EPISODE TRANSCRIPT

# Why a $5B UBS Breakaway Team Set Out to Build the "Boutique Firm of the Future"

A conversation with Rob Sechan, Managing Partner and Co-Founder, NewEdge Wealth

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is why a $5 billion UBS breakaway team set out to build the boutique firm of the future. It's a conversation with Rob Sechan, Managing Partner and Co-founder of NewEdge Wealth. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

Everything starts with a vision. In the early stages it might be an idea that forms as a result of an experience, and over time, it becomes more tangible. An image that is molded, nurtured, and translated, until it becomes something real. It's how many of the greatest business ideas have come to fruition and very much how it came to pass for Rob Sechan and his partner, Jeff Kobernick, because while at UBS, Rob and Jeff built an amazing business with nearly 5 billion in assets under advisement. And a team that size certainly has an all access pass to anything UBS might have available for them to serve their ultra high net worth clients. But over time, the sense that they were limited in what they could offer in terms of platform, products, and services became more apparent.

Mindy Diamond:

Rob and Jeff envisioned a firm designed to serve ultra high net worth clients in a conflict free environment where advisors can become a customer of the street with access to the whole of market and all possible investment solutions. A firm with the highest level of safety and stability. One that offers the very best of technology designed by advisors for advisors to help guide their service and advice. Plus a community of like-minded individuals, all with a shared vision to build something bigger than themselves within an exciting culture.

Mindy Diamond:

Yet in their exploration, they just couldn't find an option that checked off all of those boxes, so they set out to build what they felt would bridge the gap in offerings for advisors who serve ultra high net worth clients. And in December of 2020, RIA firm NewEdge Wealth was launched. It's the culmination of a vision by UBS breakaways, Rob and Jeff, plus UBS veterans, Walter Granruth and John Straus Jr. The new

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company formed in partnership with EdgeCo Holdings and the backing of renowned private equity firm, Parthenon Capital, expands on EdgeCo's growing wealth management industry footprint with their technology-enabled financial solutions and infrastructure for its financial services industry partners.

Mindy Diamond:

So in this episode, Rob shares his story, starting with how he and Jeff built a mega business at UBS, what changed over time, and how those changes impacted his ability to serve clients, what options they considered prior to launching NewEdge, how they pulled together the stellar team at NewEdge, the specific gaps he sees that NewEdge fills, and why he sees this as the boutique firm of the future, and much more. So let's get to it.

Mindy Diamond:

Rob, I am so grateful for your time today. I feel like I'm in the presence of royalty.

Rob Sechan:

It is great to be here, Mindy. I echo your sentiment.

Mindy Diamond:

I'm flattered, thank you. All right, so let's jump right in. First and foremost, Rob, tell us a little bit about your background and what led you to UBS.

Rob Sechan:

I'm going to give you a little bit of a long story, Mindy. I'm originally from Pittsburgh, PA. I grew up there, which is coincidentally where EdgeCo is headquartered. And as we've talked about before, EdgeCo is one of our principal investors in and partners. When I finished business school there at the Tepper School at Carnegie Mellon, I joined Morgan Stanley in 1996. And in fact, the foundation of our team goes back to Morgan Stanley, as my partner, Jeff Kobernick, started there just before me in 1994 and we came together in 1999 and along with several of our other team members are still together today. In fact, we all worked for John Straus, who is our president at NewEdge. And I would tell you that Jeff and I both think that Morgan Stanley was a really special place and the firm had all of the resources of a global bank, really distinguished investment insight, and really a boutique culture as the wealth management business was small. We only had about 300 advisors.

Rob Sechan:

And as many of your listeners I'm sure know or may know, Morgan Stanley merged with Dean Witter in 1997, and the integration of the two businesses happened a few years later and really changed the culture of the firm. And so our team packed up and went to Lehman Brothers in 2003 to regain some of what we thought was special and what was lost as Morgan Stanley became a bigger firm, and it was a

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really perfect fit. Again, another boutique, I think you're going to hear this as we go through this rhymes, a boutique with global capabilities and a terrific culture.

Rob Sechan:

And unfortunately, as we all know, Lehman failed during the financial crisis and we were forced to find another home. And so we moved to UBS in late 2008 and our friend John Straus, who's our president, was actually running the private wealth business there and convinced us to join him. So that's how we ended up getting to UBS in 2008.

Mindy Diamond:

Got it. So let's talk first a little bit about your spectacular business at UBS, and then we'll get into what NewEdge is and what you're doing now, et cetera. So for perspective, how much in assets were you and Jeff managing at UBS?

Rob Sechan:

So, our team directly managed about 3.3 billion in assets and advised on about 5 billion in total, in some form or another, across the various businesses. And today at NewEdge, across our platform, we run about 26 billion in assets right now.

Mindy Diamond:

Amazing. Amazing, and we'll unpack the growth and the why NewEdge and all of it, but I want to just get some perspective on what it looked like at UBS. So you were managing the 5 billion across the platform. How much staff? What did the team look like?

Rob Sechan:

We ran it pretty lean. We had a 12 person team. Really five advisors and seven support staff.

Mindy Diamond:

Got it. That is lean for 5 billion in AUA. And what kind of clients did you serve? How many and what did they look like?

Rob Sechan:

I'd say we worked with about a hundred clients rounding down a little bit, and they're all ultra high net worth family offices, foundations, and endowments. Most of our clients interestingly worked in and around finance or were entrepreneurs so we were really a family office service for them.

Mindy Diamond:

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Rob, I want to unpack something you mentioned. You said that what you were in search of was a boutique with global capabilities and a terrific culture. Tell us what that means and why that was so important to you.

Rob Sechan:

So, I think when we were at Morgan Stanley, when we were at Lehman Brothers, the divisions had this very small look and feel. It was a very collaborative culture, one that you lose a little bit when you get too big. And I would say that as Morgan Stanley merged with Dean Witter, as we had our experience at UBS with a much bigger firm, you lose some of that intimacy and the ability, frankly, to get things done because there's so much drain on the resources from a larger population. So you'd love to have the resources, but you want to make sure the access point and the way the clients get to it is kind of through a narrower funnel. And I think that's what we're about as it relates to, when we think about NewEdge, we have this menu that is really the entire street and we're trying to focus on getting access to that through a very narrow funnel and with a limited number of elite advisors.

Mindy Diamond:

Well, so I want to pivot to what NewEdge is, but I think maybe that's a good pivot point to say that boutique with global capabilities is what you're about now, but how you're accessing those global capabilities are very different than how you accessed them at UBS, at Morgan Stanley, at Lehman, is that correct?

Rob Sechan:

Correct. Yes.

Mindy Diamond:

Okay. So let's talk about that. Let's first say you and Jeff are the managing partners and co-founders of NewEdge Wealth today. Tell us what NewEdge is and about your other partners and capital backers.

Rob Sechan:

Yes. So I would first say that Jeff and I are the ones that get to carry the managing partner card, but it's obviously not just us. There is many people who helped us launch this company, our other partners, and John Straus Jr., and Walter Granruth, really our entire team that came with us from UBS, and not just everyone that's on our team, but also our partners and principle owners at EdgeCo. And as it relates, a lot of people ask us why we sought kind of institutional backing in building this business. I think it stems from the fact that Jeff and I realized we did not just want to go out and hang up a shingle. Our business is different. Safety and stability are incredibly important and we needed a partner we thought with experience, lots of institutional capabilities, know-how, as well as size and scale.

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Rob Sechan:

And those are all essential ingredients in providing clients with a great experience in a safe environment. And EdgeCo is an amazing partner in this regard, their main business is providing tech-enabled financial solutions to financial intermediaries and their clients. This includes retirement plans, [inaudible 00:12:01] custody providers, our area, which is brokerage and advisory service. The company is big and they're experienced. They've been in business for almost 40 years and they have over 160 billion in assets under administration. I would say that in addition, one thing that was attractive is they are majority owned by Parthenon Capital and Waterfall Asset Management, and those two firms, those two private equity firms are investors in our company. They bring tremendous investing experience in financial services and have been wildly successful. And collectively, we launched NewEdge in December of 20 by merging EdgeCo's enablement platform with our wealth management business. And if I were to describe us today, today we are an RIA and an RIA-enablement platform with over 26 billion in assets. So we really hit the ground running and with some very, very significant resources and size and scale.

Mindy Diamond:

So Rob, since December of 20, when you and Jeff merged your practice, your UBS legacy, UBS business, with the folks at EdgeCo, what does your business that was 5 billion in AUA look like today?

Rob Sechan:

It looks very similar. We've had tremendous success in transitioning our business and we've also experienced some growth. So we are a significant part of that, a meaningful part I would say, of that $26 billion.

Mindy Diamond:

And what was the pitch to your clients? Like what did it sound like to go to these hundred clients and say we're joining NewEdge, which I assume most of them had never heard of, and were leaving UBS, which was a name they all heard of?

Rob Sechan:

Well, there was an education process that we had to take them through, but it was more a story of independence, right? It was more a story of expanding the menu, trying to put clients in a better position to negotiate price, really moving to the customer side of the table from the product resource side of the table, where you're a representative of a firm and trying to be a customer of a firm, and then wrapping that in great technology to allow clients to organize their lives. I think most clients would agree that if you're an advisor or if you're a client, having all your assets in one firm, doesn't make that much sense. You want to avail yourself to the best of what's out there and that might reside at different platforms.

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Mindy Diamond:

So back to that notion of a boutique with global capabilities, how does an advisor, you and Rob or anybody else, how do, you and Jeff rather, how do you access the global capabilities that you need? How does that work?

Rob Sechan:

So you're a customer, basically. You're a customer of the street. And so it's not just in lendings probably one of the best examples that we can give since we've been with NewEdge in operating in this new construct, is that you're able to create a two-way marketplace where firms, and we really view firms as utility providers of resources keen to offer your clients rates and the structured lending, mortgages, all the different things that we would do on the liability side of a client's balance sheet. And so we've been able to do that really effectively. It works both in assets and liabilities, but I think the story is best told on the liability side by being customers.

Mindy Diamond:

Okay. So I want to come back in a minute to more about NewEdge and what it does specifically and how it differentiates from the rest, but for perspective, I think it's important to talk a little bit more about what was going on in the wealth management world that really drove you not only away from the traditional space, but to build or launch a brand new firm. You had said to me, offline, that you believe that the wealth management space reached an inflection point where Wall Street firms could no longer keep pace with what ultra high net worth clients wanted. I would love to know what you meant by that.

Rob Sechan:

I guess it's as simple as we just don't believe in one-stop shopping. And the rationale is that no one firm has a monopoly on great products, services, or ideas. Our clients come to us to help them with everything that affects their financial future, and to help them you need to do what we said before, which is expand the menu, better price, raven technology that simplifies their lives. The big firms seem to manage the lowest common denominator, and it does not always foster an environment of client first. And because when you have a very large advisor population, you do have to, in some ways, protect the firm, right? And at NewEdge, you can be sure that we are sitting on the same side of the table as the client and making sure that we go to the best resource to help them with whatever particular goal they have or whatever particular problem they're trying to solve.

Mindy Diamond:

So, how would you define the ultra high net worth space? What are we talking about?

Rob Sechan:

I have a simple answer to that. It's clients who typically have more wealth than they will consume in a lifetime. So most would describe it in the plus $10 million category.

Mindy Diamond:

Okay. And give us an example. So specifically, what are the kinds of things that a $10 million plus, 20 million, $50 million client wanted but couldn't get access to as a client of UBS?

Rob Sechan:

I think they wanted open architecture beyond what you see in just a heavily curated list of investments. They wanted to make sure they were hearing idea flow from all the major firms and you can't be a client of UBS and actually hear what Goldman Sachs' Wealth Management Business is saying. That doesn't exist. And they wanted to make sure that when they were taking out a loan, that they really looked at everything that was available in the marketplace. There's countless examples of when you cast a broader net on how that creates benefits for our client. We've had a lot of opportunity in direct investing as well, and I think at the big firms, they've been very slow to adopt an environment where clients can invest in really interesting family-oriented deals and really interesting private investments, maybe some pre-IPO investments. And so we've been able to give clients access to a lot of that.

Rob Sechan:

And some of it expands beyond just investment access or access to credit, it extends the technology that's in the marketplace. When you look at what's happened and the evolution that's happened over the last 10 years in disruptive technologies, I think what we are able to do is try to harness all that for the benefit of our clients. And when you're smaller, you're able to move and take advantage of what's available in the marketplace. And sometimes the big firms as good as they are, as much as they invest, are slower to adopt. And so what we've done is taken a lot of that technology that in many cases is trying to disrupt the advisor and trying to create a connective tissue that allows the advisor to have a better relationship with their clients. So it's a blank sheet of white paper where you're able to go out and solve what's best for a particular client or for a particular advisor for that matter.

Mindy Diamond:

Okay, so two questions. Was it that the clients were demanding something more? Like were the clients aware of the fact that they weren't getting access to the whole of street, that they weren't seeing every direct family-oriented deal, or that there wasn't a private deal that they were missing? Or was it that you became aware of what they were missing and made them aware of it?

Rob Sechan:

A little of both, I would say. Listen, many of our clients work with us exclusively, but there are some that don't, and I think organization became challenging for some of those clients. They were seeing investments from some of the boutique providers out there that I think we're certainly captivated to them, and I think a lot of times what keeps advisors at the larger firms is there's this perceived ecosystem of safety that we tried to disrupt, by the way we did this and then doing it with a significant partner, so we addressed that right up front, as I said, but this was both client-driven. We had a lot of clients saying to us, "You should start a multi-family office." We had a lot of clients that would ask us about a potential structured credit opportunity. And the only option we could really show them in many cases was from our firm. And so that didn't feel like advice to us, right? And I don't think that felt like advice to them either.

Mindy Diamond:

Okay. So let me ask you another question. Oh, probably a month ago, I posted something on LinkedIn because one of my guests on the podcast had talked about just exactly what you're talking about, that they felt limited in some of the services and investment ideas they were able to offer their ultra high net worth clients. And I got a response from, it was a UBS advisor, a top UBS advisor, who I certainly won't name, who felt that advisors that leave the wirehouses, and UBS in particular, who say that they don't have access to everything that they need to service their ultra high net worth clients or to a broad enough investment platform just don't know how to use the platform. That was his particular response, that he as the advisor to ultra high net worth clients has access to more than enough, a more than a robust enough solution set. And he certainly feels like it's open architecture enough. How would you respond to that?

Rob Sechan:

Well, when we look back from where we sit today, and if we're truly honest with ourselves, we know that we were not truly open architecture. Just because you have a heavily curated list of outside money managers does not make you an open architecture firm. I think you need to dig deeper and ask how is the wirehouse being compensated? What is the vetting process and who is performing that function? Are the managers curated for ultra high net worth clients or is it one size fits all? And I think if you really, and sitting from the seat that we sit in today and comparing it to the seat that we sat in only seven months ago, I can tell you that that advisor is ill-informed. Open architecture is more than just money managers. It's can you access lending capabilities of multiple firms? Capital market capabilities? Are you free to search for the best solution for your clients across everything that is important to them?

Rob Sechan:

The answer to that is probably no. There is a structural disadvantage created by that curation, that by, it is a fact that no one firm is the best at everything so if you're at one firm, by definition, you cannot have the best of everything for your clients. And when I think about playing the role of a fiduciary, the role that I want to play is one where the client knows that we are giving them access to what we believe is the best and that's backed by substantive diligence and substantive research. That's how I would respond to that advisor.

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Mindy Diamond:

Yup. Well, that's how I responded as well. And look, my goal is not to convince everyone, because the truth is independence isn't for everyone, but is it possible that for the majority of wirehouse or traditional advisors, that the wirehouse platform is good enough? Like is it possible to say that these folks are not doing a disservice to their clients, but in fact, they don't have any interest in being independent because they themselves may not have that entrepreneurial DNA or desire and that what they have access to, which is a pretty heavily robust platform, a curated, robust platform that it could be more than good enough for most.

Rob Sechan:

I hate that saying, good enough. Why not strive for excellence? That's kind of how we thought about it. We wanted to be excellent. We didn't just want to be good enough. And a lot of times I think advisors are successful in spite of the platform. And I certainly have nothing against the platform. We were able to make it work for our clients for a long period of time, but there was no question that over time as firms got bigger and the regulatory environment changed, the firm moved from an enabler to a risk mitigator. And then I don't know if all the risk was focused on the client or more on the firm, but getting things done became more challenging. In addition, we weren't always given a wide enough menu to solve client problems.

Rob Sechan:

And let me give you an example. We had a concentrated equity position that was very difficult to borrow against. Our prior firm and many other firms made the decision that they did not want a loan against that equity position. Our client was in great need of help. While at NewEdge, we solicited a number of alternative lenders. I would say non-bank lenders that took a look at it and we ended up placing this with a credit-oriented hedge fund that did make the loan, the goal of which was to help the client. And I'm not saying that the big firms made bad decisions. It was just outside what they were comfortable with, but the client still had the need.

Mindy Diamond:

So, I think one way I think about it, I say to people is sometimes once you've seen something, it's hard to unsee it. So if you're a wirehouse advisor and you're going along, and you believe verily, not disingenuously, but verily that you have access to everything you need to solve your client's needs, that it's open architecture enough, no harm, no foul. The people I think that begin to have a problem with that are the ones that go out and explore other options in the independent space and begin to see how limited or what they are limited by in the wirehouse world. Is that a fair way to say what you and Jeff experienced?

Rob Sechan:

I think absolutely that is a fair way.

Mindy Diamond:

Got it. Okay. So I want to ask you what was going on at UBS in 2020 that made you even think about making such a big leap? In other words, even to begin to go out and explore independence, was there a straw that broke the camel's back moment?

Rob Sechan:

Not really a moment, but there was no doubt that it was progressively getting tougher for us to get things done for our clients. The idea of advisors going independent has been around for a long time and today it's pervasive. Everybody is talking about it. And each year more and more advisors are migrating towards independence and the statistics are undeniable, frankly. And I think why, it's because it works, and it works better than it did 10 years ago. And exploration is almost mandatory if you were to know the competitive landscape, which we always were on the front end of saying, "Okay, what else is out there? How can we be better?" And it was not just by advisors like us doing it, but clients, we were noticing some clients exploring independence, and even some big firms were being seduced by the topic.

Rob Sechan:

So from my perspective, NewEdge was created out of that process, which you talked about, which is that education process and the fact that when we became educated about independence, the needs of our clients outgrew what really any one firm could provide. And like I said, we wanted to represent our clients as customers of Wall Street and other service providers. And the goal was to create a unique and differentiated platform that was free from the conflicts that are inherent within some large firms.

Rob Sechan:

So one of the things that I would say is, yes, we wanted to expand the product menu. Yes, we wanted to deliver a better experience at a better price and embrace technology. But that technology there's so much evolution in technology and we're taking advantage of it in a lot of ways, and NewEdge is working as expected. Jeff would tell you whether it be the halo resources that we use in structure products or the trading that we use for some of our client, the trading tools, they're all purpose built for people and advisors that need this kind of service. So, advisors that cover this space. And I think it's not a manage the lowest common denominator platform, it is a platform built by advisors for elite advisors.

Mindy Diamond:

Yeah. So you had one of the biggest businesses in wealth management. You could have written your own ticket and gone anywhere, yet you chose to bet it all on yourselves. How did you justify what I assume was leaving behind a massive amount of unvested deferred comp, leaving behind the opportunity to have monetized the business for many, many, many tens of millions of dollars and to go to perhaps a less entrepreneurial opportunity, but certainly one that might've had more certainty and less risk attached?

Rob Sechan:

Yes, we left a ton behind, but from our perspective, we've always been long-term thinkers. And if we had a blank sheet of paper and said what would we do? We would have done this. We valued it highly because we looked at going independent as the NPV, Net Present Value, of doing the right things. So it was less about what we were walking away from and more about where we were going. And we were not interested in traditional deal. Loans are painful. Taking an income-based loan and creating value for the firm you join and receiving little benefit from it and the notion that we thought it was not as good for the client, we had no interest. For our clients, more of the same was not the answer. For the partners and our staff, it was an opportunity to put up or shut up and truly create that unique and special experience that we thought clients were looking for. And making that investment, using that NPV formula, made it easy to walk away from what we were leaving behind.

Mindy Diamond:

And how many years do you imagine it'll take you to grow beyond what you were leaving behind, the value of a transition package elsewhere, the amount of unvested deferred comp you walk away from, the opportunity cost of other things?

Rob Sechan:

Well, if the first seven, eight months are any indication for the type of success I think we're going to have, I think that timetable is going to be pretty short.

Mindy Diamond:

Amazing. Amazing. So let me ask you another question. We talk about wanting a boutique firm with global access to resources. Did you consider an already established boutique firm, like say a Rockefeller?

Rob Sechan:

Yes. Yes we did. We talked to both Rockefeller. We talked to First Republic. I think you could arguably loop them into that. I have enormous respect for what they are trying to do, especially from a cultural perspective, because as I outlined at the beginning, that was very important to us, but from our lens both had their shortcomings. It just felt like they were doing the same thing that we were trying to get away from and we wanted it to be meaningfully different. That was the only other plausible option, but independence is what we were truly looking for.

Mindy Diamond:

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Got it. Okay. So let's talk all things NewEdge. What does NewEdge have that other firms don't?

Rob Sechan:

I'd say we're a purpose-built platform for this space. No compromises. Built for wealthy families and elite advisors. If you join us, you are joining as a partner and it is invite only. You're not going to see us going down market. We are really laser-focused on the elites in this industry. Think about our platform as a platform built by advisors for advisors and their clients. It's an opportunity for them to own equity in the platform that they use. I would say we're different because we understand advisors because we are advisors. In addition, I would say our name says it all. The single biggest differentiating element going on today, and I think going forward in the financial services industry, will be the intelligent use of technology and technology is a driving force and it's driving wealth management into a new paradigm. I think it's great that it enables us to do more for clients and increase the value we provide to them.

Rob Sechan:

And our tech stack was really curated over a three-year period and it was built upon a platform that had been around for 40 years. So we have this bullet-proof jersey and we boarded on the latest and greatest technology. And one of the reasons we chose our business partners at EdgeCo was their deep technology toolbox and infrastructure. They've committed to our business and we work with them every day, a hundred people in technology alone. And given that technology is not static, it's changing daily, we need to make sure that we're constantly identifying ways to simplify client lives. And this goes from aggregating all their assets to give them peace of mind, knowing where their assets are and how they're doing, because uncertainty breeds more uncertainty. And one of the goals that we have is trying to eliminate as much uncertainty as possible for our clients and provide appropriate advice that maximizes their outcome, and I think that takes an important part of that. It was a really well thought out design and I think we probably started five years ahead of what anybody else could do if they set out to build it from the start.

Mindy Diamond:

So I want to ask you a little bit about serving clients better because it seems like that was really the number one driver behind doing this. And we talked a little earlier about how you're able to serve clients better because you believe that being able to become a buy-side advocate for them and create competition for price and service serves them better. Give us a specific example or two, if you would, of a real life client, certainly not by name, but something you've been able to do for them since being part of NewEdge that you couldn't do for them at Lehman or Morgan Stanley or UBS.

Rob Sechan:

I think the one example that I already gave is a great one, with that structured loan, we couldn't get it done when we were at UBS. When we came to NewEdge, we priced it with several other large firms and ended up getting it done with a credit-oriented hedge fund, but there's many examples. In fixed income, we really shopped the street. Now, same thing. We have technology that helps us with that and bond nav and bond wave and unstructured products. We have this competitive auto bidder called Halo, which allows us to go out to the street and shop structured notes in a differentiated way. They're a great partner. In the alternative space, we have a lot of access, and many of the firms are telling us they're not as resourced to be able to go on a wirehouse platform and nor do they want to pay the scrape because they feel like their performance is so good that they don't need to.

Rob Sechan:

In fact, we have an opportunity to invest alongside one of the best performing venture funds over the last seven years that has done some of the most amazing investments that you could have ever heard of. And they just wouldn't consider a wirehouse firm because they're only raising $400 million. A wirehouse firm in many cases would not be interested in the hundred billion dollar sleeve yet a firm like NewEdge is highly interested and this firm is very interested in partnering with us. So we have a lot of unique access there. And then again, in lending, we have placed mortgages. I can't tell you at how many different places. And clients are leaving enormously happy and sometimes saving as much as 70 basis points from where they were quoted by their provider.

Mindy Diamond:

Amazing. And what's so interesting is how most wirehouse advisors believe the opposite, that managers, funds, resources, and the investment world, would only be available or more likely to be available to a wirehouse than it would to a no name, small boutique firm. And you're saying it's the exact opposite in many cases.

Rob Sechan:

That's where myth differs from reality and we were seduced by that story for many years. And what I would encourage people to do is to get their nose out of the tent a little bit and do their own work. Advisors are really very smart and if they commit the time and energy to understanding the landscape, I think that notion can be easily dispelled.

Mindy Diamond:

Yeah. The other thing you mentioned to me offline, the ability to do a fixed income swap with Goldman, and obviously the Goldman name is pretty sexy. So how did that come about? How did that land with your client?

Rob Sechan:

So listen, we were just pricing a swap. We could do swaps at UBS. UBS did a number of swaps with our clients and some still have swaps there. But I think the message there I was trying to convey is this is a lot like the prime brokerage business, right? When the star trader leaves the firm and the firm has two choices, they can compete, or they can go into the enablement business and be their prime provider. Our view is that firms want to provide solutions to clients, especially because we're a multifamily office. And so far, what we've seen is many firms willing to step up and compete for our business. We did price a fixed income squat with Goldman for one of our clients. We also priced that swap with a number of other providers. And anytime you can create a two-way market, you can often better outcome, sometimes not, but often you can better outcome. And I think that's where being independent allows you to reside in that seat of client advocacy, right?

Mindy Diamond:

And tell us a little bit about your growth plans for NewEdge. So who are you looking to recruit and have you done so successfully beyond you and Jeff?

Rob Sechan:

So again, it's elite advisors only. We define elite as top 10% of the industry. Every team that we are talking to is considered a [while 00:41:06] team or a [halo 00:41:08] team. We've onboarded three teams this year. One of the teams comes with a billion in assets and 8 million in annual revenue. We're very excited about our pipeline. We have 18 teams that we're talking to. Roughly half are deep into the process with us, and it represents 42 billion in assets and 190 million in revenue.

Mindy Diamond:

Extraordinary. So how do you incent these advisors to join? I know equity is part of the equation, but one of the things advisors worry about with equity is that it's nothing more than a lottery ticket, so how can an advisor trust the valuation?

Rob Sechan:

I think the one thing that I would say that's a little different is this is not a startup. This was an acquisition backed by two prominent private equity firms that are really, really very good at this. And equity is at the core of our transaction. As I said, we want advisors to be our partners. We have one class of equity. I know historically some firms have tried to launch with multiple classes. We have one class of equity. The advisors own what we own, what EdgeCo owns, what our private equity backers own. And our valuation methodology is based on a multiple of earnings and so are that of our targets. The valuation methodology is logical. It's understandable to those that we're in conversations with. Jeff and I went through the process and I would just say it's transparent and fair.

Mindy Diamond:

And how about cash and the deal for these teams?

Rob Sechan:

There's a cash component. There's an equity component. Now, what I would tell you is not that we do want to own. There's really three approaches to the way we can structure a transaction. One is we buy the team, and when we buy the team we create a pro forma P&L and then pay a multiple of those earnings. The other two ways are just staged ways to join us, where an advisor comes onto our platform at a high payout, they leverage the platform and we can buy them at a later date. And the third is they use our platform and they build their own brand, but they know that they have access to the pennant contending, if not all star platform in the industry. And so we are really flexible, but our goal is to get some [halo 00:43:39] teams to join us and own the equity that we own, because we really want contributors to our ecosystem. But there's a lot of ways for us to begin a conversation.

Mindy Diamond:

But I imagine that these [halo 00:43:51] teams, like you, have tons of options. They're talking to Rockefeller and First Republic. They could certainly build their own firm. And there are many other high-quality RIA firms and service providers that would love to recruit these folks. So, help me to understand what's in it for an advisor to join your firm as opposed to building their own firm, brand, legacy, et cetera?

Rob Sechan:

I'd say it's to make the bet that we made. If you join us in the first way that was outlined, which is certainly the most entrepreneurial, you're getting the same equity we have. And I prefer to say that they join us in building our firm, our brand, and legacy, the collective us, which includes them. I like to say that we're building the black stone of wealth management, where every team is a great team and you're really trying to change the way the game's played and they can contribute to our platform by bringing ways that they've done business in the past that has been successful and can make us that much more better. So they own a piece of the rock.

Rob Sechan:

I'm going to tell you, they could not build what we have built and bought and we couldn't have either. We came to that conclusion. Nor can they achieve the evaluation levels that we hope to achieve. As a sit-alone RIA, you need a platform to be able to get those valuations that you're reading about in the papers today. And to build a platform, you're five, six years behind. You just can't do it. You could build a RIA but you couldn't build a platform.

Mindy Diamond:

So how big do you expect to get?

Rob Sechan:

I would say we have significant aspirations and the short term aspiration though is getting five to six [halo 00:45:38] teams. They're really the anchor tenants. They contribute to our ecosystem. They contribute to our high growth platform, but long term we're believers in both organic growth and adding other advisors as we go.

Mindy Diamond:

And any plans for M&A besides recruiting, meaning to acquire other RIA firms?

Rob Sechan:

Similar to our recruiting pipeline, we have a number of opportunities that we are evaluating currently that look promising. Frankly, our partners, because of the nature of the business they're in, have us consistently reviewing companies that are for sale. But we have not found one that fits culturally yet. But we are definitely open for business and I suspect that this will be a source of growth for us prospectively.

Mindy Diamond:

Yeah. All right, so with about 10 months or so of hindsight, at least as of this recording, it sounds like you're incredibly glad you made the move. So what would be your message to your fellow colleagues or ex-colleagues in the wirehouse world or any advisor considering breaking?

Rob Sechan:

Do the work. Investigate. It's worth at a minimum you understanding the competitive landscape. I think you always want to know what the other great advisors are considering and what other firms are doing so you understand your competition. I would say that everyone said to Jeff and I that had gone independent, that they wish they would have done it earlier. And I think now we understand why. It's better. We are incredibly excited bout the opportunity in front of us. And it wouldn't be a great opportunity if it wasn't about excellence for clients. So this is like that old Lexus commercial, the relentless pursuit of perfection. That's what we're after. And I hope that advisors take the time to investigate how they can be excellent for their clients.

Mindy Diamond:

And do you have any sense or any of your own perspective on what happens in the wirehouse world? Like as an outsider, an educated outsider, it's astounding to me, how many [halo 00:47:57], as you call it, these really platinum, top 10% wirehouse teams are leaving, and they're leaving because of pushes and pulls. They're leaving because they're frustrated with the lack of flexibility and control and they're leaving because they're pulled by the excitement of what you see, either to go independent or a different boutique firm or the industry landscape or the waterfall of possibilities has expanded so much, it's too exciting. It's more exciting than it once was. So what do you think firms like UBS and Merrill and Morgan will do to sort of stop the attrition? What do you think comes next there?

Rob Sechan:

I think they've gotten very creative with their retirement plans. They've embedded a lot of language and changed the approach to make sure that advisors are more dependent on the firm. I think most clients though, it's a 80/20 relationship. 80% of where they are is because of the advisor. The advisor is the client of the firm. And I think it's a big mistake that many of these firms have made, which is trying to insert themselves in between the advisor and the client, because it is a relationship business.

Rob Sechan:

And we've got a totally different perspective on that. Everything that we're doing is trying to empower, to enable the relationship that the advisor has with the client. And so when I think about what's going to happen to the wirehouses, unless they do a massive about phase, they're going to retain a good group of advisors, but there's going to be an increasingly large number of advisors that say, "Hey, am I getting what I'm actually paying for here? And can I do it better externally?" And we'll see what happens. I personally have a view that the big firms would love to break into this enablement space, but it cannibalizes their existing business too much. There's no elegant way to exit where they are right now.

Mindy Diamond:

Well, and I think you're right, no one would believe that any of the big firms have not been deep in the lab, trying to see if they could figure out a way to do this. But it's pretty clear that if they did, number one, it would likely be a much more limited version of, it wouldn't be full, open architecture because to allow advisors to really shop the street would absolutely cannibalize what they are doing. And so either they offer a much more limited version of independence or they don't do it at all.

Rob Sechan:

Curation is forced, right? Because the reason they curate so aggressively is to manage risks that one advisor does something wrong and hurts the brand. We manage risk by having purpose-built compliance for advisors like us and clients like ours. And that's one of the ways we manage risks. But the other way is making sure that who we let become part of this platform is really a white glove practitioner and takes the same oath that we've taken, which is to do business the right way. And so we're not just going to have anybody in our platform. We are going to do it differently and that's going to allow us to stay much more nimble and be much more effective for advisors and the clients they cover.

Mindy Diamond:

Yeah. Well that seems like a really good place to stop, Rob. This was incredibly fascinating and wonderful. I'm so grateful for you sharing a glimpse into yours and Jeff's thinking and so excited to see what's to come. In just 10 months it seems like you've done extraordinary things, so I hope that at some point you'll come on again and share more of the growth and more of the story.

Rob Sechan:

We're excited to do it Mindy. Really an honor to be on this podcast. We know how well received it is so thank you for extending the invitation and we look forward to that next conversation.

Mindy Diamond:

As Rob shared, serving ultra high net worth clients became increasingly difficult as UBS transitioned from what he describes as being an enabler to a risk mitigator. And as it no longer felt like they could offer unlimited and unconflicted advice to their clients, it was time to explore ways in which they could. As Rob and the NewEdge team add a unique model to the growing industry landscape, the advice Rob shared will continue to ring true, whether you're considering a move or not, exploration is mandatory if you want to remain competitive. I thank you for listening and I encourage you to visit our website diamond-consultants.com and click on the tools and resources link for valuable content. You'll also find a link to subscribe for regular updates to the series. And if you're not a recipient of our weekly email perspectives for advisors, click on the article's link to browse recent topics.

Mindy Diamond:

These written pieces are an ideal way to stay informed about what's going on in the wealth management space without expanding the energy that full-on exploration requires. Feel free to email or call me if you have specific questions. I can be reached at 973-476-8578 or by email at mdiamond@diamond-consultants.com. Please note that all requests are handled with complete discretion and confidentiality. And again, if you enjoyed this episode, feel free to share it with a colleague who might benefit from its content. And if you're listening on the Apple podcast app, I'd be grateful if you gave it a star rating and a review. That will let other advisors know if it's a show worth their time to listen to. This is Mindy Diamond on Independence.