation. And in a market where there are many ways to solve for succession and to monetize one's life's work, they don't necessarily have to.

Louis Diamond:

I agree with you. Just to add on to that, we saw Merrill come out with a partial CTP program. Morgan Stanley and UBS created bonuses for advisors that are 40 years old or 35 years old to sign on and lock in terms of an agreement later down the road. So I think these are brilliant innovations by the firms. It gives advisors an opportunity to monetize if they so choose.

I think the downside is seeing how fast these firms change its advisors having to be really comfortable that once they sign on even if it's a partial deal or it's kind of an advance on an eventual buyout, that they're really comfortable with any changes that come down the pike.

So no doubt these firms have been successful with getting folks to sign up early, but our caution to advisors is always to maintain your free agency status. Until you know with certainty that this is the right option for you preserve your options because your business will be worth more and you'll have more choices if you're as free as possible.

Mindy Diamond:

100% agreed.

Louis Diamond:

I'll take the second one. The trend or the prediction is that the recruiting pendulum will continue to shift further. We saw and will continue to see a shift away from the do-it-yourself independent. That is someone who's building their firm brick by brick with a preference for now supported independence. Firms that offer upfront forgivable notes or a partial monetization event, they provide scaffolding and infrastructure and make it much easier for advisors to get started and then also to operate their independent business.

That was a 2022 finding, but will definitely continue in 2023 because the market is really spoken. In addition, we expect that the big firms will continue to work hard to show that they are not all the same. That technology, that referrals and growth opportunities, that platform and that strategies are very different between firms and that especially armed with a really compelling transition deal that wirehouses and major firms are here to stay.

In addition, we do think that UBS in particular will continue to up its game with a strong guaranteed transition deal, meaning there's no backend bonuses to hit in their deal. And we think this will have a dramatic effect on advisors demanding similar deals from other firms. Again, like we talked about earlier, as one big firm kind of ups the market, others will follow, it might take some time, but we do expect in 2023, many other firms will either increase their deals to compete against a very deep pocketed competitor or perhaps consider deal structure similar to what UBS has.

Mindy Diamond:

Yeah. In fact, we've already seen several firms outside of the wirehouse world that don't want to lose a top team to UBS and have shown willingness and flexibility to write versions of a guaranteed UBS deal. Okay. So let me take number three. This one is a big one, and if I were writing this to you, I'd write it in bold. The feeling of vulnerability at big firms will rise for advisors of all sizes. Increased hypervigilant compliance scrutiny will rule the day. Now we predicted this in '22, so there's not necessarily anything new about that, but more and more advisors are citing a reason to move because they want more control and more agency over their professional life.

Just yesterday I spoke to a top team, a very significant team, where the advisor was terminated or permitted to resign for what seemed like a really innocuous reason, not just innocuous to me, but something that I'm positive would've been considered innocuous and maybe merited a warning and nothing more five years ago was now grounds for termination. So as big firms look to standardize practices and eliminate risk where possible, they will continue to become more heavy handed with compliance and oversight.

And again, that comes at the expense of advisor control as well as an expected uptick of heightened supervision and terminations, unfortunately. Okay. Number four. This is an interesting one and really unique to the tail end or the last half of '22 and a definite prediction for '23. And that's where private bankers and advisors from other non-traditional firms like Goldman, like Bernstein, like Northern Trust, will be a hot commodity in the talent pool, satisfying the industry's hunger for sophisticated talent. Remember, there's more competition than ever before. So the firms need to be more creative or more willing or more flexible to recruit from a widened or expanded talent pool.

So 2022 was a boom year for private bankers with many firms retraining their sites on this community after ignoring them or being kind of lukewarm about recruiting them for many years. We absolutely expect this trend to continue as more firms embrace this addressable market. These advisors or private bankers are well trained, they're sophisticated, they're used to working with ultra-high net worth clients, they have good solid pedigrees. And while there is some question about portability or the amount of time it takes to move a private banking book, they have become hot commodities for sure. And while deals for private bankers used to be really anemic, they are now as aggressive as they are in the rest of the market.

Louis Diamond:

Absolutely. Yeah, I think with the private bankers we saw that firms figured out a way to reasonably price a business of a private banker and to balance the risk, meaning advisors still had to produce, but they also were given some compensation and firms had some skin in the game. So I think finding the right way to price these deals or to structure them was a catalyst. I'll take number five. It's that inspired by the multi-family office phenomena that Rockefeller has created we expect to see many new private equity sponsors and private equity backed RIAs really make a play for the breakaway advisor, especially those serving the ultra-high net worth segment.

Many firms look at the fact that a Rockefeller with its flexibility and family office service model has had a lot of success. And we've seen more capital rush into the space, especially chasing independent firms. So we expect there to be the creation or the minting of a handful of new RIA firms that will be either looking to acquire books of business or can pay compelling recruitment deals and offer advisors who don't want to start their own firm, but they want to be part of a community, they want to be part of a boutique firm, the opportunity to kind of join the independent movement without having to build their own firm and to join something bigger than themselves.

In fact, this year and in many years before, we've had many private equity sponsors reach out to us asking for our assistance in identifying wirehouse teams that might want to bolt on to properties that they've invested in or even to stake a very large team that might be looking for a strategic partner to help them become this next mega firm. So we just expect this to continue to happen. By our count, there's more than 30 different private equity sponsors invested in the RIA channel, that number will increase. And each of these firms have somewhat of a similar playbook. They need to increase the valuation by recruiting new talent and acquiring businesses and certainly the breakaway segment is ripe for the picking.

Mindy Diamond:

Yeah. And we would encourage you when we'll link it here, but we would encourage you to listen to some of the episodes we've done interviewing, for example, KKR, one of the largest private equity firms in the world investing in $25B Beacon Point, which is a very successful California based RIA. Okay. So number six is a new and interesting one where we believe that the breakaway movement from RIAs will continue to accelerate and hit an all-time high.

That is, where non-owner employee advisors at the firms who are also looking to take advantage of this abundant concept will set out for greener pastors. And driven by an industry with great consolidation, it will create a whole new generation of advisors feeling more captive than ever and wanting more, wanting to have some of the gains that their firm owners have realized.

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Louis Diamond:

Absolutely. I agree with that. And we often see it that advisors at RIAs, especially ones that are more standardized, their processes are potentially the most captive advisors in the industry because they don't have control over investments or their own process. The books are owned by the firm, but these folks, especially those that might be able to move a large part or part of their business, we think are going to be in the driver's seat similar to how breakaway advisors are and with better options, with more options, with many different ways to service clients these days, that these advisors will be more motivated than ever to potentially go out on their own and go independent for the first time or to join a competing firm that can offer them maybe equity or higher payout or more services to offer to clients.

So I'll take number seven, and it's the concept of the affiliation slide, which we'll see growing in popularity. Firms such as Wells Fargo through its FiNet division and its private client group, Ameriprise puts multiple divisions, LPL Financial with now five or six different ways to affiliate with it. Raymond James has kind of always been the firm with multiple platform options. Advisors have spoken, and firms that offer choice and the ability for advisors to slide from being an employee to being independent have been really successful.

They're very appealing carrots to dangle when recruiting advisors because it's a built-in hedge that as an advisor's business changes, they're able to transition or slide on the platform without having to re-paper. So we do think other firms will take this cue and perhaps enter the game. Last year Stifel really upped the ante as they added an independent arm. Will others follow suit? But my question for you, Mindy, is do you expect that firms like Morgan and UBS and Merrill, will they join this kind of ability to slide because advisors want it or do you think they'll stay the same?

Mindy Diamond:

Yeah, well I think if we're just talking about a prediction for '23, the answer is definitely not. But do we think that at some point someday they might, who knows? None of us have a crystal ball. We do know that at least some of those firms have looked into it, and it's hard for them to imagine a world where they cannibalize their private client group to allow advisors to slide into independence. Big firms are all about managing profit margins, and we just don't see that happening anytime soon.

Louis Diamond:

Yeah. And I think too, because if you look at the relative number of advisors that break away every year a large firm looks at it and says, you know what? It's not that big of a number. It's probably five to 7% of all advisor moves are breakaways, so they say, we can stand to do better by retaining our advisors and if we lose some, but overall, we are much more profitable when we do recruit teams and we're better at retaining teams when we don't give them kind of the easy exit for an independent arm. I'll take number eight.

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It's that independent broker dealers. So that's the LPLs and Commonwealths and Kestra Financials of the world as well as supported independent platforms, Sanctuary, Dynasty, Steward Partners, et cetera, will become and continue to be the new built-in buyers for independent businesses. So that's advisors that are already on the platform and affiliated with these organizations will look to these firms directly to either buy a minority stake in the company or to buy the company at full stock as they look to solve for succession.

It's a model that's been very successful for Kestra via their Blue Spring channel we expect that others will follow suit because it's good business. It creates stickiness with their advisor force. It's a solution that advisors want because if they built trust with the platform, then why not look to that platform to become a buyer or an investor in the practice rather than having the transition and sell to a stranger? So we expect this to continue.

But along with that is this increased popularity of minority non-control investors. So companies like Merchant or Immigrant Partners that are allowing advisors to take chips off the table either at launch or at some point in the future, but still allow them to retain full voting rights and to retain their voice and stay in the company. So in short, it's advisors looking for liquidity either for succession or just to diversify their own personal balance sheets will have more options. Again, this concept of abundance in 2023.

Mindy Diamond:

Well said. So let me move on to number nine. Number nine is an interesting one. The days of the big bad bank will fade. And I love that topic just simply because for many, many years, but starting after the financial crisis of ‘08, when Bank of America bought Merrill Lynch, the most popular sentiment we heard from advisors is, I don't ever want to work for a bank again, but with firms like Merrill, for some advisors proving that the notion of one-stop shopping all under one roof, access to all things banking, lending, and investments is appealing with Wells Fargo, as Louis said, multi-channel approach and all under one roof access.

And certainly First Republic as a boutique firm that has really proven that the interconnectivity between banking and wealth management is very strong. In First Republic's case, it's even about a very strong and real referral mechanism of high net worth clients coming from the bank to private wealth advisors. So all of this will increase in appeal amongst a particular faction of advisors drawn to these one-stop shop capabilities, compelling brands and growth opportunities. There is no doubt that many advisors, maybe even most, will continue to issue the bureaucracy and they won't want it, but it is a trend and there are many big teams that are beginning to embrace it.

Louis Diamond:

I agree. I think it's pretty clear that these banks, they have growth figured out. It's a mouse trap that works. The connectivity with all these services, the one-stop shopping is a tried and true method for gathering new client relationships and also expanding wallet share with existing clients. So while, again, to your point, it's not perfect. There's many folks that are really successful under a bank framework, their clients like it, they like it, and it's a really good method to grow a business.

And we think that as advisors look toward growth, that banks certainly are still a compelling option and aren't going anywhere. As advisors look to change firms there's many banks that will be very successful. And finally number 10. It's that despite a slower than anticipated rollout, I think last year we actually predicted this one, but it somewhat came true, but we expected to really take off this year. It's that Goldman will find their stride and give traditional custodians like Schwab and Fidelity and BNY Mellon Pershing a run for their money.

They won't take all the market share, but they'll certainly be a constituency of breakaway advisors and those serving the ultra-wealthy that will find this platform, this kind of all under one roof scenario with a major compelling brand as being an option that is worth a look. This year, our firm helped facilitate the move, Scott Shagrin and Ira Ravitz who launched the firm Beverly Hills Private Wealth, which was an RIA really the first breakaway RIA on the Goldman platform. This was a billion dollar plus group, and these guys were trailblazers.

And we are very excited to see what 2023 holds for Goldman, but also for the entire custody space that is looking for a shakeup with TD Ameritrade being acquired by Schwab. And again, as advisors want more, they're expecting more from their custodians. And we think the custodians that can step up and either provide extra services or can make themselves more indispensable to an advisor beyond the basic blocking and tackling will be very successful. So a lot to look forward to as advisors look to the breakaways to solve some of their challenges.

Mindy Diamond:

So to wrap up, I think you've heard us say time and again, that advisor mindset has changed dramatically over the years. Shifting from placing value on the short term or how much upfront transition money they could get, trading that for increased freedom and control. It is this mindset or the fact that advisors are demanding more, that has really reshaped the industry, that new models had been born to meet that demand.

In fact, we continue to see even further shifts on a greater focus on the part of advisors on the long term. And that said, advisors are also widening their view to ensure that they look more introspectively at their career enterprise value, regardless of whether they are independent business owners, employees at one of the big brokerage firms or somewhere in between.

Louis Diamond:

And just to add on to this topic of career enterprise value, because I think it's a really, really important concept these days, it's that advisors want to maximize their franchise value. That is even if they remain an employee of a major firm, that they're thinking about how to maximize their value, which is really the, if you look at it, the summation of their earnings from running their business. It's the earnings from recruitment deals, it's the earnings from retirement programs and looking at all these factors and saying, how can I maximize it? Of course, it has to be layered with where am I best served?

How do I want to live my best business life? But in this world, with so many more options and choice, advisors can really pick a step back and say, what's the best way to maximize my career enterprise value? And it's this shift that we'll see in 2023 that will allow for advisors to take a step back and conceptualize not just how to maximize the value of their business and annual compensation, but how that translates into achieving their best business lives. And in a world where abundance rules, advisors will continue to have every opportunity to take greater control of your business lives and achieve everything they set out for. That is, every advisor will have the opportunity to really maximize their career enterprise value.

Mindy Diamond:

Louis, this was great. I always love this opportunity to really look back on the year behind us and make predictions for the next year.

Louis Diamond:

Yeah, me too. And it's been a really tremendous year. We're so grateful for all of the guests, from the breakaway advisors to the industry leaders, to the thought leaders, the coaches, and everything in between that have joined us on the podcast and we thank the audience for listening, giving us inspiration. And ultimately, we're really excited for the slate of guests we have in 2023.

Mindy Diamond:

Absolutely can't wait. So what we would say to you now is be sure to check this episode's webpage for links to each of the resources mentioned, as well as a tool to help you identify how to maximize your career enterprise value, and a link to another episode on the same. 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.

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