Summit Trail's Jack Petersen on How Their Blockbuster Break Created a $16B Firm Designed to Serve the Unique Needs of UHNW Clients

A conversation with Jack Petersen, Managing Partner and Advisor at Summit Trail Advisors.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Summit Trail's Jack Petersen on How Their Blockbuster Break Created a $16B Firm Designed to Serve the Unique Needs of UHNW clients. It's a conversation with the firm's managing partner. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

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It was one of the largest and most notable leaps to independence in 2015, and even today, advisors still talk about it. Jack Petersen was the head of Barclay's Wealth and Investment Management for the Americas, the result of a quick turnaround move after Lehman's bankruptcy in 2008. Yet over time, Jack admits feeling burnt out in the management role, so he shifted back to his roots as an advisor. It was a few years later when Jack started thinking about whether there was a better way to serve his ultra-high net worth clients. That is, he came to the realization that to properly serve this sophisticated client base meant customization and recommendations outside of the Barclays infrastructure, making the process difficult, if not impossible to execute upon. And it was clear that another traditional firm would present them with the same set of challenges. That's when the idea of pulling a few like-minded teams together that also serve the unique needs of this constituency to build their own capabilities, culture and investment philosophy.

Ultimately, Jack and five co-founders launched Summit Trail in July of 2015 with the support from Dynasty Financial Partners and $3 billion in managed assets at three office sites across the country. It was a landmark event at the time, both in size of the business and the sheer fact of launching three offices simultaneously across the country. Headlines announcing the move described Summit Trail as a national wealth management boutique launched by six leading executives with offices in New York, Chicago, and San Francisco. They immediately became one of the largest independent wealth management firms in the US. Today, Summit Trail is managing some $16 billion in client assets with offices added in Boston, Seattle, Harrisburg, and Washington DC. And while they've done some acquisitions, their growth has been driven more so by organic means, the latter likely due to a laser focus on ultra-high net worth clients and deep expertise with manager research and alts.

In this episode with Louis Diamond, Jack talks about the wealth management industry as it was before and after the 2008 collapse. He shares the motivations around his breakaway move and the choice to go

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with Dynasty. Jack talks about Summit Trail and the unique culture they've developed, the importance of equity and the high bar they've set for acquisitions. He talks about the strategic value of private equity firms to RIAs and Breakaways. Plus, Jack shares the secrets to their growth, Summit Trails organic growth and referral model and their plans for the future and much more. It's a great story, so let's get to it.

Louis Diamond:

Jack, thank you for joining us today.

Jack Petersen:

Great to be with you, Louis.

Louis Diamond:

Can you start by maybe having you share with us your background and what led you to become an advisor with Morgan Stanley?

Jack Petersen:

Sure. So I've been in the wealth management industry for 30 years. I randomly backed into wealth management while I was a second year student up at the Tuck School at Dartmouth College and looking for a job my second year, and I randomly walked into an interview with Goldman Sachs. Not knowing who they were really or what they did, I was not at all interested in investment banking or sales and trading. Three months later I was down to Morgan Stanley and Goldman Sachs with an offer to join PWM and I ended up selecting Morgan Stanley and had 10 great years at Morgan Stanley as a advisor, focused on ultra-high net worth clients working from their New York office. And from there, Dean Witter bought Morgan Stanley. That changed our business, so we took our team and moved over to Lehman Brothers where shortly upon arrival I was asked to join the management team there and spent five great years at Lehman, another great firm, really good people, and through a couple of different roles, ended up as the global head of their private wealth business.

Unfortunately my end of my first full year in that role, we went bankrupt in September of '08 and lived through a very difficult experience there and Barclays stepped in and we sold our business to Barclays and spent seven years at Barclays, first couple in management, and then I went back to production, went back to build a client business and spent about five years rebuilding and at the end worked with a few of my partners there to think about leaving Barclays. We looked at the bank broker dealer world and then decided RIA was where we needed to be.

Louis Diamond:

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Love it. Very succinct kind of journey through the industry. So I'm curious with your various management and leadership roles, and then you mentioned going back to becoming an advisor, which of those responsibilities, so the management leadership or being an everyday financial advisor did you prefer and what was it like toggling between the two?

Jack Petersen:

Yeah, good question. I will tell you it ebbs and flows. It changes like the weather. Client work is incredibly rewarding. You're dealing with very successful people, large complex families, problems, opportunities. I find that very interesting and very fulfilling. Solving problems, helping people feels great, but that can wear you down and markets are challenging and client family challenges and there are times when leading a business and building not only a team, but building a firm, having different responsibilities is rewarding in a very different way. So I have really enjoyed my 30 years because I've had a nice balance of my time working directly with clients as an FA and then time with really talented management teams in building and leading businesses. So I've really enjoyed both and I think that speaks to my 30 years, right? Today I still work with a small group of clients while I'm managing partner at Summit Trail.

Louis Diamond:

Yeah, I think that's exactly right, and that's the beauty of being a business owner too, is you get to pick what is most soulful and meaningful to you. My guess is having the lens of being an advisor is probably very helpful when recruiting and acquiring practices because you have the empathy, you've been in that seat and you still to an extent do today. So I think that's an exciting way to go about your career. I'd like to talk a little bit about what life was like at Barclays prior to launching Summit Trail. So can you elaborate on what was it like to operate the practice within Barclays? It was a new company for you, and then what was happening on the ground that sparked either the idea or the motivation to launch what became Summit Trail in 2015?

Jack Petersen:

Sure. So I think most of us feel like Barclays really bailed us out, right? It was a very, very dark hour in September of 2008. I don't think most people fully appreciate the scale and size of the unknowns, not just at Lehman, but globally and throughout the entire financial system. It was a really scary time. I give Bob Diamond and Tom Kalaris at Barclays a lot of credit for stepping in opportunistically at a time with a ton of uncertainty and structuring a deal to acquire the Lehman institutional businesses, but also the wealth business. And I think for the first two or three years it felt really good. We had this global balance sheet, we had this global brand and private bank behind us, and we were all still recovering from the bankruptcy and Tom and I with others working closely on the unwind of the bankruptcy, which was incredibly complicated.

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I think the first couple of years felt really good. We kept about half of our advisors at Barclays, about half left and went to other firms post bankruptcy. So we had a really good group of core advisors and we were in rebuild mode. I got really burned out, and so I took a six-month sabbatical, which was incredibly cathartic and probably necessary and came back to just focus on clients. So '11, '12 and probably up into 2013, it felt I was reliving the client business and the rebuild. I had forgotten how difficult it was to prospect for new clients, but you could tell things were not going well at Barclays in regards to our US wealth management business. It was getting difficult to get some things done. There were a lot of other things going on at Barclays globally, and from a regulatory perspective, I think Barclays as a firm had their hands full.

So a number of us were getting frustrated and reading the tea leaves, it seemed like we were not going in a great direction. Also, I think the industry, we lived through a fairly significant regulatory change. The regulators with proper intent reacted to the Lehman bankruptcy, that financial crisis, and they went as they should to protect retail investors. And I think that set some of the groundwork for this surge in RIAs because it became more and more difficult to do custom work and properly serve sophisticated, large, complicated families where customized analysis and making recommendations that should probably include products and business partners outside of the firm, that really was difficult to execute on. So by 2013, we were starting to have conversations about what we thought was sort of a challenging Barclays environment. We split up. 6, 7, 8 of us went around, talked to all of our friends at other firms, and we came back a few months later and said, "You know what? This really isn't a Barclays problem. It really is kind of a bank broker dealer problem. It's a broader industry problem."

And again, I'm speaking purely from a perspective of the advisor trying to provide customized advice to ultra-high net worth families. It was difficult industry-wide, and that's where we discovered this RIA concept. We did work on that. We thought we would just join an RIA and I think at the end of our due diligence process, we decided, you know what? If we can get two or three teams together and a couple billion of assets given our requirements as advisors to ultra-high net worth clients, specifically on the investment side, we probably need to start our own firm and really start with the investment philosophy and capabilities that our clients had grown to appreciate with us at Lehman and Barclays, but it's what they would expect and require going forward. That was really the driving factor to decide with three teams, my team in New York, a team in Chicago, and a team in San Fran along with our CIO to launch our firm in July of 2015.

Louis Diamond:

Fascinating. I definitely want to spend a good amount of time on that break because I still remember seeing the headlines and that was eight years ago or more, so we'll definitely talk about that. But I want to hit on two points that you made. The first one, which I think is fascinating is that you said that because of what happened during the financial crisis that the regulatory environment and the way that firms were applying those rules, that was the spark or motivator in your view for what happened with the growth of the RIA channel. I think that's a very valid point. We've always said that it was driven by advisors feeling distrustful of big brands and big institutions in realizing that they could do their business elsewhere. They didn't need the balance sheet of a big firm or the brand on a business card because in many cases it was actually a detriment.

So I'm going to add what you said to my normal analysis on the growth of the RIA channel because I think that's spot on. The other thing you mentioned was that through conversations with other advisors and friends around the industry, it seemed like for your more complex client base that there wasn't going to be another like firm, another W-2 firm that would meet the needs of your clients. Can you elaborate a little bit on why you think that is? What were the needs of your clients in particular that another firm couldn't handle that you felt like you needed to craft your own firm in order to service those clients' needs?

Jack Petersen:

Sure. So I think as far as looking at the banks and broker dealers in the industry at that time, 2013, 2014, we had built a highly curated and controlled roster of approved managers and funds and strategies that was based on this belief of smaller, maybe earlier stage managers would drive better risk adjusted returns because they weren't trying to put to work a ton of capital. And that philosophy of focusing on smaller, specialized employee-owned specialty managers in all the asset classes, that is something that Dave Romhilt and his team built out early days at Lehman Brothers, and we carried it right through Barclays and now here we are eight years into Summit Trail. So the large firms, when you think about 5, 10, 15 or 20,000 advisors, they need to build a platform that they can scale. And it's not a criticism, it's just an acknowledgement of large numbers. They have trillions of assets.

I think about some of the managers that we work with, if they were to go onto the platform of a large broker dealer bank, they would fill up, the capacity would be taken out and I would guess a few days. So given our size, we have 22 advisors, 16 billion of AUM. We feel large enough to really have access and buying power, we have a 14 person dedicated research team. We're large enough to find and get access to highly talented managers, but we're not so large where capacity becomes a problem. So industry-wide, the two challenges are creating supermarket platforms to serve 10, 15, 20,000 advisors. And you're also trying to serve all clients sub million in the mass affluent, one to 10 in the high net worth and 10 and above for the ultra-high net worth. And I do think it's hard to build platforms to serve all three client segments.

Then the regulatory comment, it's not a criticism in any way of regulators. I think they did the right thing stepping in. We were all panicked and concerned in 2008, but I think regulators and large firms to manage their regulatory compliance responsibilities, they like to have standard solutions, models, things that are easily monitored, and I think that works very well for most client segments. In the ultra-high net worth client segment, that does not work well. So we hand build customized solutions both on the investment planning side as well as the financial estate planning side. Their solutions are incredibly customized and that's very hard to monitor for a bank or a broker dealer.

So when regulators come in and they want to evaluate the work you're doing, it's more difficult for those firms to show that. So I'm a big fan of the fiduciary standard. It's very different than the suitability standard. It holds us to a much higher level of accountability, and I think clients have really grown to appreciate that. They did not know what that was when we talked to them back in 2015. So I love that standard, it's a higher standard and I think we have a very good relationship with our regulators.

Louis Diamond:

Yeah. And my guess is too, based upon your various leadership roles, you probably unfortunately had a front row seat into what it was like to partner with regulators and just really understand better than a traditional advisor how the sauce was made. Ultimately you had a vision that you knew what your clients needed and it just wasn't possible in a traditional model. So that makes a ton of sense to me that it's more because of the unique needs of your ultra-high net worth clients and how you wanted to curate your platform that you felt like the only way to really get deep in with what your clients wanted and needed was to build your own RIA. It's a great narrative.

So let's get back to the launch of the business. There was tons and tons of press I think for a couple of weeks highlighting your move. $3 billion in AUM was a major number. If it wasn't the largest breakaway move at the time, it was probably close. But I think what was even more interesting was aside from your high position at Barclays, the simultaneous launch of three different businesses in three different markets. Can you talk a little bit just about the launch itself and then we'll get to why you chose to partner with Dynasty Financial to help you bring it all together?

Jack Petersen:

Yeah, we had an incredible foundation laid. When I think about my two partners in San Francisco, Tom Palecek and John Scarborough, my two partners in Chicago, James Cantelupe and Peter Lee, and then our CIO, Dave Romhilt in my team in New York, we had this foundation that would prove to be the foundation that set the tone for really everything including our cultural standards, our organic growth standards, our investment philosophy and client comes first approach to running our business. So we had the great fortune of starting with I think six talented and strong leaders in our co-founders, and opening up three offices at one time was difficult. We did get a lot of press. I think we were one of the largest, if not the largest. The idea of three offices opening on one day I think was the first time that had been done.

And I think the whole big team lifted out of BD Bank World into RIA world, that's very common now. It wasn't nearly as common then, so there was some news around that. It was incredibly well received by our clients, we had a very successful transition. It was stressful, brand new three offices having never run an RIA before. Again, I feel very fortunate to have great partners. We have 23 equity owning partners at Summit Trail today. Every advisor at Summit Trail is an equity owning partner, so we're very advisor centric, which really drives our client mentality. Everything we do every single day always comes back to our clients. But it was a crazy July 24th, 2015. I'll never forget that day walking in, we had Dynasty teams in each of our three offices. We popped champagne and then we got on the phones. It is by far one of the most exciting things I've ever done in my life, and it's been highly rewarding.

Louis Diamond:

My guess is too, you'll probably be fine never doing that again.

Jack Petersen:

I'd be fine never doing it again. I'm a Trail lifer.

Louis Diamond:

We're seeing it more and more now with private equity coming into this space that there's... We talk with a lot of wirehouse teams or advisors in general who have, which I think is a smart idea, but I'd love to get your perspective on it, the idea that bigger is better. That I'm successful on my own, but if we bundle together or bolt on this other team, two other teams, four other teams, that we're going to be more valuable. But the businesses before never really had much connective tissue. I'm curious your opinion of this as far as how it works and what the pitfalls are because I think we're going to see more and more advisors trying to pull this off, and I guess in some ways following in your footsteps.

Jack Petersen:

I think this is a really important question. It's a very timely topic. So I think private equity, discovering wealth management and in particular the RIA business model, I think it's a very good thing. It's overdue. I think these are great businesses and it just makes a ton of sense to me. So on the surface, I think it's a great thing. Like anything else in life, it really does come down to fit and aligned interests and so we've spent a couple of years thinking about this and evaluating our options and future plans, and we're going to continue to do work on this because it is a long-term likelihood. Who and how and what we do is nowhere near decided, but I'm definitely watching our peer group, our competitors. Most have taken private equity and with private equity comes capital, but also oftentimes with private equity comes a business partner that can bring valuable resources to your firm.

It can increase deal flow, you can have some outsourced resources around M&A and marketing and technology. So it's compelling, but fit is incredibly important. Cultural fit, structural fit, alignment of interests, and I think one of the great things about our country and our industry is we have many, many options. There are multiple forms of capital and capital partners, and so I think we as a firm and no different than everyone that's gone before us, you've got to decide what you are doing and when your business plan requires capital. You have the luxury or the opportunity to evaluate all options. From debt to equity term fund or permanent or semi-permanent capital, we have so many options. Obviously Dynasty has a platform, so there are almost an unlimited list of alternatives. And I just think we have to be very, very thoughtful and be really clear on what is our business plan, what is that strategy? Where do we need capital and in exchange for capital, what else are we going to get? And so that's a process that we'll continue to work through.

I've been impressed by a number of my friends running other RIAs and other peer group RIAs that have done some really impressive things by partnering with many of the leading private equity firms. We have a great relationship with our bank, First Citizens on the lending side, and that's through Dynasty. So lots of options. We're moving slowly, and there are risks of bringing in an outside capital partner and not every deal is going to go well and I think we've seen a lot of capital get put to work. I think over the next three, four years, some of those are going to work out really well. I look at a Beacon Pointe and watch what they did with Aubrey and now KKR, Matt and Shannon have done a great job. I think there'll be some other deals that probably don't work out as well, but it's something that we'll continue to focus on in the coming years.

Louis Diamond:

Yeah, that's fascinating. The point that I like the most of what you said is if you take on capital, it has to be for a strategic reason because it's not hard to, especially for a firm of your size and stature, to attract folks probably falling all over themselves to deploy capital, to invest in your M&A strategy and just have a piece of your very valuable business. But it's about what does giving up some control, selling some equity, what does it actually get us strategically? I think that's very smart. What would you say to a group of advisors, so maybe it's somewhat of a similar situation as you were in, you have advisors in different markets or friends even in the same market who are running different businesses, but thinking about launching an RIA together because they want to create more value. What do you think about that? So instead of one cohesive team launching, having these disparate groups coming together at time of launch.

Jack Petersen:

Yeah, so I think it has a lot of potential, right? So you have different teams in the same market or different teams in different markets. What I would say is early on when you all sit down and have a conversation, does that conversation feel good? Is there synergies? Is there mutual respect, enthusiasm around some of the same core philosophies and cultural similarities? If that's not really easy early on, I would encourage you to be very careful. Life is hard enough as it is, building an RIA is hard enough as it is. That's where I come back to my co-founders and the teams that joined us shortly thereafter, we had two more teams join us from Barclays. Those first five teams really set the tone and they were the foundation of what Summit Trail is today. And so yeah, I think multiple advisors, there's definitely a benefit to joining up, right? Scale, brand, shared expenses, critical mass, buying power, shared technology. There's all kinds of benefits, but it really... All of that is highly dependent on a culture and a business philosophy and an execution model that is highly aligned. And if it's not, the likelihood of that failing is awfully high.

Louis Diamond:

I feel the same way that it's an interesting thought exercise and the benefits that you laid out are these exact right ones, but there's enough moving parts, enough hard work to build a firm the right way. So if you all of a sudden throw the grenade of extra voices, extra needs and perhaps folks not being completely aligned, then it's probably not worth the effort or the juice isn't worth the squeeze. So I appreciate that perspective. Now let's talk specifically about Summit Trail itself. You shared a little bit about the size of the business, $16 billion or so in assets. Can you talk a little bit more about the breakdown of your team and just how you went about designing the architecture of Summit Trail today?

Jack Petersen:

Sure. So today, quick snapshot, 95 employees, $16 billion of AUM, $22 billion of AUA. We have nine teams working from seven different offices across the US. Teams vary in size from single advisor teams to four advisor teams supported by CSAs and RMs or relationship managers. We all share a core investment philosophy and research team, so we have 13, 14 people in research run by Dave Romhilt, who's our CIO. Ben Johnson runs portfolio construction and Seth Katz runs our private investment effort. So senior leadership on the investment team and then complimenting that now, and this has probably been our biggest change over the last couple years, Alex Shapses runs our planning team, which again is about a dozen people, highly customized, very sophisticated estate planning, estate management, and some basic financial planning where needed.

So we started Summit Trail as an investment led organization. It was on our website, it was our materials because at the time, that's really what we had grown up in executing and building our business. That's really how we were trained to think, coming out of a bank broker dealer model. One of the first things I learned early on as I gained exposure to RIAs was they focused often, not always, but oftentimes less on investments and more on planning and family office services, organization and the whole client service model. And what we have done over eight years is leaned into that further and further. We found Alex and his team back in 2020 during COVID, and we lifted them out of an organization in February of '21, and we've built out now a centralized planning team that's hand in hand integrated with our investment planning team. So that has been the biggest structural change. We've always been an organic growth focused firm. We've annualized growth around 25%.

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Wow.

Jack Petersen:

Two thirds of that's organic, and then the other third is coming from M&A and the markets. We get three to 5% annually for markets after fees on a full market cycle. And so organic growth is really a core part of our culture and our business model. Our advisors are incredibly talented in how they have built out their own referral networks. We don't advertise, we don't do digital marketing. It's the old-fashioned referral model. Attorneys, accountants, business managers, agents, investment bankers, et cetera. Each of our advisory teams does it their own way in their own markets, but they're all fast growers, which has really driven our growth.

Louis Diamond:

Yes. So two comments or questions there. So I actually noted, but you already hit on it, that Summit Trail positions itself as an investment first firm or investment forward firm, which is against the norm. Most firms these days are planning first and the investments follow. So you talked a little bit about why that was, but it seems like you've really made it much more of a holistic firm now. So your specialty was and is on the investment side, but with the work you're now doing with advanced planning and estate work, that now the value proposition is rounded out. Did you feel like it was lacking on the planning side before you lifted out the team during COVID? Was it something that clients were asking for or did you feel pretty settled that you had the right mousetrap built?

Jack Petersen:

I think at a minimum we were not standardized. We had seven, eight teams that were doing it their own way. We were all leveraging outside lawyers and tax specialists and accountants, but it was not standardized. We hadn't institutionalized the process. But what our team today brings in form of capability is a higher degree of sophistication in the form of technical recommendations, but also it's the coordination of all these outside resources. Again, lawyers, accountant, tax specialists. It's the collection of data that comprises the current estate plan and then analyzing the current plan, identifying opportunities and gaps and challenges, making a series of recommendations, and then managing that process so the client doesn't have to go out and do it. And we were doing that before, but we weren't doing it in a shared centralized resource way, and it wasn't standardized. So we always got it done, but we were relying more heavily on outside resources and today we can leverage this talented team internally and it's a far superior client experience, and I think we're giving better advice.

Louis Diamond:

Very interesting. I'm sure what you grappled with was the kind of the balance between standardizing practices and efficiencies, but also giving each team some autonomy. And I think it's very interesting that you referred to it as nine different teams. Most large RIAs, it's more of everyone's kind of rowing in the same exact direction, all clients are kind of clients of the firm, and there isn't really a distinction or delineation between the different advisors and what they're doing. So I'm curious if you can talk a little bit about why you think having different teams is the right approach, at least for Summit Trail.

Jack Petersen:

Yeah, good question. So first of all, I think of Summit Trail as a hybrid and we talked about it. We designed the business plan as sort of a hybrid model, meaning a blend of what we think of some of the best broker dealer components combined and enhanced by what the RIA chassis or business model provides. So for example, we have 40% payout. Our advisors receive 40% payout. Most RIAs don't have payout, but-

Louis Diamond:

Or 25% or 30 percent is something much lower?

Jack Petersen:

And then there's driving a profit share, but we are majority owned by our advisors, which is unusual for most RIAs, but we are employee owned. So advisors are equity owners, they have a profit share, we vote like any other private partnership would on strategic decisions. So advisors at Summit Trail, in some ways, they do run their own team. It's shared, we have centralized operations, compliance technology, investments in financial planning, but they are able to go out and build their own client base where and how and with whomever they please. We don't have territories. So we look back at the broker dealer world, we think we've kind of cherry-picked some of the best attributes of that business model. I would put our advisors up against any other advisors in the industry, seniority expertise, hard work ethic, organic growth, business development capabilities, but also their leadership of building really talented teams.

The risk of centralizing more and more of that, you're taking little bits and pieces further away from the client. And so I like this team model where each team is dedicated to a group of clients, they're their own clients, at the same time they are Summit Trail clients. And so I think we've pulled off something special in this hybrid model. Part of it is cultural, part of it is economic, part of it is the team model. It's not been easy to keep that balance. And I'm not criticizing other RIA models; there are so many. It's one of the best things about wealth management, there are so many ways to be successful. This way happens to work for us. I think if we were a more traditional RIA model, I don't know that we would be benefiting from the same organic growth.

Louis Diamond:

You've hit on this a little bit, but I'd love to hear your thoughts on the minimum client size that Summit Trail takes on. If recruitment and mergers and acquisitions has been a source of growth, and we'll spend some time talking about that, I would imagine that it probably rules out many more advisors and acquisition targets than it rules in same thing with potential new clients. So can you talk a little bit about how you think about the right client for Summit Trail and why it's a benefit to draw a pretty strict line about who's invited into the fold?

Jack Petersen:

Sure, so our client policy is a bit complicated. In simple terms, we are focused on clients with $25 million of investible net worth and above. When you're out looking for 25, you'll find one hundreds, you'll find billionaires, you'll also find ones and twos and fives and tens. Every client requires a lot of time, constant attention and bandwidth from a thought process perspective. So we take each client's slot incredibly seriously. It's why we decided to focus and limit ourselves to one client segment--ultra-high net worth. We average about 22 or 23 clients per advisor, which is very low by industry standards, and we can afford to do that economically because we are focused on larger clients. So our policy informally is we have no minimum. Oftentimes our clients are joining Summit Trail because they have financial planning and estate planning needs before their big liquidity event.

So they'll come to us with little or no investible capital, we'll do the planning work upfront, and then we'll be with that client in place when they benefit from their event whenever that is. So we have no minimums, but in general, I would say we want to find clients that have a clear path to at least $10 million. We target 25. We work with 13 or 14 billionaires on any given day, so average clients about $44, $45 million. Some teams actually have a larger average, some teams have a smaller average. Our teams definitely have geographic and client genre specialties, so we have a team that does work with a lot of athletes, we have a couple teams that focus on financial services, a couple on technology entrepreneurs. So roughly 90% of our clients are first generation wealth, and about two thirds of our clients are private and public business owning entrepreneurs.

So we all come together and share that first generation entrepreneurial client genre and have been built out to service that client segment. But then each team gets to execute in their own way and focus on clients where they have some success. And Louis, how these teams build out their client base, when you have one successful manufacturing CEO, it can lead to another manufacturing, CEO and a third. So you get momentum in industries and client types and you're rewarded for following that path, so working with a group of similar clients is incredibly synergistic.

Louis Diamond:

I have to imagine though that over the eight years that Summit Trail has been in existence, you've been tempted or maybe at least gave some serious thought to maybe bifurcating your service model. There has to have been some really talented teams that have come along that would've been great cultural fits, they were ethical, they grew, but maybe they were serving the $5 million or the $3 million typical client. Has that been on your radar and have you or would you ever consider having a bifurcated or a tiered service model like a lot of firms have?

Jack Petersen:

Okay, Louis, you're starting to scare me a little bit here. You nailed it. Yeah, no, that's a major consideration. We I think are well established. We have a long ways to go, but we're well established in the ultra-high net worth client segment, which again, call it 10 and above or 25 and above. The high net worth client segment, which is I think of as our little brother, it's right next to us. And we have many clients that are in that segment on their way up to ultra-high net worth, so we know how to service that client. $5 million and above is where we do, I think, some of our best work because of our alternatives, qualified purchaser $5 million and above. So high net worth is definitely a consideration, and I have met so many great advisors and teams where they've had too many small clients, sub five. Their average maybe 10 or 15, but they just had a lot of small clients and we don't really scale small clients well.

And these were small clients that weren't going to turn into 10 and $25 million clients. So unfortunately, a lot of advisors in our industry are financially incentivized to take on every client that they come across that they want to work with, and I think the large firms in particular encourage that. In many ways, we think we have been rewarded and we've benefited from maintaining our focus on ultra, but that high net worth client segment, my ability as I focus on what I call partnership expansion or M&A, the tuck-in of teams would greatly accelerate our volume if we were to decide to bring on that second client segment, possibly probably separately branded. So when we think about our 10-year strategic plan, and that's why I'm joking with you a little bit, I feel like you've been reading it. It's definitely on our list, like is this something we should do? Right now we feel very good about ultra, but high net worth is definitely on our long-term list of considerations.

Louis Diamond:

Yeah, it makes sense. And I say it also somewhat selfishly because there's been a number of teams that I've thought would be great fit to partner with Summit Trail, which will be the next topic of conversation, but it's hard to find the books of business and the practices that are pure play ultra-high net worth or have that laser focus like you do. So I would agree that you'd probably stand to do more deals, but that has to be balanced against perpetuating the culture, not diluting the service model, and remaining I think top of mind for the ideal client that you work with. So I think that's something that a lot of practices struggle with is balancing growth for growth's sake and just it's we can pick this up relatively easily or is it better to stay smaller and more nimble, but be able to stay true to ourselves? And I'm glad that I'm reading your business plan.

Summit Trail's Jack Petersen on How Their Blockbuster Break Created a $16B Firm Designed to Serve the Unique Needs of UHNW Clients

A conversation with Jack Petersen, Managing Partner and Advisor at Summit Trail Advisors.

Jack Petersen:

Well, listen, I really appreciate you are a very high quality recruiter. Diamond Consultants, you guys have done a great job, but also what I appreciate about you, but you and I don't talk that often, and that's because you know who we are at Summit Trail and you call me when there's a good fit, a potential for a team that would be a good fit for Summit Trail and Summit Trail would be a good fit for that team. So I think you're really good at what you do. You get to know your clients very well, and then the Summit Trails that are out there versus a mass affluent firm and you know the difference, and you know where to go when you have the right opportunity, but my phone doesn't ring that often. That's part of the bummer of our focus and our discipline, but it's something we've been comfortable living with and I think we've benefited from that so I don't see that changing anytime soon.

Louis Diamond:

Yeah, and first off, thank you. I did not pay you to make those comments. Look, I would say that what you're doing works. Very few firms we've had on this podcast, and we've had many, have grown the way that Summit Trail does. In my humble opinion, I think it's better to have a more focused business, especially if you keep up the growth. Maybe one day if the 20% ticks down to 5% or 10% where you feel like you're really missing something, then you can expand it but I think the discipline is probably part of your secret sauce and you would agree. Let's talk a little bit about your recruitment and acquisition successes. You mentioned some of the teams from Barclays that joined you after the starting gun and then soon after, but you've also had a number of other folks join you. So can you talk briefly about who these folks were, where they came from, and what was it that motivated these folks to join Summit Trail over any other type of firm?

Jack Petersen:

Sure. So if you think about 2015, we ended that year with five teams all directly from Barclays. Barclays was about to sell their business, which closed... That Stifel deal closed in December of '15, so we had a short window to try to find a few more like-minded teams, and we pulled two more out in August and October of that year. 2016 was really just a year of turning the lights on and getting things figured out. We didn't really spend any time on M&A. We got Addepar rolled out, Salesforce rolled out. Dynasty was incredibly helpful. We looked at Focus, we looked at Dynasty, we talked to other consultants. In the end, we selected Dynasty because of the boots on the ground, the depth and quality of their team in helping us design and then launch three teams at one time, which again, I don't think had been done before.

So they were instrumental in our success. Early on we worked with John Fury from Advisor Growth Strategies on business plan and marketing, a little bit of operating agreement and a lot of time spent on our M&A model, and again, instrumental to our success. '16 was really working with Dynasty and Pershing and Fidelity, our first two custodian partners to get the lights turned on, get the assets over.

Dave and the team spent a lot of time signing up managers with contracts, many of which we worked with previously at Barclays and prior.

So then I started to focus a little bit more on M&A in '17 and through many people at Summit Trail, we had reconnected with a very talented advisor in the New York market who was at a smaller RIA, Justin Waterman, really talented advisor. At a small firm, had a very good relationship with Dave, actually had worked with Dave back at Lehman, and that was an acquisition we thought we'd buy the whole firm. At the end, the founder of that firm just I think wanted to stay solo, but Justin still wanted to join Summit Trail, so we found a way to buy him out, and that was August of '17, and Justin's been incredibly successful in his growth in building out one of our largest teams here at Summit Trail in a short period of time.

2018 I spent a whole year on a big Morgan Stanley team in the south and New Year's Eve it fell apart. A tough night despite the New Year's celebration. And then '19, we were fortunate enough, Dynasty brought us a really talented team where we lifted John Williams and Kevin Curtis out of Wilmington Trust. And the month before that, Michelle Rudd joined us from Wells Fargo. So we opened up Seattle and Harrisburg in the summer of 2019 and a lot of work to onboard their businesses. COVID rolls out. We didn't get anything done in '20, but we started talking to Alex and his team in the summer of '20 and then '21, they joined us in February. That was a major lift. We had an extended period of litigation and extraction. We finally got them fully up and running that summer, and then we spent about a year integrating that team and rolling out that planning capability. So we haven't done that many deals or we haven't lifted out that many teams.

I feel like I spend a lot of time focused on and looking for teams and then once we find a team, we have a very comprehensive, thorough process we go through, which takes months. But we're also very comfortable with our pace. I would like it to be more, I'd like to be doing more deals, but I feel really good about decisions we've made so far, the cultural fit, the client fit, and we'll I think continue with this model of looking for high quality like-minded teams with comparable clients, high client AUM average, and working with Dynasty on M&A as well as you and a few other recruiters.

Louis Diamond:

Very good. Yeah, it seems like even though in your opinion you haven't done that many deals, I think 95% of breakaways or RIAs would kill to have the level of success that you've had. There's only a handful of firms in the industry that Mercers and Mariners and CapTrust the world that can have the capacity to do so many deals, but it's a very different strategy and business model. Maybe one day you get there, but I think being disciplined about a team here, a team there and finding the right teams is again, I think, a really smart approach and staying focused and staying true to who Summit Trail is. So I think it's a strategy that'll keep paying off. Two more questions for you and then we'll let you get on with your busy day. How do you allocate your time between running the firm and still serving as an advisor?

Summit Trail's Jack Petersen on How Their Blockbuster Break Created a $16B Firm Designed to Serve the Unique Needs of UHNW Clients

A conversation with Jack Petersen, Managing Partner and Advisor at Summit Trail Advisors.

Jack Petersen:

Yeah, I am part-time managing partner and much less part-time advisor. I have a talented team, Dannie McHugh, Brian Taupier. We work with the core group of clients and they really carry the burden. And again, the benefit of having centralized resources, the research team does a lot of the investment work. We're involved, but they do a lot of that work. And then same with the planning, they're doing a lot of the planning work. So it does allow our teams to be more productive. And you asked why would a team join Summit Trail? Why would they want to come to Summit Trail? Why would they leave their current firm? A couple of things. One, clients are unhappy or frustrated. Advisors get nervous when their clients are unhappy. Secondly, clients are frustrated or advisors are frustrated. Advisors aren't growing as fast as they used to.

There's normally an event that gets an advisor to go out into the market and start looking, and that's normally when we find them. They end up coming to Summit Trail because A, they start to believe A, they can be part of something bigger than themselves, they can provide a better client experience and they can grow faster and build a bigger business and in the end create their own family wealth through equity ownership in Summit Trail. It always comes back to the client, and I always say to each advisor before they join, "Give me your three or four talking points when you sit down with each client and explain to them why you're leaving the current firm and why you've selected Summit Trail. And if that's not compelling, you shouldn't come. Let's focus on getting every single client out of current firm and over to Summit Trail." Our motto is, "No client left behind." So that has to be compelling and every team that has joined Summit Trail, those talking points have absolutely rung true.

They're going to create a better client experience, better advice, better reporting with Addepar, better investment platform, and a planning experience that I think is unmatched in the industry. So I think that's why these clients follow their advisors, that's why these advisors have joined Summit Trail, and it's been really for me, rewarding to meet a firm that's in that early due diligence mode. They may leave, they may not leave, then all of a sudden they get serious, then it's competitive. It's five firms, it's three firms, it becomes Summit Trail, and then 1, 2, 3, 5 years later, they're really happy. That feels great and I'm sorry, but I missed the original question there, Louis. I got off on a bit of a tangent.

Louis Diamond:

That was a good answer. But yeah, I think you gave part of it, which was how do you balance your time between acting as an advisor and running Summit Trail?

Jack Petersen:

Yeah, so I just demonstrated some of my scatterbrain capabilities here. I do get distracted easily. So I'm part-time managed partner. That's a full-time job, and honestly, it is a full-time job. I probably spend at least half my time on partnership expansion. I have a really talented team and I do less and less of the day-to-day. I've got a management team that does most of the day-to-day, and I'm blessed to have them. Then with time remaining, I work with a small number of clients relationships that I really enjoy. I'll never give up clients. Again, with my team, we're able to provide, I think, a great client experience. I think our team probably suffers from a growth perspective relative to some of our other teams. I don't have a lot of time for business development. My two other teammates spend some time on that, but there's 24 hours of the day and every day it's a challenge, but you get it done and what you don't get done today, you put on your list for tomorrow, but I wouldn't have it any other way.

A lot of people at Summit Trail wear multiple hats and the idea of Summit Trail being eight years old and $16 billion of AUM and $22 billion of AUA, 95 employees, you would think we have this big management team and everybody has clear roles and we're all doing our thing. In so many ways, and this kind of goes back to Jeff Bezos at Amazon, it is still day one. We have this excitement and enthusiasm about our business. Every day new challenges, new opportunities, decision making and our management team is small, and our hierarchy is very flat. So we all wear multiple hats and we try to get everything done that day that needs to get done, whether it's our own responsibility or not, it's a real team effort.

Louis Diamond:

Yeah, it sounds that way. The key is the team. That's how you're able to fit it all in. Last question to take us home, you've given I think amazing advice to those looking to launch a firm, how to build it the right way, how to stay disciplined, but any parting words for those considering change, either ones who are looking to enter the independent channel like you did, or just thinking of a move in general?

Jack Petersen:

Yeah, so again, there has to be a catalyst to a move. Even those that are very monetarily motivated, at the end of the day, most people don't move until there's really a problem. People are not just moving from firm to firm to firm for the money. As much as that reputation is out there, the advisors in our industry on every platform, banks, broker dealers and RIAs are really good people and they really believe that they are helping, educating and advising clients and really adding value. So I always start with that one blank piece of paper. Let's talk about why you're not happy. Let's talk about why your clients are not happy, and then let's identify 3, 4, 5 things that need to be addressed. Can we address those as Summit Trail? Maybe we can, maybe we can't. But I would encourage anybody, regardless of where you are, if you're not happy, ask yourself why.

What's bothering me? Is it bureaucracy? Is it bad technology? Is it I'm not growing? Is it I don't like the economics, they've cut my payout again? But write out why you're not happy. Talk to your clients, "Hey, today, what are you happy with? What are you not happy with? What could I be doing a better job with?" Part of that might be client service and you don't want to hear it, but it would be important to know. But they will direct some of their comments back at the firm, so you write that down and you summarize that. You get that to a place like, "Okay, this looks like six things I need to work on, I need to solve for." And then you go out to the industry and if you're at a broker dealer, you may look at the other broker dealers first, or you're at a bank and you want to get out of the bank salary bonus model and you want to get to more of a payout broker dealer model.

You'll start your journey. That path should be long, it should be constant and exhaustive. You need to evaluate all of your options because at the end of the day, when you resign at Friday at 1:00 PM and you start calling clients, you need to explain to them, "Listen, I put you first. I was not delivering the service and the solution that you deserve. I just spent the last number of months on an industry-wide due diligence exercise. I decided to leave and move to X or start my own firm Y because here is what I'm going to be able to do for you." And that story has to be real, authentic, it has to be compelling. You have to believe it as the advisor, and then your client will relate to it, trust you, and follow you to wherever you're headed. But it really does start and end with the client.

Louis Diamond:

Now you're reading my business plan. We completely agree. You have to start off with what's driving the bus. We have an assessment we take our advisor clients through, and those are many of the questions because without that driving force or motivation or clear narrative, you're just not going to have the energy to go through the hard work of due diligence and then a transition. But to your point, more importantly, you're not going to be able to convincingly relate this information to clients so I think we're very aligned in the way we're thinking. Jack, thank you so much for spending time with us today, taking time out of your very busy day. I learned a lot and I am positive our listeners did too, and very excited to see where Summit Trail goes, and we'll have you back on when you're at $30 billion probably in a year or two given all the success you're about to have. So thank you very much.

Jack Petersen:

Well, Louis, you're very kind. Always enjoy time spending with you anytime I can do that and really enjoyed our conversation. You asked some really great questions and look forward to connecting again soon.

Mindy Diamond:

To Jack, the notion of how large firms build their infrastructure, that is, on supermarket platforms designed to manage tens of thousands of advisors and their clients makes it difficult if not impossible to serve the unique needs of sophisticated clients. And if you're operating on a putting client's first ethos, taking the time to conduct due diligence and ensuring that you are doing all that you can to best serve them is imperative. 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,

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Perspectives for Advisors, click on the articles link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full on exploration requires.

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