



EPISODE TRANSCRIPT

Preparing for Exploration: 10 Practical Tips to Conduct a Strategic Due Diligence Process

With Louis Diamond

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is preparing for exploration, ten practical tips to conduct a strategic due diligence process with Louis Diamond. I'm Mindy Diamond and this is Mindy Diamond on Independence.

Mindy Diamond:

This podcast is available on our website, diamond-consultants.com, as well as Apple Podcasts and other major podcast platforms. If you are not already a subscriber and want to be notified of new show releases, please subscribe right on your favorite podcast platform or on the episode page on our website. For Apple Podcast users, I'd be grateful if you'd give the show a review. Your input helps us to make the series better and alerts other advisors like you who may find the content to be relevant. And while you're at it, if you know others who could benefit from this series, please feel free to share it widely.

Mindy Diamond:

We talk a lot about the expanded industry landscape and how ultimately an advisor has so much more to consider than ever before. As such there is tremendous value in periodically conducting due diligence, whether you're thinking of moving or not, if for nothing more than to become familiar with a host of options that likely didn't exist even just a few years ago. Yet with so many options often comes added confusion, leaving the potential for those who embark upon exploration to end up feeling more overwhelmed than enlightened.

Mindy Diamond:

But what we find is that when due diligence is performed in an organized manner and with strategic goals in mind, that many advisors often walk away with much more than knowledge of the opportunities available to them. They gain a greater sense of clarity in terms of their own goals as well. It's a process that need not result in advisors changing firms or models. In fact, when done properly the exercise may determine that they are indeed in the right place for their business, enabling them to do so armed with greater awareness and a renewed sense of commitment to both their clients and the business.

Mindy Diamond:

Based on decades of experience helping guide advisors through the due diligence journey we've compiled these ten steps to serve as a practical guide to navigate the process with efficiency. It's by design a strategic method to help you avoid overwhelm and make the most of your valuable time. I've asked Louis Diamond to join me in sharing these tips. And let's get to it. Welcome Louis.

Louis Diamond:



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Thanks for having me. It's nice to be recurring guest.

Mindy Diamond:

You bet. Louis, I think we both agree that this is one area that advisors often mess up. They often jump into the process of taking interviews and exploring opportunities with their own time, but they often share with us that it feels haphazard, that they really didn't get much out of it and they often come away with more questions than answers. And why that is is because every firm will tell them what's great about their firm, but they don't really have a sense of a, anything legit to compare it to and a sense of comparing it to their own goals. So what we wanted to do today Louis is to set advisors up on the right path.

Louis Diamond:

Yeah. I think that's great. I would also elaborate on that point that when you're exploring without a real clear plan it really does become overwhelming because you're not really sure what your criteria are, you're not sure how to weigh or compare and contrast. So taking calls from a manager who calls or deciding to speak with firms that your friend went to. Nothing wrong with that, but what we'll set up advisors for is with the ten step process here on how to make sure once they really do get their toe in the water that they can do it for real and it's not going to be in a more scattered approach.

Mindy Diamond:

Yeah. Okay. So let's jump into the first step. What do you think it is?

Louis Diamond:

I would say it's getting educated on the landscape. As the industry has really expanded and the options for advisors and especially top advisors has become so much more exciting and where advisors are moving to is that much more fragmented, it means that the education phase, understanding the different categories of firms, understanding things like what's the difference between an RIA or RIA-hybrid or a boutique firm versus wirehouse, what are deals like, et cetera, they're critical elements to just bring yourself up to speed. Many advisors we talk to keep their head down just dealing with clients and either because they've been on a forgivable loan or they've just been really busy, they're not really aware of what's going on outside their four walls. So the first step is definitely to get educated. I think it's a step where she should invest more time than less because that will ultimately help you see what's available outside of your four walls.

Mindy Diamond:



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And do you think that it's enough to get educated on the landscape to learn what UBS is doing or Rockefeller is doing by asking a friend who joined one of those firms or who works for one of those firms? What do you think is the best way to get that education?

Louis Diamond:

Yeah, I think that that's part of it. And if it's a friend who had their own due diligence process and you can kind of borrow the knowledge that they picked up over their number of months when they were out shopping around before joining whatever firm, I think that's a good starting point. I think you're really going to need multiple viewpoints. And I would definitely point advisors toward either an unbiased resource or some really good stuff that's available online to get more high level views that's agnostic and objective, it's not content that's put out by one particular firm. So I think it's good to use your network of course if it's done in a confidential manner, but just know that your friend who went to UBS in your example may have blinders on because they only looked at UBS and they may not have seen the rest of the landscape, which is where you might be interested.

Mindy Diamond:

Yeah. And that friend may have a very different business model mix or sensibilities than you do and your getting his or her point of view, but that doesn't necessarily mean it's what's best for you.

Louis Diamond:

Exactly right.

Mindy Diamond:

Yeah. Okay. Let's jump to step two. So I think we'd agree that step two is the goals, is where the advisor needs to begin to get really clear on what it is they're looking to solve for. And I know you and I talk a lot about the fact that it's not enough just to understand the industry landscape and it's not enough just to know what your goals are, it's really about how the two converge. Because if your goals don't match with what the waterfall of possibilities are, then it doesn't do you a bit of good. And to understand the options without understanding what's important to you, that doesn't do you a bit of good. So it's about the two together. And when we think about creating a list or getting clearer on your goals of what you're looking to solve for, we think about it in terms of beginning with the end in mind. So Louis, you want to help us to understand a little bit about how we help advisors or help advisors, encourage advisors to get clear about their goals?

Louis Diamond:

Absolutely. So we've developed a self-assessment, it's about 20 or so questions that we've honed over the 25 plus years of doing this for a living. That's a resource that clients of ours have access to. But even



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if you're just doing it on your own, the major questions that advisors want to ask themselves, but also ask of the different decision makers on their team is questions like what's frustrating us today, what are our goals, what's a must have, what's on the wishlist, and really doing a deep dive into where you're trying to go. It's much easier to begin with the end in mind and work backwards rather than jumping to solutions right away. So anyone who's interested in that can certainly reach out and we can begin helping them on that really important piece of self discovery.

Mindy Diamond:

Yeah. Yeah. I know a lot of advisors who we've shared with say it's a real eye-opener in terms of giving them clarity on their priorities. Let's talk about step three, evaluating your client relationships. So I think the next part is about real self-honesty and self-awareness. So when you think about evaluating client relationships, how do you think about it?

Louis Diamond:

Yeah. So every advisor, whether you're at a protocol firm, let's say you're at Merrill Lynch, you're at a non-protocol firm like Morgan Stanley or UBS, or even if you're at more of a private bank model like the JP Morgan or Goldman, more portability is sometimes more difficult, it's a really valuable exercise in tandem with doing your own kind of self assessment and exploration to really do a diagnostic or deep dive on your book. So we'll get to the underlying product mix, but really thinking through your client relationships and being honest and self-critical. Are these clients mine or were they referred to me by the bank? If I'm in a succession deal, are the relationships solid enough with me? I'd rather than the first generation to consider a move. And doing either a client by client analysis and doing a weighted ranking of likelihood to move and really understanding too what your legal agreements are from your firm is helpful. Because even if you're extremely unhappy and you identify really good drivers for what you can do better for clients, if ultimately you're only confident that 20% of your book or 30% of your book or fill in the blank is going to move, then it may not make sense because ultimately you still have to make a living and you want to make sure, if we're going to move, that you have a business to then be able to service those clients with.

Mindy Diamond:

So let's say I'm an advisor. I go through that exercise. I feel confident that I'm making it up, 70% of the book is portable. What impact does that have on another firm's interest in me and the kind of deal I would get?

Louis Diamond:

Yeah, it's a really good question. So I think the first thing is you do buy yourself some credibility by being really honest that, okay, 100% isn't going to come with me, especially coming from firms that historically have lower portability percentages like the private banks or if you're a bank based advisor, no one's



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going to believe credibly that a hundred percent of the book's going to move. So I think having a realistic expectation for yourself in a firm that might be paying you a deal to come over is important. But the way it works from a recruitment deal standpoint is that firms will pay advisors on compensable or duplicatable production, so a big part of the deals these days are the upfront bonus. So logic would say maybe it would be in your interest to overinflate what's going to come, but it catches up to advisers in two ways. One, almost half of deals is made up of backend bonuses. So if you overinflate what's going to come with you, you stand to really have a hard time hitting the pack and bonuses. And the second thing it does is sets up potentially an unhealthy relationship with your new firm. And you want to be seen as someone who can deliver, who is overachieving or is overshooting their expectations rather than underperforming. So that can open yourselves up to some risk as well.

Mindy Diamond:

Yeah. And then I imagine the other part of the self-assessment if you will is assessing your business. And that's our step four. So what's involved there?

Louis Diamond:

Yeah. So I think what's involved here, this relates back to step three, is there's advisers who have certain portions of their book that is just not going to move. It's either really tied up within the financial institution they're leaving from, it's assets that are proprietary to the firm, or it might just be a style of business that you're no longer interested in serving. So for example, taking or targeting only certain types of business in a move. Think of the concept of shrink to grow. In prior episodes we did with Jason Fertitta from Americana Partners and with Mark Sear and David Hou from Luminous Capital, both groups talked about leaving behind meaningful institutional business because they were thinking about how best to really reimagine their business as an independent and they wanted to focus on the wealth management, not serving institutional clients. So shrinking to grow is an important concept.

Louis Diamond:

But in doing kind of a diagnostic on your business, the things you want to look at is understanding the products that you're using for your clients. How much in alternative investments do you have? Do you have alts that are in proprietary feeder funds? Those sometimes are harder to move. Do you use any proprietary firm portfolios or are you managing the money? How about lending business, whether securities back loans or mortgages? Do you use your firm's trust company, SMA? All these things are important because you have to gauge how another firm or platform is going to enable you not just to service your current book and make sure there's no impact to clients in the move, but also in making sure where you're trying to take the business aligns with that firm.

Louis Diamond:



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And the last thing too is just making peace that not everything's going to come with you and especially if you're leaving behind meaningful assets, either because you have a large client with a concentrated stock position who's really tied up in the bank or you have a group of clients who they do their IPO business through your firm and they're not going to move. It's getting comfortable with the fact that, from an ego standpoint, maybe not everything's going to come, but really being okay with that because you know you're going to grow faster and you can serve your clients better and just have a more efficient business if you're going to leave.

Mindy Diamond:

Yeah. Okay. Number five is probably my favorite. It's if in a partnership, make sure everyone is on board with the plan. And the reason I say it's my favorite is because just yesterday even I had two conversations with significant multi-generational teams where it becomes clear that different advisors, partners, even long time partners that have been together forever, may have different sensibilities, different risk tolerances, and different goals. So how does a team or a partnership make sure that everyone is on board with the same plan and really seeing things from the same perspective?

Louis Diamond:

So if partners on a team are all critical to the decision making process, the best recommendation would just be to have open and honest and frequent conversations with one another. You don't want any surprises, that you spend a bunch of time talking to firms and going through the due diligence process just to realize that your goals are completely misaligned. We see it sometimes because of generational splits where a younger advisor is really eager to be independent as an example, because they have a long runway, but the first generation or the older advisor is looking for a deal because they're looking to kind of unwind the business a little bit and de-risk the transition. So it would be really healthy in that situation if the partners knew what the parameters were going into the process so then solutions they look at could be compromised solutions, something that meets in the middle, or they can decide that maybe this partnership just isn't right because our goals are so misaligned. But it's better to know that early rather than it coming up later in the process.

Mindy Diamond:

I think that we will run into the notion of partners trying to figure out what's right for them and seeing things the same way more and more. One, because teaming, partnering, within the big firms is such a trend. And it actually winds up in one of three situations. Either the they can't come to an agreement and the partners just stay put, they make peace with where they are because they can't agree on an option that would be better enough. The second option is that they wind up going to one of the options that pleases one of the advisors and the other one is willing to be flexible and okay with it. And three is that they'll wind up going to a middle ground solution. And we hear that a lot, we see that a lot.



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Mindy Diamond:

For example, you've got a senior partner that says, if I'm going to move I want to go to another traditional firm and get paid a deal. I want to go to Morgan, Merrill, UBS, Wells, et cetera. And you've got the next generation on the other hand that says, I want to be independent, I want to build an enterprise. And a middle ground solution is often to go to a firm like Raymond James because it's got a multi-channel association model and it pays a deal and offers the traditional private client group for the senior advisor and allows the younger advisor to say, when the senior advisor retires we can slide into independence. So it's sort of best of both worlds. Okay. Let's move to tip number six, keep your circle close. What would you say about that?

Louis Diamond:

Yeah. This cannot be emphasized enough. You really want to make the group of who knows you're considering leaving or looking around to be as small a circle as possible. I wouldn't even tell most members of your team. I would really think about involving only the key decision makers who you know can be trusted. Even someone who you like and has been with you for awhile, there's slip ups. And we've seen unfortunate instances where someone just either has a big mouth or makes an offhand comment and they can really blow up the process. So I would keep it to just your key critical partners. Obviously tell your spouse, but I wouldn't tell other advisors in your office, I wouldn't tell friends that you made trust even just because there's too much to lose if those outside of the critical group find out you're looking around.

Mindy Diamond:

Yeah. I think that's fair enough and I'd agree with that 100%. Okay. Number seven is maintain the status quo. Tell us what you mean by that.

Louis Diamond:

So what we mean by that is don't alter your behavior in any noticeable way. You want it to seem, from a forensic kind of data standpoint, when firms look at key logs and they do kind of a post-mortem to see if they can find any way that you change behavior, but also just from your own kind of personal process, that everything remains consistent so that you don't raise red flags. So if you don't print client performance reports or your production statement or client documents, don't start doing it now just because you're conducting due diligence. Same thing with emailing materials to clients. Unless you always email your clients their financial plans or their trust documents, don't start doing it now. And also in a non Covid world, having prolonged absences from the office. If you're normally in the office from nine to five is another way that might alert a superior to the fact you're looking around. So really just want to maintain any semblance of normalcy because number one, it will protect you when you leave because we have seen some cases where firms are able to see that advisors altered what they did or perhaps did things to gain a leg up in the transition, and also just to maintain the cover of darkness



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that's necessary to have the most confidential and successful due diligence in that eventual resignation and transition process.

Mindy Diamond:

Yeah. And that probably leads us to step number eight or tip number eight, which is to speak with an attorney.

Louis Diamond:

Yeah. This is always important. And you can decide when in your process to engage counsel. If you have retirement advisory agreements or you're part of a firm that's known to be pretty litigious, you probably want to seek legal counsel early and often. It is a real vital step because you want to make sure that you understand and remain in compliance with the broker protocol, if you're a member of one of those firms, or even if it's a non protocol transition you want to understand your employment agreements and any sort of regulatory requirements and also make sure your compliance history, that you understand how transitioning and maybe some past acts you did might impact you in a move, especially if you're under a sunset agreement these days, whether it's the Merrill CTP or the UBS Alpha Program. These agreements have all gotten very complicated and they're are different depending upon which version you signed. So this is something where a firm that you're going to, they may provide counsel for you, but you still want to have your own independent counsel. And Mindy I'll ask you because we hear this often. Many firms, an employee firm, they will hire or retain external counsel for an advisor and they may even have internal counsel. So advisors often ask us, is it still necessary to hire your own legal counsel? What would we say to that?

Mindy Diamond:

Yeah, I think that's a great question. And if you didn't ask me that I was going to ask you for sure. So even though if an advisor is transitioning to another traditional firm, one of the steps is for that firm to introduce them to the firm's legal counsel and sometimes to a separate protocol attorney who can guide them on how to make sure they're not violating protocol in a move. But the reality is, regardless of how much legal counsel a firm scaffolds an advisor with, we always tell an advisor to reach out to their own attorney because the firm's attorneys are being paid to protect the firm, not to protect you. So we believe it's incredibly important, critical, to have your own attorney who can review your employment agreement from your old firm to make sure that you're aware of what the landmines are and that you don't do anything to violate them, to make sure that you're guided on how to be a good leaver, and most importantly, to help you to negotiate with the new firm and to really protect your interests and your interest alone.

Louis Diamond:

Exactly right. Couldn't agree more.



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Mindy Diamond:

Let's move to number nine. What's in it for clients. And I think what we're talking about here is beginning to really think about the move and plan for it. So what do we mean by number nine what's in it for clients?

Louis Diamond:

Yeah. So this is the lens you should evaluate any sort of option. If this new firm or new business model isn't in the best interest of your clients and you can't come up with a pretty extensive list of tangible items or things that you can do different and better for a client, you shouldn't consider the transition. You won't have credibility when you're trying to convince your clients to move with you. And since you're in this business to serve clients, we really think every question you ask, every firm you look at, should always be with the lens of how can I serve my clients better. And at a minimum, you have to make sure that you do no harm to clients to make sure there's not mega cap gains hits because you're moving out of certain portfolios. Make sure there's certain lending solutions if that's important. Ultimately, what you're thinking about through the due diligence process is, when I go to leave and I'm trying to either solicit my clients if I'm part of a protocol firm or I'm announcing my move if it's a non protocol transition, what's the pitch going to sound like? And if you don't have a really convincing set of reasons, it's going to be much harder for you to take most of your book of business.

Mindy Diamond:

So what are the standard reasons? Let's ask on both fronts. If an advisor is going independent, so leaving a traditional brokerage firm as an employee and going to set up their own firm, what's in it for clients?

Louis Diamond:

Every advisor's going to have a different set of answers because their underlying business is different, their clients are different, and they've served as clients in a multitude of ways. What's really exciting about the move to independence is that there are many different aspects that I think all our client face. So a couple of examples would be, I'm working with the best in class across the whole street. So while I was at XYZ firm I can only help you with solutions that were on platform. So for mortgages I can only help you through Bank of America. For trust I can only recommend US Trust. For alternatives I can only recommend what's on the platform. So as you think about independence it's the whole idea of shopping the street and now we can work with 15 different lenders, we can work with six different trust companies, we can work with any sort of alternatives provider, including offering private investments. That's just one example.

Louis Diamond:



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And I would say on the traditional side, if someone's going from even let's say a wirehouse to another wirehouse, I would think through what your frustrations are. You can't negative sell against your firm and you don't want to start complaining to clients because that's not what's in it for them. But I would think through how, let's say it's UBS you're leaving, how UBS might be positioned against Morgan Stanley. And you can talk about the scale of the business, how UBS America has made up a small fraction of the parent company's revenue versus Morgan Stanley where close to 60% of revenue comes from wealth management. You can talk about the client facing technology and having self-directed brokerage capabilities. We can talk about having more control over the business. So the list goes on and on, but I would definitely evaluate firms with this lens first and foremost before even thinking about how am I going to enrich myself the most and what's going to be best for my own needs.

Mindy Diamond:

Yeah. And I think what you're saying also is that even when a good part of the motivation for an advisor's move may be to get to an environment that feels less bureaucratic and less compliance heavy and where an advisor will have more control, those are things that benefit the advisor. So even when it's about the advisor, it always has to be about what's in it for clients.

Louis Diamond:

Absolutely.

Mindy Diamond:

Okay. Number ten. Keep your current firm at the top of the list of possible choices. I love this one and I'd love to know what you mean by that.

Louis Diamond:

Everything you evaluate has to always be compared to where you are now compared to the status quo. We subscribe to the rule of better enough because a move is a lot of work. It's risky, it's messy, you're going to disrupt momentum and not everything's going to come with you. You have to make sure that a new firm, a new business model, et cetera, is going to be more than marginally better. If it is just equivalent or it's somewhat close, tie goes to the runner. So you should always evaluate firms with the lens of how does that compare to where I am now. And if there's not a really convincing reason or reasons for what's in it for your clients and ultimately how you can grow your business faster and go back to what we talked about earlier in this episode, go back to your list of goals and your frustrations. If you're not able to tick off most of those items with comparing it to a new firm, then you should stay because it's always easier to stay. And there's nothing wrong with going with the status quo as long as you're thoughtful about it and you've looked out across the landscape and you've, from a position of strength, have made the decision that maybe the grass isn't greener.



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Mindy Diamond:

Love it. And I think that's great advice. And let me ask you one last question Louis. So once you've gone through all these steps, what do you do with all the information? How do you vet it?

Louis Diamond:

So I would say the best way to have that hit is talk with your team constantly, as we've talked about. I would recommend speaking to an attorney, an objective consultant or a recruiter who specializes in wealth management space. Somewhat of a shameless plug, but it's true, it's where we do our best work. I would obviously make sure your spouse or significant other's on the same page since they're going to bear the brunt of late nights and some disruption. And perhaps even talk to a trusted friend. You have to be careful, like we said, about keeping the circle tight, but if there's someone who can really help you bounce ideas off them and can make sure you're thinking as an insular, it's not a bad idea to get some different perspectives.

Mindy Diamond:

Yeah, I would agree with that totally. Louis, many thanks for taking the time with me today and really putting this list into ten bite sized pieces. We appreciate it.

Mindy Diamond:

I think if there was one takeaway to leave listeners with, I think it's this. If you embark upon the due diligence process with strategic intent and mindfulness, you'll find the outcome will be a positive one regardless of what the outcome is and never time wasted. 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 blog link to browse recent articles. These written pieces are an ideal way to stay informed about what's going on in the wealth management space without expending the energy that full on exploration requires. Feel free to email or call me if you have specific questions. I can be reached by cell 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.