THE DIAMOND PODCAST FOR FINANCIAL ADVISORS

INSIGHTS ON TRANSITIONS, INDEPENDENCE AND ADVISOR GROWTH

EPISODE TRANSCRIPT

$10B Summit Financial's 3X Growth in 4-Years: The Story Behind the Rise of a 42-Year-Old RIA

A conversation with Louis Diamond and Ed Friedman, Director of Business Development and Growth at Summit Financial.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is $10B Summit Financial's 3X Growth in 4 Years: The Story Behind the Rise of a 42-Year-Old RIA. It's a conversation with Ed Friedman, Director of Business Development and Growth at Summit Financial. 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, 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. Or if you'd like to talk, feel free to give us a call at (908) 879-1002.

Many think that independence is new, a model that showed up just in the last decade or so, yet they're decades off the mark. While it's gained incredible steam as of late, there were plenty of maverick firms who've paved the way well before most advisors would ever consider it. Take for example, Summit Financial, an independent firm that launched in 1982. The firm remained fairly quiet for decades, that is until 2016 when Stan Gregor joined his CEO, bringing with him top-tier wealth management firm experience and a growth mindset. In 2018, Summit formed a strategic partnership with Merchant Investment Management, providing a financial overlay for the launch of Summit's industry-leading platform. By 2020, Summit Financial was a $3 billion RIA with a lot of room to grow. Then, amidst the backdrop of the pandemic, Ed Friedman, who Stan referred to in an industry publication as a thoroughbred, joined the team to lead their growth initiatives. And looking back, one might say Stan made a great choice.

Summit grew 3x since Ed's arrival, and as he shares in this episode, there's more to come. Because after more than four decades, the $10 billion Summit seems to have found the right combination of leadership, platform and culture to attract top talent from the wirehouses, with a champion in Ed that's focused on winning over those advisors with their sights set on greater freedom and flexibility, but who aren't interested in building their own independent firm. Ed brings with him decades of experience with some of the biggest names in the business, Morgan

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Stanley, HighTower Advisors, and Dynasty Financial Partners. In this episode with Louis, Ed takes us through his own journey, the evolution of independent models and how they're rising to the challenge of answering advisor needs. Ed talks about the Summit model, the value of a culture driven by advisors, and the differences between Summit and other similar supported independent models. And Ed shares the drivers behind their fast-paced growth, the value of minority investors, and outsourcing to drive growth, with key learnings that all advisors and business owners will find valuable. There's a lot to discuss, so let's get to it.

Louis Diamond:

Ed, thank you very much for joining us today.

Ed Friedman:

Oh, Louis, thank you so much for having me.

Louis Diamond:

Let's start off, if you don't mind telling us about your background and how you found your way into the industry in the first place.

Ed Friedman:

It's a little hard to believe, this year I actually am celebrating my 40th year in the industry.

Louis Diamond:

Congratulations.

Ed Friedman:

Thank you. I have no idea where all those years went. It really does feel just like yesterday that I came in. But I was newly married, always wanted to be in this industry, and the only job I could get at the time was as a sales assistant for the top producer at a municipal bond firm, and I used that as my entree into the industry, about a year or so later, became a financial advisor, and was an advisor for about 12 years at, what was then, Dean Witter. Moved into management at the firm, ran a few branches in New Jersey and in New York, ran a national program for Morgan Stanley, sat on the National Management Committee. So in many ways have done almost everything you can do in the business.

Louis Diamond:

Do you have any regrets about giving up your book and going into management? I know back then the manager roles were, not that they're not sought after today, but I would say they're probably more of the gold standard of the industry. But a lot of advisors talk about how, if you have a book, you're more in control of your own destiny. Do you have any regrets about the path you took and moving out of production?

Ed Friedman:

It depends on the day, really. Overall, no regrets whatsoever. When I made the decision to go into management, I had actually brought my brother-in-law into the business, gave him a part of my book to get started with. He's done an exceptional job growing his business, and is certainly one of the leaders at his firm right now. So sometimes I look back with a little bit of jealousy on that, but do I have any regrets? No. I've been focused almost my whole career in management, on helping other advisors grow their business, run their business, really achieve those things that they wanted to achieve in their professional lives. And to me, that's been incredibly rewarding. Plus, I've been part of growing some great firms, so that's rewarding as well. But there are certain days where you sit back and say, "What did I do?" Because the advisor is in control. And now working with advisors on a regular basis, maybe, in hindsight, I wonder where I would be today if I didn't give it up. But overall, no, I love what I'm doing.

Louis Diamond:

Yeah, every path takes you down a different one, and it doesn't mean they're wrong, it's just the path that you took. And I like that you don't have any regrets about the decisions you made.

Ed Friedman:

None at all.

Louis Diamond:

So have to say from a selfish standpoint that you were the definitive impetus or inspiration for Mindy Diamond founding Diamond Consultants. So the impact that your move into management had on myself, our family, our business, and thousands of advisors we've had the honor of representing, wouldn't have been possible without you moving into management. So maybe briefly, if you don't mind sharing from your perspective the story of how you helped Mindy come up with the idea for Diamond Consultants.

Ed Friedman:

Well, first off, that's very kind of you to say, and I really appreciate it very much. Like a lot of advisors that I've helped, I just gave Mindy the idea and she ran with it, and created what is certainly one of the preeminent consulting and recruiting firms in the industry. But to tell the story, Louis, it was approximately 25 years ago or so. And as Mindy and my wife were best friends, and we were out to dinner, having a discussion about what Mindy was going to do when your brother Jason was going to full-time school. And Mindy said she wanted to go back to work. I asked her, what do you want to do or what have you done? And before she could answer, Howard Diamond chimed in and said that Mindy was one of the top recruiters in the accounting field out of college. And I said, "Well, that's wonderful. Why don't you recruit for me?" I was running the Ridgewood office for Morgan Stanley at the time. And she said, I knew nothing about your business. So we spent that whole summer on my porch, on Mindy's porch, really teaching her the lexicon, the understanding of the business, what advisors are looking for. And I was fortunate enough to place Mindy's first advisor. I remember it well. It was an advisor from Janney Montgomery Scott. And as they say, the rest is history. And for me, it's been incredibly gratifying, not only to see what Mindy has built, but to see you and Jason, not only come into the industry, but be considered experts, and the go-to voice in the industry. So again, the same reason I felt very fulfilled going out of production rather and into management, I feel the same with what you and the whole family have built.

Louis Diamond:

Very kind of you to say. Thank you for helping make Diamond Consultants what it is today. But no one cares about us, everyone wants to hear your story and your teaching. So we'll continue the interview with the rest of the scheduled programming. But I know you were with Morgan Stanley until 2008, and then at that time became one of the first hires of Elliot Weissbluth at, what was then a startup, HighTower Advisors, a complete unknown firm in the industry at the time. And then no one knew who HighTower was. It was a very different business model than was out there before, a multi-custodial RIA, asking the advisors to take a much lesser deal, take a bet on them with some stock. So I'm curious, what was it like in the early days of HighTower? And from your perspective, how did the firm start to see success and why was it successful?

Ed Friedman:

Well, it was a really interesting time, and again, around this concept of where does the time go, it's hard to believe that it was 16 years ago. And before I touch on the launch of HighTower, I'll go back a couple of years prior to that. I was a New York City branch manager for Morgan Stanley overseeing a complex of two offices. And it was probably around 2005, and I had one advisor come in to resign, which happens, and he was telling me that he was joining an RIA. And at that time, I say this tongue in cheek, but I was an arrogant New York City wirehouse manager and had never really heard of an RIA, didn't know what it was, thought, why would anybody leave a big firm and go to an independent advisory firm. Fast-forward a few years later, and to your point, I joined Elliot Weissbluth and the founding management team at HighTower.

And really a firm like HighTower didn't exist prior to that. The firm was focused on taking corner office wirehouse advisors and bringing them out of the wirehouse world into a world of independence, or what I referred to as quasi-independence at the time. And for us, as Elliot used to say at the time, we were building the plane as we were flying it. And I was director of business development, so it was my responsibility to attract those advisors from a stable wirehouse world to a brand new startup firm in the RIA space, the independent space. So as you can imagine, that is a very daunting task, to attract that first advisor to a firm that had no advisors.

And what we were really positioning the firm around was this concept of really running your own business, being a fiduciary, being on the same side of the table as the client, but also coming into a firm that was structured as a partnership where the advisors did get equity, and would participate in the growth of the firm. So I joined HighTower, I believe it was in May or June of 2008. It was also a very interesting time to launch the firm, because back then it was the collapse of the financial world. It was the great recession. I would actually argue that if it weren't for those conditions, it would have been more difficult for HighTower to have launched and to attract advisors. And because of the fact that every firm was getting hit, advisors started to wake up to the fact that clients were with them because of them and not necessarily for their firm.

But I remember the very first advisor that said, "Yes." It was December of 2008. It was a longtime Merrill Lynch advisor. I believe he had been at Merrill Lynch for about 24 or 26 years. And he had a great line, which was he would never have thought of leaving Merrill Lynch until Merrill Lynch left him. That was at the time of the Bank of America acquisition of Merrill. And that whole firm changed, and every firm, quite frankly, on the street changed. And that was really opened up, if you will, the floodgates for us at HighTower. I want to say the first 18 months we had brought on about $13 billion of assets with advisors had joined.

Louis Diamond:

Wow.

Ed Friedman:

And I would argue that if it weren't for a firm like HighTower at the time, a lot of the other firms that we see operating today might not have necessarily gotten that start.

Louis Diamond:

Yeah. A couple of reactions and then a follow-up question. I completely agree with you that from our perspective, it was before I joined the industry, but I remember learning about HighTower when I was young and studying the evolution of it once I came into the business. And I would agree with you that if it wasn't for the financial crisis, and we'll say the downgrade that many of the big global brands on Wall Street had advisors, probably wouldn't have had the confidence or the conviction that my clients are with me for me, and that I can go to a firm that no one's ever heard of, but assets are safely custodied at Schwab and Fidelity and Pershing and still be all right. So I'm with you there.

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I wanted to ask you about equity. So equity was one of the major currencies that HighTower used. I think if I remember, the deal then was 200%. It was a hundred percent cash upfront, which was certainly still at the time below what they could have gotten by going to UBS or Morgan or any other firm, and then an equal amount in equity. So equity was a big thing. A lot of advisors had their stock wiped out when Merrill got bailed out by B of A, when many of the firms either went out of business or just really went down. So how do you think the equity story resonated, and do you think equity was a critical component that helped make HighTower successful?

Ed Friedman:

Well, I think it was, to your point, Louis about equity being wiped out at the major firms. One of the things that advisors came to realize was that if they were putting so much of their value, let's say, in the firm equity, that, number one, they had no control over, and number two could be affected by businesses inside of those big firms other than wealth management, whether it was the trading, whether it was bad loans that they made. In many cases, not only were they affected reputationally, but that equity was affected. I remember exactly what happened to my Morgan Stanley equity at the time, which was no different than anybody else's at any of the major firms.

When HighTower was launched, and this concept of equity was part of the transition deal, it was a different type of equity, it was partnership equity. It was positioned very much like the old partnerships of Wall Street, whether it was the old partnership of Goldman Sachs, or the old partnership of Morgan Stanley. And this concept of being a partner as opposed to a restricted stock equity holder where you had very little control or say in the business. And the fact that the equity was going to be valued based upon what all of the advisors collectively did in a wealth management business, was a great appeal to a lot of the advisors. And it really did make a difference in us accelerating the growth of HighTower from a dead start to, two or three years later, where it was very much a known entity in the industry.

Louis Diamond:

Agreed. Yeah. And you also said in your earlier response that it was your belief that HighTower, and I'm paraphrasing, paved the way for many other business models that came to be. And I would agree it validated that, wirehouse breakaways especially, were willing to think longer term. They wanted to have more autonomy, own their business, be part of something bigger than themselves, and didn't necessarily need a UBS or Bank of America, Merrill Lynch business card to be successful. So it's a perfect segue into the next stop on your journey, which was six years at Dynasty. So can you talk about some of the fundamental differences between HighTower at the time and Dynasty, and why you think the Dynasty model really resonated with folks when you were there and still does today?

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Ed Friedman:

No, absolutely. So interestingly enough, when I was at HighTower, we got to know the Dynasty folks. We got to know Shirl Penney and his team because they were doing their due diligence on the space prior to launching Dynasty. So I got to know those folks. And when I looked at the industry, when I looked at what was happening, I thought there was a great opportunity for advisors, who did not necessarily want to join a firm like a HighTower, but wanted to launch their own firm. And there was no firm around in the industry at the time that really supported an advisor looking to break away from a wirehouse or a big bank, and set up their own firm. And that was Dynasty's model. So to me, that made an awful lot of sense. It was a different option for advisors that were seeking independence. And it made, again to me, since then, and I think to your point, Dynasty still continues to attract advisors that are looking to break away and to be on their own ADV, to be independent in that respect. And they certainly serve a place in our marketplace today.

Louis Diamond:

Well said. We'll spend the rest of the time talking about your current gig, which is as Director of Business Development and Growth at Summit Financial. Well, let's talk just for those not familiar, can you talk a little bit about the Summit value proposition, number of employees, and any other stats to give us a perspective?

Ed Friedman:

Absolutely. So again, as time flies by, next month will mark my fourth year here at Summit. And prior to joining Summit, I had been contacted by Summit CEO, Stan Gregor, who, at the time, had come on as CEO of Summit approximately three years or four years prior. And Summit is right in my own backyard. It's the first time I've worked someplace that was nine minutes from my house rather than commuting into the city every day. And when I got introduced to Summit by Stan, I referred to Summit, at the time, as the nearly forty-year-old multi-billion-dollar RIA that nobody had ever heard of. Summit, this past month in February, celebrated its 42nd year as an RIA. So for those who've been in the industry long enough, think back, number one, to be an RIA 40 years ago is almost unheard of.

And number two, Summit's foundation, its DNA, if you will, is based in financial planning. So to be a planning-based firm 40 years ago, to be an independent RIA 40 years ago, was incredibly unique. The advisors that have been here at Summit have been here almost forever. Incredibly high retention. But all the advisors, up until a few years ago, have been what I referred to as homegrown. They were hired here. They were trained here by some of the senior folks, built and developed incredible businesses. But about seven years ago, they came to realize that if they wanted to truly grow, if they really wanted to professionalize the firm, they needed to bring in professional management.

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Like a lot of billion-dollar firms that were run and grown by advisors, they come to realize that great advisors don't necessarily make great management if you want to take the firm to the next level. So they brought Stan Gregor on about, as I said, seven years ago. Stan liked what he saw so much in the firm that he personally bought 20% of the firm, and about a year or so later, brought our capital partners, Merchant Investment Management in, and they purchased 20%. And then as I said, I came on about four years ago to really now focus on attracting top advisors to the firm, and the run has been absolutely incredible. I think when I joined, we had approximately $3.2 billion in AUA, we just recently topped $10 billion.

Louis Diamond:

Congratulations.

Ed Friedman:

Thank you. So more than a three-fold growth in that timeframe. And we have signed, because with new advisors joining between now and year-end that we'll probably add another $5 or $6 billion. So I now refer to Summit as the forty-year-old startup. That's the energy that we've got going, and that's the attraction that we've been to a lot of advisors.

Louis Diamond:

And I want to talk more about the value proposition that Summit presents to advisors. But before that, I think an important topic, and it'll probably lead into your answer on Summit's value proposition, is the fact that with Summit advisors are on a shared ADV, meaning they're independent contractors and they're investment advisor representatives or IARs of Summit's RIA, as opposed to when you're at Dynasty where advisors own their own ADV and operate their own RIA. So it's definitely a contentious topic. Everyone has their opinions on it. What's your opinion on own ADV versus shared? Do you think one's superior, or what's your viewpoint on it?

Ed Friedman:

It's a great question, and to your point, Louis, it's been the subject of debate in our industry. What we offer at Summit, I referred to as partnered independence. And I actually wrote an article about a year and a half or two years ago, I believe it was entitled The Path to Independence. And the argument that I made in the article was that there is no right or wrong path to independence. Advisors that absolutely want to be on their own ADV and want to control every aspect of it, and unfortunately, in my opinion, deal with the brain damage stuff that goes along with that, then that is the path that they should choose.

For us, advisors that really want to focus on their clients, focus on growing the business, and outsource or offload a lot of those activities that are low return on either investment or time to a firm like Summit, whether it be compliance, middle office, technology, marketing, and the like, we become a great fit for them. So from my perspective, Louis, there is no right or wrong answer. One might say it's all ice cream, it's just a variation on flavors. And I do have an issue where some of the firms out there say that there is only one path to independence. I think that's crazy to sit there and say it's a one size fits all. I think we offer an awful lot, but I also know that some advisors want to be on their own ADV and be totally on their own.

Louis Diamond:

And I think that's a very fair and balanced point, and I see it the exact same way. It's not that one model is better or worse, or an advisor makes a big mistake by opting to have their own RIA versus joining an RIA and vice versa, it's more that advisors have a lot of choices and they get to decide, given all the expansion of firms like Summit and many of your competitors, to really pick the version of independence that makes sense for them. And some advisors are deathly afraid of compliance and want nothing to do with it, and they're very comfortable with being on a shared platform while others say, "I don't want to be told no ever again, I want to be the one who's making every little decision. I want to customize every wall and finishing within this house that I'm building." And we say, "Good for you."

It's more about just being true to yourself and figuring out what you're best at. And ultimately looking a couple years down the line and saying, "Where I'm taking this business is one business model better for me." So it's all about a matter of perspective. If someone asks me, "What's best for me as the advisor?" I would have to ask them a bunch of questions to really understand. I wouldn't be able to credibly have an opinion one way or the other, because it really depends upon the advisor's business and what they're looking to accomplish. So I'm glad we're on the same page.

Ed Friedman:

I agree with you on that. And the one point I made in the article and I've made many times before or since then, rather, is that we as an industry win when an advisor, and in turn their clients, come to independence. Regardless of whether go a fully independent ADV or they join somebody like a Summit, we as an industry win. And that's been the trend that's been occurring now for the past four or five years. In fact, I think in the most recent Cerulli Report, the non-traditional channel, whether that's RIAs or independent broker dealers, for the first time have had increases in AUM while the wirehouses and private banks have seen their first decrease in AUM. So that pendulum is certainly shifting, and we as an industry win. And I think certainly the client wins when the advisor goes independent.

Louis Diamond:

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Yep, no doubt. So let's talk a little bit about the value proposition of Summit, and let's say the value proposition to an advisor. So if I'm an advisor who believes in Summit's version of independence, they want to run their own business, but they're not looking to build their own RIA, what are the services or the rationale that folks tell you for why they're picking Summit as their partner?

Ed Friedman:

Yeah, it's a great question, and thank you. You can't discount the value of the 40 plus year history and being a firm that was truly founded by advisors for advisors. I think culturally that touches on everything that resonates with an advisor, and it really affects and impacts our decisions every day as a management team on what we do. The fact that we are a planning first firm, I think, differentiates us from many out there. We have a full planning department right now with two tax attorneys on staff. We're actually hiring for a third right now because of our growth and everything that we do has a tax planning, financial planning focus to it. And that has become one of the biggest and best resources for advisors that have joined us, in helping not only win business, in particular from the competition and has differentiated us quite a bit, but also add value to the existing clients that we have on board.

So having that planning department is extremely crucial to the advisor's success, and I think our success in attracting advisors. In addition to that, we're also unique in that we have an insurance agency as part of our business. And in many cases, insurance follows a lot of the planning process, whether it's estate planning or financial planning. So in addition to our contracts, we have about 80 other carriers, but we have a full insurance department. What I found interesting there is we have brought on board a couple of advisors from UBS and from Merrill Lynch that did little to no insurance before, because those departments at those firms were not easy to work with. Since coming on board, they've seen, in some cases, a six-fold growth in the amount of insurance business that they're doing, primarily because it brings value to the client. It is a necessity for many of these clients. And to have that support is really important.

When advisors join us, unlike a lot of other firms, they get to establish their own branding and messaging, or what we refer to in the industry as a DBA. So when advisors join Summit, there's no requirement for them to fly under the Summit flag. They can establish their own name, they can establish their own brand, they can establish their own website with the support of our marketing department. You need the required disclosures that they're part of Summit, but they really get to build their own brand and positioning in their marketplace. We also, to that point, have a full marketing department, full compliance, full operation. I want to say Summit has approximately 160 full-time employees. Those are staff for the advisors, but they're inside of also our operations department, our compliance department. We have our own technology portal utilizing some of the industry's best technologies for reporting, for planning, for CRM, but we have a ten-person technology department that is there to support the advisors on a daily basis, and to continue to develop and to upgrade our technology platform.

So that's a big differentiator as well. And then I think the last thing to touch on, is we have a full investment group, and through that group, we have seen a significant growth of what we're doing on the alternative investment side. If I look at Summit two and a half years ago, out of the billions that we had under management, only about $50 million or so were in alternative investments, we are now over $500 million in alternative investments. And a lot of that is due to the work of our investment team doing the vetting, the due diligence, the discovery, if you will, some pretty interesting and unique alternative investments. And that's helped our advisors really move up the net worth scale as they start to prospect and bring in clients. So a few points on, I think, what the value prop is and what's differentiated us.

Louis Diamond:

Yeah, I think you hit on a lot of the clear differentiators. I'm glad you didn't just focus on culture and compliance and operations because that's fairly commoditized, but you hit on the financial planning, outsourcing that can be done, which, from my experience, is pretty rare. And then just the scale of the firm, to have 160 employees at your disposal, to not have to hire those folks directly, is a massive benefit. So that's my next question. So there's a feeling by many within the industry that if you're over a certain AUM threshold, whether it's $500 million or a billion or $2 billion, that you have the scale to run your own RIA. What would be your reaction to that comment? And I'm sure you have advisors that are at that size or larger. So even though they might have the scale to hire their own compliance department and build out their own technology, why should those folks consider Summit?

Ed Friedman:

It's a great question. To your point, Louis, a lot of the advisors that have been joining us and will be joining us through the balance of the year are, I'll call it $500 million plus advisory firms and advisors. And when I look at this landscape, and to your point, where you sit there and say at $500 million or a billion you hit scale to potentially bring all of these departments or these activities in-house, my first question to you would be "Why do you want to do it?" If you think about what an advisor really should be focusing on, it is managing a client relationship, managing a client's financial plan and future, managing, to the extent that they want to, the investment side, and to be out there to grow their business and attract more clients, or in some cases grow inorganically by attracting more advisors.

So if I sit there and I look at everything that an advisor has to do on a daily basis, and I think about the return on that activity or the return on that department, either from a time perspective or an investment perspective, the question I would ask is, "Where is the value in that? Where is the value add to an advisor to have compliance done in-house? Or where is the value add to an advisor to have all of the technology concerns on their head or cybersecurity?" Which is going to become a huge issue next year with the new SEC rules. So when I think about that, and I think about our firm, advisors have to focus on growth, and I've never met an advisor that has said, "Having in-house compliance helps me grow," or "Having all of these other expenses in-house has helped me grow." If you really think about growth, you would outsource all of those things that is a very low return on time or investment, so that you can focus your activities on those things that are high return. And all of that revolves around the client.

Louis Diamond:

I agree with you. Again, it's a matter of perspective, because some advisors say "I'm big enough, I'd rather keep a couple extra basis points and do it on my own," or "I really do think I can create a culture within my firm if I am controlling compliance," and maybe having more autonomy becomes their differentiator that does help them grow. But for the most part, I agree, most people don't place a massive premium on control over compliance and technology. As long as it's fair and balanced and business friendly, I think most are probably happy to outsource it regardless of how much in AUM that they have. I agree. So we talked a little bit about the Summit business model, which is advisors join Summit... In your view, where does Summit sit on the spectrum of independence, and what firms or types of firms do you most closely compete with because of that business model?

Ed Friedman:

Yeah, so again, I think if we go back to the concept that there are multiple avenues to independence, I would say that advisors joining Summit give up no independence. They come on to our ADV. We take over those activities, as I said before, that are low return activities, and they continue to run their business as they've been running it all along, especially if they've been independent for a while. For a breakaway advisor who doesn't have a business that has been steeped in the independent world and wants to then experience independence, coming on board with Summit allows them to really benefit from independence or clients to benefit from independence, but especially for a breakaway who doesn't want to have to think about "How do I set up compliance? How do I set up operations?" All that sort of activity, it's just to me a natural move for them.

So inside of the spectrum of independence, I'd say we're right there. An advisor that joins us is fully independent. They do have to adhere to our compliance rules. But our compliance rules, again, we follow the SEC guidelines, and are very friendly to advisors who really embrace a fiduciary standard. So I would not say, by any means, that independence with a firm like ours is any different in many ways than going fully independent on an ADV. There's really no restrictions in that respect. With respect to competitors, the names out there, I would say a big differentiator between us and them is a lot of those firms were started by management folks that wanted to provide a landing spot for either breakaways or existing RIAs. Summit was founded by advisors and is still majority owned by the advisors. And I think culturally there's a greater connection that advisors seem to have with us than maybe with some of the other competitors out there.

Louis Diamond:

So let's talk a little bit about your capital backer, Merchant Investment Management, a name that many are familiar with. I remember we had Tim Bello, who's one of the senior partners at Merchant on a couple of years ago, and they were somewhat unknown. And when Summit struck a deal with Merchant as a minority investor, I think Merchant was still relatively unknown, but now they've grown exponentially and have dozens and dozens of investments. So I'm curious, I know you weren't there at the time, but from what you understand, what was Summit's motivation behind taking Merchant on as a minority investor versus just bootstrapping or self-funding or raising debt to fuel the growth of the firm?

Ed Friedman:

Yeah, so I've known Tim Bello going back actually to our Dynasty days. A lot of the key management folks at Merchant, I've known for a long time and respect what they've done and the business that they've built. I believe Summit was Merchant's second investment, and the idea was to bring on a capital partner that would allow Summit to really upgrade everything that they were doing at the time to make it a preeminent or a premier destination for breakaway advisors and for existing RIAs that wanted to join a growing firm. So I think the capital that came on board was key in helping us upgrade our technology, upgrade our departments. They upgrade all of our processes. And they have been a tremendous partner of ours over the years.

They helped us launch our minority investment programs, Summit Growth Partners, and have been great partners in that growth and supporting us and supporting, quite frankly, the other advisors that we've brought on board. They are there strategically with us as we think about acquisitions or bringing advisors or firms on board. They've been a continuous capital provider to us, and they've been there to support everything that we do and the advisors are doing around growth. And from that perspective, I met a lot of firms that were out there doing these types of transactions and couldn't be happier with the partnership that we have with Merchant.

Louis Diamond:

Is there any concern, either on behalf of the management team, which you're part of or advisors you speak to, that one day Merchant will look to realize a return on their investment? And obviously they're making I'm sure plenty of money on the dividend and what owning a minority stake in a rapidly growing firm means, but if they go to sell Merchant or Merchant IPOs, or

Merchant sells to a strategic buyer or a private equity firm, what's your reaction to that, just the prospect of change?

Ed Friedman:

Yeah, again, there's the old phrase, it's the company that you keep. Merchant is very different than a lot of other firms out there. Merchant very often gets lumped in as a private equity firm, but it really isn't. It's family office. And I have an awful lot of respect for Tim Bello and Marc Spilker and Scott Prince, and all of the other principals that were part of the founding at Merchant. And we hear the phrase very often about patient capital, but Merchant truly is patient capital. And Merchant came into the space to be different than a lot of the other firms out there that were looking to make minority investments in RIAs. I think they have certainly proven that on a regular basis, not only with us, but with all of the other hubs or the other firms that they have invested in.

And our CEO Stan Gregor, is an active investor in Merchant, so has certainly a voice in what goes on as well. And will they monetize at some point? I'm certain that they will. But I believe because of their approach to all of the firms that they've invested to this point, the way that they run the business, and the way that they're going to look to continue all of these businesses, I'm not terribly concerned with what a monetization looks like. Summit, in all likelihood we'll be participating alongside of that. And we've had a voice in everything that has been done up to this point, and we continue to have or believe we continue to have one going forward.

So not a lot of concern on what that looks like. Their focus has always been to do things the right way. As Stan Gregor always says, "When we put all of this together, you want to structure a business and a deal that you would be happy to do with your family if your children were in the business and you were structuring a deal. You want to do it in such a way that when a time comes to monetize, it benefits everybody and is done in as inclusive a way as possible." So do I have concerns? No, not personally, and I've seen a lot of other transactions out there.

Louis Diamond:

Yeah. And I think that's right. You said it, it's the company you keep. Right now in this industry there's... We had Dan Seivert from Echelon Partners on this show, and he said there's close to 200 different private equity firms within this space. So pretty much every major firm has taken on capital to some extent. So it's not like it's a new thing that there is a private investor backing an RIA. So I think that the big thing like you said is you just got to look at the people, look at their strategy and think through rationally what's the outcome going to be.

And of course, there's a modicum of control that you lose once you take on an investor, but if you look at what they've done and the track record, and also just being aligned in continuing this operation, I would agree with you that you don't have cause for concern like you might with a traditional private equity investor who's going to exit every five to seven years or less. So let's then talk about your minority acquisition program called Summit Growth Partners. What is it and how many folks have done it, and what's the pitch to advisors? Why would they do that?

Ed Friedman:

Yeah, and you mentioned Dan Seivert and Echelon, what I thought was interesting was in their most recent report, they talked about M&A being down in 2023 versus 2022. But what was an interesting statistic in there was, since 2019, minority investments have grown annually at a 45% clip. And that tells you something, and it also goes back, Louis, to your other question, which is what does this look like under a monetization? Well, if somebody owns a minority interest in a firm and they monetize that minority interest, it still means that the advisor or the firm still owns a majority. So that has less of an impact than some of these private equity firms that come in and take a majority position or buy a firm outright. So we understood that advisors wanted to have an opportunity to diversify to, as they say, take some chips off the table, and we decided that a minority investment structure made the most sense for advisors and for Summit and for Merchant.

So about three and a half years ago, we launched Summit Growth Partners. We launched it with 12 founding advisors that were legacy advisors here at Summit. And it was designed in many ways to solve for or to be differentiated from other programs that were out there. Our CEO recently wrote an article, actually two articles in AdvisorHub. The first one, When Equity isn't Equitable, talking about what an equity structure should look like compared to those that might not necessarily be as equitable. And then the last one was about a month ago called the Majority of Minority, talking about the wave in the minority investment segment of our industry. So we launched Summit Growth Partners really with the idea to solve for a lot of the challenges that had existed in other programs. So an advisor joins Summit Growth Partners, they sell us a minority position in their revenue stack.

They're selling us actually top line revenue, which has a couple of unique benefits. One of them being if we are buying top line revenue, unlike other minority investment programs that buy bottom line, we're not in there telling them what to do day-to-day on their business. They're running their business the way they see fit. Also, when we do monetize, the advisor may have an opportunity on the backend to monetize as well, and they're monetizing top line revenue at presumably a higher multiple. The other significant difference is that when an advisor joins Summit Growth Partners, they get equity in the partnership. And that's again differentiated, they're getting dividends on a regular basis, and they are in a same class of equity as Summit that's a partner in the partnership as well as Merchant. So everybody's got the same class of equity. So it makes for a very unique differentiator going forward.

Louis Diamond:

$10B Summit Financial's 3X Growth in 4-Years: The Story Behind the Rise of a 42-Year-Old RIA

A conversation with Louis Diamond and Ed Friedman, Director of Business Development and Growth at Summit Financial.

I would agree. Yeah, I think once again, you hit on things that are different with your model versus others. And I see it too, that advisors are, with greater frequency, interested in minority investments than selling the whole business. It used to be that you built the business and then sold it. Full stop. That was the only option. Or you built it and sold it to your next generation. Now we've seen firms that build a business, take on a minority investor, continue to grow it, and then look to transfer it to the next generation or sell it.

But presumably doing so at a much higher multiple because the minority investor, in this case, Summit and Merchant, was able to add a lot of value beyond what the advisor could do on their own. So I think you guys are hitting this at the right time, because advisors, whether they're managing a hundred million or $3 billion, are more and more interested in this type of approach than selling the business full stop, or just taking on debt, or just plodding along like they normally would. So I think you guys are right on with this approach. Let me give you two more questions to wrap up today. Can you briefly share some of your recruitment successes and why those individuals ultimately pick Summit?

Ed Friedman:

Yeah, absolutely. Thank you. So I'm going to go back to the earlier days of our really ramping up the recruiting. We brought one breakaway advisor out of UBS. He was probably the first significant breakaway advisor. In fact, I think, Louis, he's been on one of your podcasts early on, and he made the move to independence with us, looked at a lot of the other competitors out there, decided that the value prop for Summit was significantly differentiated from what else he saw out there. Had a very successful transition with us. This is... Actually May will be three years that he's with us. I think after his first full year with us and in independence, he had 105% of the AUM that he broke away with.

Fast-forward now, he's probably up at least 50 or 60% from his original breakaway AUM, and we're actually working with him on a significant opportunity that will put him in the stratosphere on that side. So he has had tremendous growth. He's been a tremendous partner. We just added another advisor to his office that he'll probably end up merging into. And he also, early on, was a participant in Summit Growth Partners. So that's been a tremendous recruiting success for us. We had another advisor group that joined us after they had broken away from Merrill Lynch. Joined another platform in the independent space, decided it wasn't really for them, came to us a year after breaking away, and also have experienced tremendous growth since joining. So those were two significant early opportunities for us that I think have made a big difference.

We recently, at the beginning of the year, brought on a half a billion dollar Ameriprise team down in Alabama. So we've seen significant growth in, not only the number of advisors, but our geographic footprint. I believe we're now in probably 12 or 13 states, and probably adding another five or six over the next six months or so. Every one of the firms that has joined us has participated in Summit Growth Partners. I want to say now, between signed deals that we've got coming on board and actual advisors in Summit Growth partners, by the end of Q2 we'll probably have about 50 advisor or advisory firms in our minority investment program as well, so that the growth has been off the charts.

Louis Diamond:

Interesting. Last question to wrap this up. What are some initiatives you guys are working on or just some things that you're excited about, that if we did this podcast a couple years from now, you'd be excited to share the results of?

Ed Friedman:

Our business is constantly evolving and changing. I've spoken to advisors, I've run programs around this idea that every business, every three to five years needs to blow itself up on paper or in a strategic planning session on a whiteboard and reassemble itself for the next three to five years. Because our business is changing truly at breakneck speed. Whether it's AI coming in or whether it's new players in the marketplace or new technologies to support advisors and clients, the game plan that you had for the last five years, in all likelihood, won't be the same game plan that's going to get you that outsized growth over the next five years. So I strongly encourage every advisor, every firm out there, every business, to go through that exercise, blow yourself up on paper, reassemble yourself in a strategic session, and if you say, "What we've been doing is exactly what we need to do for the next five years," God bless you, don't change a thing.

If you understand where, as Wayne Gretzky would say, where the puck is going and you reposition yourself, then that's exactly what you should do. So when I look at Summit, I think where we're going to be going as an industry is becoming even more full service from a client perspective than we've ever been before. Whether that means family office services, whether that means incorporating family governance, whether it means enhancing reporting or access, if you will, to information for clients, that's going to be key. We've got an advisor that's joining us as an example in a couple of months who's very focused on the 401k side. And I was with him last week and he showed me an AI generated avatar of himself that he's using to do educational programs for participants in the 401k plans that they oversee.

AI, I think, is going to become a big part of what we do. But if I look at Summit five years from now, it's a greater embrace of technology. It's a greater embrace of a broader level of services to clients. You want to position yourself so that a client really has no need to look outside of a firm for a lot of those things that support the family, support their wealth, support their charity, and what they really want to develop and leave as their legacy. And I think that's going to be a continuous development that we focus on here at Summit.

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Louis Diamond:

Very good, Ed. Really appreciate you spending time with us today. Some of the big takeaways I had was hearing firsthand through your own career path, just the early days of HighTower and how that business model was really a maverick in shaking up the industry, and then the comparison to Dynasty and now Summit. So you've hit on what I think are three of the most distinguished types of business models out there right now in the independent space, which is a employee partnership, running your own RIA with support, and then running your own RIA on a shared ADV. So hearing your perspectives on the pros and cons of the models, and how Summit is ultimately growing at a massive clip by providing value-add services to advisors, was enlightening. So we appreciate you spending time with us today.

Ed Friedman:

Well, Louis, again, thank you for the invitation. As I said before, it gives me great satisfaction watching what you and Jason and Mindy have done and continue to do, and being the voice in our industry of really vital information. So congratulations to all of you again and nothing but the best going forward.

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. Or if you'd like to talk, feel free to give us a call at (908) 879-1002.