



## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is An Industry Update on Advisor Transitions and Deals: The 2023 Report. It's a conversation between Louis Diamond and Jason Diamond. I'm Mindy Diamond, and this is The Diamond Podcast for Financial Advisors. This podcast is designed for advisors like you, who are interested in learning more about the evolving wealth management industry through candid dialogue with breakaway advisors, those from the C-suite and industry thought leaders. It's available on our website, [diamond-consultants.com](https://diamond-consultants.com), as well as Apple Podcasts and other major podcast platforms. So be sure to subscribe and share it with your colleagues.

At Diamond Consultants, our mission is to help advisors live their best business life. We want every elite advisor to find exactly the right place for their business and their clients to thrive, whether it's at a wirehouse, a regional, boutique, or independent firm. As the industry's leading recruiters and consultants, we've transitioned more than a quarter of a trillion dollars in assets under management in the past decade. And each year, 25% of transitioning advisors who manage a billion dollars or more are our clients. Curious about where, why, and how advisors like you are moving? Download the latest advisor transition report to learn more, including intel on recruiting deals and our insight and analysis on the latest trends in the wealth management space. You'll find it at [diamond-consultants.com/transitionreport](https://diamond-consultants.com/transitionreport), or if you'd like to talk, feel free to give us a call at 908-879-1002.

There's no doubt that knowledge is power. It's a notion that's driven the popularity of our [annual advisor transition report](#), because armed with an understanding of how your firm compares to all others, you'll have greater certainty that it is the right home for you and your clients, or conversely, you'll pursue change because there is an option that is more than marginally better, and that realization alone will make you a better fiduciary to your clients, a stronger leader for your team, and a more informed steward of your business. An idea that came to light two years ago, the original intent of the report was simple, to provide financial advisors with in-depth analysis of movement, transition deals and significant trends in the wealth management space. It served to fill what we perceived as a gap in an otherwise crowded sea of content, that is missing was a single source of objective raw data coupled with insightful expert analysis to answer questions like, why are my advisor colleagues moving? Where are they moving to? And what are they being paid?

Jason and Louis are the driving force behind this annual project, so they're taking the mics today to provide greater insight into the key takeaways from 2023 and the anticipated impact on 2024. Essentially, it's our State of the Union on the wealth management industry. The full report is now available on our website, so please be sure to download it. Louis and Jason have a lot to share, so let's let them get to it.

Louis Diamond:

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

Page 1 of 14



## EPISODE TRANSCRIPT

### **An Industry Update on Advisor Transitions and Deals: The 2023 Report**

A conversation with Louis Diamond and Jason Diamond.

Jason, thank you for joining us today and for compiling such a thoughtful and enlightening report.

Jason Diamond:

Oh, thanks for having me. I'm thrilled to be here and excited to discuss.

Louis Diamond:

Let's just jump right in. Can you give the listeners some background on this report and why you decided to invest the time to create it?

Jason Diamond:

Yeah. So this report has become our State of the Union on the industry in a lot of ways. It started as what we viewed as a gap. We wanted to do something data-driven that used raw advisor movement data to track trends in deals, in where advisors are moving, why they're moving, what they're being paid. Essentially, combining raw data with our analysis and commentary. And I think we've done that quite successfully. We've used Discovery Data, which is the primary reporting engine on advisor moves. We have only looked at advisors who have three years or more of length of service. And I think that's an important distinction because a lot of times when we see advisor move data reported, there's no filter for tenure or for quality, and it's very difficult to filter for advisor revenue or productivity, but we can use length of service as a little bit of a proxy to say, we're only looking at advisors who have meaningful experience being advisors, not new hire trainees.

So using those filters, we determined that 9,674 advisors, experienced advisors changed firms in 2023. And if you'll recall from previous versions of this report, that's up about 7.5% versus 2022, the number was right around 9,000.

Louis Diamond:

And how would you comment on that number? Obviously, in a vacuum, over 9,000 advisors moving is a mind-boggling number, but as it relates to the overall size of the industry and just some of the factors that were at play in 2023, do you think that's a significant number or is it not so significant?

Jason Diamond:

I absolutely think it's significant. It's part of why I provide the context of last year's number because I think in a vacuum, the number's a little hard to make heads and tails of, but if you assume approximately 300,000 advisors in the US, which seems to be the consensus estimate, that's a meaningful percentage of experienced advisors making a move, especially when you consider the backdrop. So when you think about the regional banking crisis, which included First Republic going, essentially, out of business, and they were the top bid on the street for financial



## EPISODE TRANSCRIPT

### **An Industry Update on Advisor Transitions and Deals: The 2023 Report**

A conversation with Louis Diamond and Jason Diamond.

advisor deals, you consider equity markets, central banks, interest rate hikes, all of the factors that potentially could have contributed to muted advisor movement, we did not see play out. We saw, in fact, actually, an increase in movement relative to 2022. So to me, that's the biggest takeaway, is that despite all of these seeming headwinds, we actually saw an uptick in movement in 2023.

Louis Diamond:

I'm completely with you. It's still down a bit from the COVID years, which were... we weren't doing the report then, but my guess is it was probably two to 3% higher than what we shared, but still a very robust time for advisor movement. And I think that leads into how we're going to focus this conversation. We're going to have two segments of this. The first one is drilling into key takeaways from the report, so going into some of our data and what it means, and the second segments going to be predictions for the year ahead and how we're using that data to inform our analysis.

So let's start with the key takeaways. One of the big ones that I'll note first is that advisor mindset seems to be continuing to shift to a much longer term focus. We talk about this fairly frequently, and it has been a cataclysmic shift in advisor mindset over the years, but in 2023, we saw it play out in realtime. We saw more productive mega teams move than ever before, multi-billion dollar teams that had the tiger by the tail, they had everything seemingly on lock and had a lot to lose, decide to transition firms.

Most of those teams, we represented many of them. They could have been very successful just staying put. It was probably good enough for the time being, but as they took a step back and said, "Where are we going to be the best for the next five to 10 years and beyond? How are we going to maximize our enterprise value? How are we going to extract the most amount of this immense franchise that we've built?" Many decided to make a move either to a more traditional brokerage firm or to go independent because they wanted to set up their business for success years down the line. And we think this is a takeaway from the year, but also will be a continued driver of movement for 2024, 2025, and well beyond that.

Jason Diamond:

I totally agree with that. It's interesting. We point to a lot of hard factors, frustrations around technology or investment platform limitations. At the end of the day, in our view, this is the driver of movement. At a high level, this is what's primarily driving movement, is the idea that advisors are taking a more long-term view. One of the most common questions we get on the heels of publishing this report every year is, okay, so if you had to synthesize it down to one winner, who would it be? And I think this is a good thing, there isn't really one winner per se. I think even when we look at industry channels, we saw movement to every single corner of the landscape, wirehouses, regional firms, boutique firms, and certainly, independent firms. I will say the most common move continued to be intra-channel, meaning advisors moving within the same

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

Page 3 of 14



## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

channel of the industry, so going from a wirehouse to a wirehouse, or from an independent firm to another independent firm. On a more firm-specific level, Morgan Stanley was definitely the winner in the wirehouse segment.

They added 445 net advisors. Raymond James, in the regional channel, adding 159 advisors, and certainly, LPL, no surprise, but they continue to pace the market, certainly, in the independent space, and honestly, the market at large, they've really become the 800 pound gorilla, adding over 1,500 advisors. The last thing I'll say here is we had a number of advisors who have spoken to us about the so-called Magnificent Seven in the stock market. So it's basically the big tech stocks that are driving the market, and you hear it on CNBC all the time. And our thinking was there is a similar dynamic at play in the recruiting battle or the recruiting wars. There's really seven firms that, not necessarily the firms that added the most advisor headcount, but the firms that, in our opinion, you can't tell the story of 2023 recruiting without. And that list of firms is Morgan Stanley, UBS, Rockefeller, Raymond James, RBC, LPL, and Ameriprise.

And I think what's interesting there is those firms sit in various different industry segments, some are wires, some are regional, some are independent, which further points to what I was describing earlier, that there was no one channel that was the, quote-unquote, "winner." I think that's a good overview of the recruiting efforts, but recruiting is obviously only one side of this puzzle. Adding advisors is only one side of the net headcount battle. The other side of it is, are you losing advisors, or said more optimistically, are you retaining advisors? So Louis, can you talk a little bit about how firms have thought about retention efforts?

Louis Diamond:

Absolutely. And one just follow-up question to what you just shared. I like the description of the Magnificent Seven in recruiting wars, but you omitted some firms that I think a lot of folks hear about, Dynasty, Sanctuary, Merrill, Wells Fargo. Can you talk a little bit about why some of those firms may not have made this list?

Jason Diamond:

Yeah. In some cases, it's just because even though the firms are successful, they service a small niche pocket of the industry. So Dynasty is a good example of that, where they had a successful year, no question, but the percentage of advisors that they actually touch is low because they tend to focus on high net worth/ultra-high net worth teams, and they're just not doing that many transitions in a given year. Some of the other firms were omissions because we just don't view them as... or we did not view them at least in 2023 as competitive forces in the wealth management recruiting battle. And when we talk about that, we really mean firms that are winning recruits on a meaningful basis.



## EPISODE TRANSCRIPT

### **An Industry Update on Advisor Transitions and Deals: The 2023 Report**

A conversation with Louis Diamond and Jason Diamond.

So you use Merrill as an example, there's no question, they did add some advisors but they didn't typically add corner office wirehouse teams, which are the gold standard in the recruiting wars. They didn't add advisors with as meaningful of length of service as many of their peers. And the reality is they lost many more advisors than they gained. So while other firms certainly did have some varying degrees of success, these seven in our mind are the ones that continually position themselves to win recruits time and time again.

Louis Diamond:

Well said. On the question of retention efforts, we definitely saw firms get more creative in how they look to retain advisors. So we get the question often, will X, Y, Z offer a retention package? Similar to what happened when Bank of America bought Merrill, or when Morgan Stanley bought Smith Barney, and the answer is, typically, definitely not. And in large part, it's because of the way that firms look to retain advisors.

The new form of advisory retention packages is, without a doubt, the sunset or retire in place deals, the UBS ALFA, the Merrill Lynch's CTP program, Morgan Stanley's FAP, et cetera, those deals continue to be pushed by management and are always top of mind for advisors. The ability for an advisor to retire out, monetize their practice, not have to transition and fairly elegantly transfer the business to the next generation or to a younger advisor within the firm is an amazing way to facilitate a retirement, but it also means a five to seven-year lockup, sometimes longer, with how they're being structured for the inheriting advisor and a garden leave and essentially, the inability to ever move again for the advisor who's retiring.

A corollary to this though is we saw some of the firms push these retirement deals well before an advisor may even retire. An example would be UBS's ALFA Premier, or Merrill's partial CTP, or Morgan Stanley has a program as well, where an advisor who's 35 or 40 years old can sign on to lock in the terms of these agreements, which many find as an appealing element to make sure that the terms aren't going to change, and either monetize a portion of their practice or get some sort of bonus for opting in.

Seems great, but when you do this, you're signing a much more onerous employment agreement sometimes including garden leave, and it makes it so that it's not impossible, but is fairly difficult and it's certainly very expensive, from a dollar and cents standpoint, but also from a litigation standpoint to potentially move. So that's been a major way that firms are retaining advisors, is through the retirement deals, either at time of retirement or these early retirement deals. And obviously, too, things like pushing model portfolios and private investments, all those things make an advisor's business a little bit less portable. And that's nothing new, but that's always part of the backdrop. And then I'd say the last thing on retention efforts is... that's two things, is we saw the average length of recruiting deals edge up. It used to be five years, and then it was seven years, then eight years, nine became the norm a couple of years ago. Now, the norm's pretty much 10 years.

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

Page 5 of 14



## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

Some firms like UBS are doing 12-year deals. Rockefeller is doing 13-year deals. So firms are looking to retain advisors for longer periods of time. It does make the deals bigger, which advisors applaud, but obviously, more years tacked onto a deal means more years before hitting free agency. And the last thing that's there is all the major firms. So firms where the advisor does not own the book of business, meaning independent firms, have gotten fairly aggressive with offering client fee rebates. So if an advisor leaves, the accounts are redistributed, and then the managers authorize six months or a year of free fees to a client. This strategy, in particular, it scares a lot of advisors, but in facilitating many moves, we've seen it have a fairly diminutive impact on actual client retention.

Some folks may be lured by it but they're typically not staying for the long term. Many see it as a shallow attempt to keep them a little bit too late, like, where was this before my advisor left? So it's there. It's certainly something to consider and it's a way for firms to, I think, instill a little bit of fear in advisors, but also to try to make a real effort to keep the clients of advisors who leave.

Jason Diamond:

I think that's the right list. And I think, notably, there's nothing really new on that list. Those aren't groundbreaking new strategies that these firms are using, but they're clearly leaning into them more and more to your point, these retire in place programs were always on the table and now they're getting more aggressive and putting them in place earlier. So no question. I think we'll continue to see these strategies. But in our view, that will work in select cases to retain advisors.

I view it as, where there's a will, there's a way. Advisors who want to move are still finding ways to do so effectively. And I think you don't need to look any further than the headline raw data, we saw 9,674 advisors move in 2023. So I want to talk a little bit next, Louis, you mentioned the long-term focus as a driver of movement, and there's no question, at a high-level, I agree, but what else is driving movement? I'll give two other factors. I think, one, probably, the most common thing we heard this year, particularly from wirehouse advisors is there is no one factor. It's not, the tech is bad, it's not, the investment platform is limiting. In fact, I think wirehouse advisors actually think their tech and investment platforms are pretty strong. It's more death by a thousand cuts. That was the soundbite we heard over and over again this year from advisors, is the firm just continued to make policies and to make decisions that either adversely affected advisor's business, or that made it harder to do even simple business.

And the idea that an advisor is continually fighting against the firm eventually graded on people. And while the death by a thousand cuts concept is interesting, because usually, there's one straw that breaks the camel's back, but in and of itself, it might seem like something innocuous and minor. The firm pressured me to sell a credit card to a client that I didn't want to sell, or something minor like that, but in conjunction with all of these other negative changes, it was enough to drive meaningful movement. The last one I want to mention here just quickly is succession definitely becoming more and more of a driver of movement. And we'll talk a little bit





## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

about this in the prediction section. But our industry is aging rapidly. There is a real shortage of quality next gen talent. So we saw succession also become a motivator, a factor for driving movement as well, meaning people were moving in part at least to solve for succession.

Louis, can you talk, I think we need to speak about the regional banking crisis because, to me, that was probably the single biggest... it seems like it's a long time ago now, but it's been less than a year, probably the single biggest event that shook the industry in 2023. So can you talk about the impacts of that?

Louis Diamond:

Yeah. I think the impact on advisor movement was twofold. First, First Republic going out of business had a major ripple effect on the industry. But like we said earlier, it didn't really change deal dynamics or advisors' leverage in the marketplace the way we thought. So First Republic had the definitive top deal on the street, especially for larger teams. So a lot of folks thought that with First Republic being out of the market, one less high bid that deals were going to change. We didn't really see that actually.

And we also thought, too, that some advisors would be worried about moving in 2023 on the heels of the banking crisis. What ended up happening is by May of 2023, about a third of all First Republic private wealth advisors left the firm. The rest ended up joining J.P. Morgan, but this meant that some very large teams, 66 advisors overall became major recruiting wins for Morgan Stanley, which picked up about a third of these advisors, UBS picked up about 20%, and Rockefeller picked up a similar amount as UBS. Again, with this movement data, we look at advisor moves, but really, what we focus on is the quality of the moves.

And almost to a person, every advisor who didn't join J.P. Morgan and left First Republic became a massive recruiting win for, mainly, Morgan Stanley, UBS, and Rockefeller, but certainly, RBC, and Wells, and Merrill all picked up advisors as well, including a lot of folks moving within the independent space, like, Multi-Family Office Cresset was able to capture the team formerly known as Constellation in Connecticut and New York, and that was a major win. So First Republic, massive impact on advisor movement, especially the quality of movement. But surprisingly, them coming out of the market as far as their big recruiting deal did not mute overall deals at all.

Jason Diamond:

But let me ask you though, in my view, one of the things I was thinking about as a result of the crisis is, okay, fine, I agree with you that advisors who were on the one-yard line or even probably the 50-yard line of due diligence or thinking about a move pressed ahead, it wasn't enough to stop them from making a move, but I would think that advisors who hadn't yet started or who were about to start the diligence process probably didn't do so in March or April of last year as the world was falling apart. And this is a good tie in, we'll talk now about predictions, do



## EPISODE TRANSCRIPT

### **An Industry Update on Advisor Transitions and Deals: The 2023 Report**

A conversation with Louis Diamond and Jason Diamond.

you expect a slowdown in Q1, Q2, even Q3 of this year, because presumably, some advisors who would've started diligence a year ago did not do so?

Louis Diamond:

It's a good point. I would say yes and no. I think, certainly, that's the case with some folks, and typically, it does take an advisor six months, eight months, a year to go from let's look around, let's get educated to actually moving, so potentially, that it could have an impact on movement for this year. I know from folks that we were working with, there may have been a momentary pause, but like you said, those that were still motivated still pushed through. Even many advisors that were committed to join First Republic or would've gone that direction were able to find something that, in their view, was a worthy replacement. So I think it could have an effect on it, but overall, I think the folks that were going to move have moved. And there's many other factors that push an advisor to consider change, and I think those factors are going to play out more than folks taking a beat because of the fall of First Republic and Silicon Valley Bank.

Jason Diamond:

Yeah, I think that's completely fair. Let's jump into predictions, and actually, maybe let's start with a tie in to the First Republic story, Louis, if you don't mind taking this one is Bob Thornton, who was previously running First Republic Wealth Management, has announced his plans to partner with a private equity firm, Summit Partners, on the launch of a new RIA. And that, to us, I think is a major story as we think about 2024, is this private equity backed RIA trend? Can you talk about that a little bit and how you think it'll impact the industry?

Louis Diamond:

Yeah, certainly. And what Bob is doing is a great example of this, but I'll take a step back and just explain why we call this a prediction. So private equity has been a major force within the independent wealth management channel. Dan Seivert, on this show, shared earlier that there's over 200 different private equity sponsors invested in some capacity into the RIA space. So clearly, private equity finds it appealing. What's been missing though is private equity has missed the breakaway movement. So what we're seeing now are a number of private equity firms looking at either staking large captive teams, breaking away out of the gate, or looking to acquire or merge the practice of an advisor transitioning into a platform that they already own.

Now, that's more similar to what Bob Thornton's doing. This is major because it used to be if someone wanted to go independent, it was a multi-step process, they transitioned, they launched their independent business, either bootstrapped it or took on a debt solution or maybe got a forgivable note, and then a couple years down the line, look to monetize the practice. We're seeing it now where advisors can really cut to the end. They can monetize the business at long-term capital gains, get some equity potentially, and have the benefits of the independent space.





## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

So the reason this is a prediction is because in 2023, we just saw the beginning of private equity's interest within the wirehouse segment. Beacon Pointe recruited a \$10 million UBS team. There's a very large Stifel team in Indiana that was backed by private equity. So there's some examples. But we expect in 2024, this is really going to accelerate, and it's not going to be that 20% of all advisor moves are going to be captured by private equity, but I think for the mega teams especially, this will become at least a compelling option to consider. So maybe they capture three to 5% of advisor movement, which would still be meaningful. So that's why we believe this is a prediction because it solves for an advisor's ability to monetize in a tax efficient way and gives them many of the benefits of independence perhaps without having to become a CEO and build a firm from scratch.

Jason Diamond:

And I think, to your point, we've spoken about this a lot now about quality is very difficult to gauge, but the teams we realistically expect this to be impactful for are the biggest and most sophisticated teams in the industry. So even if it's three or four, those are probably going to be the front page of advisor hub type of stories. I'll tackle the next one here. So I spoke a little bit in the recap section earlier about multi-generational teams and the need to solve for succession. How does that relate to a prediction for 2024? We predict that in 2024, we will see more teams recognize the need to solve for succession gap early and often. And what that will translate to in our estimation is teams really being thoughtful about their next stop and how it solves for succession. So I'll give an example of, probably, the most common way that we think this will play out.

You have a multi-generational wirehouse team, or perhaps you even have a wirehouse team that doesn't have a great succession plan in place. In the example of the multi-generational team though, what they'll likely do is, or what we expect they will do with more frequency is move to a firm that offers them flexibility with various different affiliation channels. So we can use Raymond James as an example of this. Raymond James has a W2 channel. They also have an independent channel.

We expect that to be increasingly common for advisors to want that flexibility because it gives gen one the ability to monetize, but it gives gen two the flexibility down the road to slide into an independent channel without the need to repaper accounts. That's just one specific example, but I think the punchline or the story is one that we do expect to play out quite often in 2024, which is when teams move, it's not just about... and this ties back to the whole long-term thesis, it's not just about monetizing today, it's not just about what sets us up for today, it's what sets the team up and future generations up five or 10 years from now.

Louis Diamond:

I completely agree. And I think part of that too is one of the potential solves for succession for a captive team is the ability to basically recreate their firm's retire in place program, but in a very



## EPISODE TRANSCRIPT

### **An Industry Update on Advisor Transitions and Deals: The 2023 Report**

A conversation with Louis Diamond and Jason Diamond.

flexible and tax efficient way in the independent space. So what this could mean is we call it supported independence. So it's models like LPL Strategic Wealth Services, Sanctuary Wealth, Dynasty Financial Partners, Concurrent and many others that provide the infrastructure and platform and capital for advisors to gain the confidence to break away, and then can help to facilitate a succession buyout at long-term capital gains.

So the prediction here is that we'll see more of a proliferation of supported independent models because in our estimation, about eight out of 10 groups that break away from a captive firm, whether it's a wirehouse or even a firm like Edward Jones will opt for some support, either through an independent broker dealer or via supported platform. So clearly, the opportunity is there. So we believe that others will follow suit and look to build the infrastructure to capture the hearts and minds of breakaway advisors.

Jason Diamond:

Absolutely. All right, so the next one I want to talk about is compensation plans and firms using compensation plans to influence advisor behavior. You're going to get me fired up on this topic, I'm warning you. Here's the way I think about compensation plan changes, and the reason we include this in the prediction section, comp plan changes and the wires are probably the biggest culprits of this, are almost never to the benefit of the advisors.

I think advisors are smart enough to know at this point that when firms roll out meaningful changes and they typically do it annually to their comp plans, it's almost never to the advisor's benefit. In our view, the entire exercise is absurd. The idea that firms are using compensation plans to impact advisor behavior, but when you read comments from a lot of top firm leadership, I think the firms are going to continue to do it quite aggressively. So for example, we saw some firms in the wirehouse segment compensate advisors differently for brokerage and advisory business in 2023. That's exactly the type of compensation plan impacting behavior that we're talking about. So I think these programs or these changes probably help to retain advisors in some cases because, usually, what the firms will do is they'll find ways to handcuff advisors, whether it's getting advisors, to your point, more into model portfolios or alternative investments or things that are stickier.

But also, I think we expect advisors to get increasingly frustrated and unhappy about these comp plan changes. And it's becoming a driver of movement where advisors know this is coming every year, and every year around November when those comp plans get rolled out, we hear from advisors who say, this was the straw that broke the camel's back. So I think as firms become more and more heavy-handed with those compensation plan changes, I would expect it to be more and more of a driver of movement going forward.

Louis Diamond:



## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

Two things to layer on that, and you just said it, the straw that breaks the camel's back, from our experience, no one really moves because they lost a point on the grid, or because they have to bring in three new households to a firm to keep the same compensation level. But usually, those changes are... they're symbolic of some of the other frustrations an advisor feels, which is a lack of control. So no one's going to leave because they lost a point on the grid, they're going to leave because of bureaucracy, because they feel like they're not treated like an adult, because of lowest common denominator problems.

And then the compensation plan change is just the very visible kind of face that they look at when they say, you know what? It's time to do something different. One other comment I'll make, and it's actually a question for you, so an example of, you said firms make compensation plan changes, but they're rarely in the benefit of an advisor, what do you think about the new leadership at Bank of America Merrill Lynch this year, rolling back what they call the growth grid and instead, tweaking it to reward advisors in a different way, and I believe they also rolled back the cuts on commissions? Would this be an example of actually a positive to an advisor compensation or do you see it a different way?

Jason Diamond:

It's a great question, and yes and no. Yes, on paper, those are positive changes. They're better than what the previous policies were. And I think most advisors, generally, saw those changes as a win. But I think my point is twofold, number one, even switching from the, quote-unquote, "stick to the carrot," which is effectively what Merrill did with the growth grid this year, that's still a form of using compensation to impact advisor behavior. In other words, whether you say to an advisor, you're going to get dinged 2% if you don't grow, or whether you say to them, we're going to give you a 2% bonus if you do grow, that's the same thing in my mind. It's influencing behavior using compensation. But I think given it was new leadership at Merrill, this was a no-brainer low-hanging fruit for them to get an easy win with the Merrill advisor force.

To me, though, the biggest thing is we're going to be in the same spot again next year. They're going to do this again in November of next year, and it's going to be, what changes did they roll out this year? And in all likelihood, those changes are not going to be to the benefit of the advisor. I love this quote. I think we included it in the report, but a manager at a regional firm was talking about exactly this issue and said, "Our compensation plan hasn't changed in five years, and you can fit the whole thing on a cocktail napkin." In order to understand a wirehouse compensation plan, he said, "You need a PhD and a magnifying glass." And I think that's obviously a little bit facetious, but that to me is exactly the crux of this issue. It's becoming more and more absurd and more and more convoluted and shrouded in opacity than it ever has been before. And advisors, I think, are smart enough to know that these changes are not to their benefit.

Louis Diamond:

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

Page 11 of 14



## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

Yep, I'm with you. Next prediction here, it's that advisors will need to continually offer more differentiated services as competition is fiercer, especially within the realms of AI. Robo-advisors, I think everyone agrees, is not really going to have a major impact on financial advisors, but just more and more quality firms competing for a client's business. So the prediction is that advisors in search of greater differentiation beyond just traditional investments and planning will look at services like trust and estate advisory, tax preparation, bespoke private investments, and other unique products and solutions to really stand out within a crowded landscape. And this is especially germane for high net worth and ultra-high net worth focused advisors and teams. So this could mean that advisors who are motivated by building an enterprise will include the addition of these services as a primary pull factor, meaning a real motivator when they consider change, and becomes a major part of their due diligence roadmap, even if on par these folks are relatively happy.

So we think this can cause a proliferation of movement toward the independent space, but there's certainly some W2 model firms that have begun to offer more family office-like services, where advisors can really ratchet up the level of advice they're giving and bring some services that they now outsource to various COIs in-house as a meaningful way to differentiate. A really good example of this can be found in a podcast we did recently with the founders of Freestone Capital. At least Gary within Freestone was a Smith Barney advisor in the early 2000s. He's been building his firm for now 20+ years. But that firm, in particular, they invest directly in bourbon barrels, which is a little interesting, haven't heard that before, but still very different, and are doing estate planning in-house and many other multifamily office services within the confines of their firm. So the prediction is going to be that we'll see movement driven by this pull factor, even if advisors are relatively happy. So tying back to this long-term mindset.

Jason Diamond:

This one to me also is a little bit of a story of wirehouse advisors, in particular, I think don't know what they don't know. We've had many guests on our podcast talk about the idea of drinking the Kool-Aid or had the blinders on. A lot of advisors, I think if you asked a quality Merrill, or Morgan, or UBS, or Wells advisor, they would probably not even recognize this as a gap or an issue. They'd say, we have access to everything we need. We can service clients with everything we need. I think it's only once you pick your head up and see what's possible elsewhere that you actually realize... and this is not me talking, this is... we've had many breakaway guests tell us exactly this. That's when you realize, after you've taken those shackles off, just how big the sandbox is and what those possibilities are.

Louis Diamond:

Yep, I'm with you. So I'll take the last prediction we have here before we tie this up, but it's that while the independent space will continue to be a major force within the industry, we do not believe it's going to dominate recruiting in 2024. There's no question that many view the puck as



## EPISODE TRANSCRIPT

### An Industry Update on Advisor Transitions and Deals: The 2023 Report

A conversation with Louis Diamond and Jason Diamond.

heading slowly in the direction of the independent space, and that it's a zero-sum game. There is a finite pool of advisors and client assets that everyone's competing for, but dominate is probably a strong term. Even looking at analysis from research firm Cerulli, they predict that by 2027, advisors and clients who will work with an RIA or hybrid RIA will represent a little bit less than a third of industry assets.

That's up from about 27% today. So expecting over the next three to four years about a four to 5% increase in market share for independence. So that's meaningful when you talk about the trillions and trillions of dollars at play, but it's certainly less than 50%, and where the other 50%, in this case, close to 75% are housed, are at the major wirehouses, at the regional firms, at trust companies, at private banks, et cetera. So our prediction is going to be, we'll certainly see more breakaways, but advisors are more likely to go wirehouse to wirehouse, or regional to regional, or independent, rather than breaking away and working in a completely different way. So we predict breakaways will continue either via private equity, like we discussed earlier, or through supported independence. But still, advisors will more likely move within their channels, even though there's a lot of drivers toward the independent space. Do you agree?

Jason Diamond:

I do agree. I have to ask you one follow-up question, and I know this wasn't one of our formal predictions, but I need to get your thoughts because the question we get all the time, what do we expect deals to do, transition deals, that is, in 2024? Is that part of the narrative you're talking about, is that advisors will decide they want to capture the transition dollars and that's why they're foregoing independence? Is it more about a flight to safety and advisors just wanting a brand name? Talk a little bit about that.

Louis Diamond:

I think it's both. We've definitely seen recruiting deals get higher in 2023. We do not expect them to go down for 2024. If anything, there's more upward pressure on deals because Merrill is reportedly back in the market for advisor recruiting. So that means all four major wirehouses are aggressively pursuing teams. We have all the regional firms in it. You got firms like Rockefeller, you got all these independent firms, you have the entrance of private equity. So with all this competition, we absolutely expect deals to remain similar, if not get better. And flight to safety is part of it. But at the end of the day, advisors are successful for their own set of reasons.

And the majority of advisors are successful because they like the operating model that they're working in. They like having their business cards printed, the break room stocked with coffee, the big brand at their backs, and they're not going to change this. They may just look for a bit of a different culture if they decide to move firms. So even with all of this, we think that competition will remain ridiculously fierce for advisors, which means it's, again, never been a better time to be a successful advisor within the wealth management industry.



## EPISODE TRANSCRIPT

### **An Industry Update on Advisor Transitions and Deals: The 2023 Report**

A conversation with Louis Diamond and Jason Diamond.

Jason Diamond:

Totally agree. Well said. And I think that sums it up nicely, and I certainly encourage everybody to take a look at the report for a more detailed analysis. We provided a lot of good, I think, data and soundbites that'll be helpful to think through, at the end of the day, in our view, the critical question that we try and help advisors think through is the, quote-unquote, "stay versus go decision." How do you reconcile the decision to evaluate other firms versus your current firm?

Louis Diamond:

Jason, appreciate you putting in all the hard work to assemble this report and for joining me today and discussing the impact of advisor movement on the industry at large.

Jason Diamond:

Thank you so much for having me. I can't wait for... hard to believe, but 2025, when we can talk about the 2024 version of this report.

Louis Diamond:

Yep. I would invite everyone to go to our website, [diamond-consultants.com](https://diamond-consultants.com) to download your complimentary version of the report. It is available as we speak, and we'll also include a link within the episode page.

Mindy Diamond:

Curious about where, why, and how advisors like you are moving? Download the latest advisor transition report to learn more, including intel on recruiting deals and our insight and analysis on the latest trends in the wealth management space. You'll find it at [diamond-consultants.com/transitionreport](https://diamond-consultants.com/transitionreport), or if you'd like to talk, feel free to give us a call at 908-879-1002.