Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is an industry update on 2022. It's 11 Trends Destined To Impact Advisors and Their Businesses, a conversation with my partner Louis Diamond. I'm Mindy Diamond, and this is Mindy Diamond on Independence. This podcast is available on our website, diamond-consultants.com as well as Apple Podcasts and other major podcast platforms.

Mindy Diamond:

If you are not already a subscriber and want to be notified of new show releases, please subscribe right in your favorite podcast platform or on the episode page on our website. And 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 are considering change or simply looking to learn more about the industry landscape, please feel free to share this episode or the series widely.

Mindy Diamond:

2021 was an extraordinary year for the wealth management industry, despite the waning shadow of the pandemic, advisors set new trajectories on the revenue side while creatively serving clients and managing their business lives. Yet this success was set amidst a confluence of events that positioned advisors securely in the driver's seat this year. On the one hand, brokerage firms have been slow to acknowledge just how frustrated many of their advisors are with the status quo. While on the other, leaders outside of this world, continued to pay close attention to what advisors value most, freedom, flexibility, and control and responded by creating exciting new firms and models that match advisor's needs.

Mindy Diamond:

The result was increased competition for top advisor talent that has fueled a true seller's market in 2021. In an annual article for Wealth Management Louis and I explored the 7 trends of '21 and their impact on the industry at large, as well as the foundation laid for the coming year. So be sure to visit wealthmanagement.com or diamond-consultants.com and search for A Look Back At 2021, 7 Trends That Indicate It's A Seller's Market. So how do we expect this seller's market to color the new year? There are 11 potential areas that are already showing strong signs for '22, and I'm happy to have my partner Louis join me to explore them. Louis, as always, thank you for joining the show.

Louis Diamond:

Absolutely. This is a fun one to talk about. Look forward to it every year.

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Mindy Diamond:

Me too. Me too. All right. So, lots here, let's start. Let's start at the top Louis, we'll start with you. What's the first trend we expect to see in 2022?

Louis Diamond:

Sure. I don't think it would be a 2022 prediction without at least some mention of the pandemic. And us, it's the pandemic's continued impact. Not necessarily on financial markets, that's not our area of expertise, but more so on how it might impact advisor movement. We've seen and we expect to continue to see that vaccine mandate by different firms will impact movement. Also, advisors who are still frustrated with their firms lack of a consistent COVID protocol, whether it's being able to be in an office or meet with clients and for some folks, the belief that they're being watched too much, or kind of being controlled too much.

Louis Diamond:

We're not here to talk the politics of vaccine mandates, what's clear though is, it's all about control. No matter what side of this argument you line up on, advisors have a specific way that they want to run their business and believe that they should be able to serve clients. And it's when there is a disconnect between how an advisor wants to show up to work and translate their own personal beliefs that sometimes it drives change. And in this case, it may be a change toward independence where you can set your own course, your own corporate policies and decide how and when to meet with clients and how you'd like your staff to behave.

Mindy Diamond:

Yeah. So let me jump in with the second one, and it sort of piggybacks with what you're saying. Advisor movement in '21 was at record levels and we absolutely expect '22 to continue that trend. So we talk a lot about movement being driven by pushes and pulls. The pushes are the continuing frustrations or limitations or irritations that advisors feel with the status quo, but what's driving movement. I think even more are the pulls towards something better. And as the industry landscape has expanded and it has, the waterfall of options has expanded exponentially, it is infinitely more likely today that an advisor who's seeking change or wants something better will fund their version of Utopia. And every day we're watching either new models being born or this ecosystem born to support an advisor looking for change, to support him and support him well. And I think the other thing is back to what you said about the pandemic. While it's not about the politics, the pandemic, actually with people working from home and having more time and privacy to self reflect, that really drove an awful lot of movement in '21.

Mindy Diamond:

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

And it set the stage for what we expect in '22, because advisors largely have control over where they're working, many still from home with more privacy. The third trend, or the third expectation is that the big firms are continuing to push retention or retiring place deals. So the retiring place programs are their best retention vehicles and what they seem to be trending toward are what we're calling commit for life programs. So it used to be historically that the big firms would use retiring place programs as a way to incent lifers the 50 or 60 year old advisor that was maybe five or seven years from retirement to you sign on for the rest of his or her career. But one of the trends we're watching is that the big firms are using the retirement place program as their very best retention tool and they are beginning to offer these programs then to younger and younger advisors earlier in their careers.

Mindy Diamond:

So asking advisors to commit for what could be the next 10 or 20 years. So here's what we say about those programs. We think that those programs are a tremendous gift for an advisor and his team who are certain that their firm is the right firm, the right partner for their legacy, for their clients, for the team, for the life of the agreement. The problem with those agreements is that they tie the team to the firm for the life of the agreement and take away any, and all optionality. And loss of optionality translates to less value, meaning the advisor's business becomes less valuable. So without going on, we've spoken a lot and written a lot about perspective on those programs and we don't need to do that here other than to say that if an advisor is either thinking about signing that agreement, or you're partnered with someone who's thinking about signing it, make sure you're really clear on what the fine print is and that you can live with all of it[crosstalk 00:07:56]. So Louis, let me turn it over to you.

Louis Diamond:

Yeah. I think I also add on that point is looking at this trend as retention, not just as it relates to these retiring place deals, but if you look at the new UBS compensation plan that came out in November, that's all geared towards retention as well, where it's motivating folks with longer length of service at the firm to stay. That's one thing to look at the other one is if you look at how a company like Merrill Lynch is looking to retain advisors. For now, at least they're still part of Protocol and the way they're looking to retain advisors is by disallowing things like cold calling and making it so the next crop of advisors that come in are going to have more captive businesses because they've now have relationships that originated from the bank. So I think this will continue to be a trend probably in 2024, 2025 until 2030. It's going to be all about creative ways for the big firms to retain their advisors, whether it's through different policies, compensation, or the retiring place programs.

Mindy Diamond:

Agreed.

Louis Diamond:

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

And I'll take the fourth one. It's the prediction that record revenues at all of these publicly traded firms, even the private ones, aren't really going to impact recruiting deals in a material way. We get questions from advisors all the time that they see the blockbuster earnings from these firms. And in '21, every bank had a record year, not just in wealth management, but across all of their divisions. So advisors naturally ask, is that revenue going to flow into our pockets? Our prediction is it won't because once one firm changes their deal or their package, the market moves in lockstep and all of a sudden it just becomes more expensive to recruit. It definitely is a supply and demand game, absolutely, and advisors are in the driver's seat, just like we're talking about it is a seller's market, that will be the ultimate, I think barometer, for where deals will go. We don't believe that recruitment deals are going to change in a real material way, other than the fact that when there's more options for advisors, it means firms have to get more creative and aggressive. What do you think?

Mindy Diamond:

I agree with you a hundred percent about... I don't think that deals which are at high water marks today will change in a material way, but I would ask you, so when you say that firms are going to need to get more creative, what do you think that looks like?

Louis Diamond:

Yeah. So we've seen it already this here, and we alluded to it in the wealth management article that you referenced. We've seen firms get more creative with making backend bonuses, or earnouts a little bit easier to hit, with getting more creative with expense budgets and allowing advisors to invest in their businesses the way they see fit. Whether it's just giving a certain pool of money so that the advisor can pay folks the way they want to, or spend it on marketing. In some cases too, we've seen deals stretched to become longer if an advisor wants more in a deal or even some flexibility to make them shorter, if an advisor's looking to work less. So it's more about meeting the advisor where they are, and there's still some truth to, it's all a math formula, and typically at the larger firms, there's less creativity than at more regional or boutique firms. But even at some of the big wirehouses, we've seen some pretty creative structures put out there today.

Mindy Diamond:

What about equity as currency?

Louis Diamond:

Yeah, that's important. Obviously that only speaks to a certain subset of the industry, we call them the quasi independent firms and certainly in the independent space. But equity has become a much more important or let's say differentiating characteristic. Certain firms offer equity to early adapters, whether it was Rockefeller offering it up a couple of years ago, Sanctuary offered it for a period of time. Or

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

there's some firms like Steward Partners and New Edge, which now have equity as a real meaningful part of their deal structure seemingly in perpetuity and just part of the culture. So I think that's right. Cash typically is king, but certain advisors are motivated by receiving equity in something larger than themselves.

Mindy Diamond:

I'm smiling as you're saying this because I was recruiting in 2008 when the world imploded and a lot of advisors had said they would never, ever, ever again take a deal that had stock or equity as part of the currency or part of the compensation, because they watched everything they held evaporate in the middle of nowhere or in no time. I guess, Louis, what you're saying is that equity in some of these entities, like a Steward Partners or a Snowden Lane, or a New Edge and some of these firms, advisors are taking equity because they believe in the story.

Louis Diamond:

Yeah, that's exactly right. The only reason you should join a firm is if you believe in the story, but an advisor's really doubling down by opting for equity instead of more cash or in exchange for owning their own business and going independent and controlling everything about how the business is monetized you're instead exchanging some of that optionality for equity in a larger company that you really think is going to hit a big.

Mindy Diamond:

Yeah. It makes sense. So let me go to number five, and this is a pretty bold claim and it's the claim or prediction that Merrill will pull out of Protocol. Now, I have no reason to believe that other than my own sort of anecdotal evidence, I don't have any fact, I don't have any proof for it, but I have been predicting this for a while. What makes me predict it, is its anathema why they are still in it. Merrill spent more than the past year, essentially with a moratorium on recruiting competitive talent. The reason for a big firm like Merrill to be in Protocol is because they want to be able to recruit. But if they're a firm that is losing a lot of advisors via attrition and they are, more than any of their competitors, and they're not using it as a tool to help them recruit competitive talent on the way in, then what do they need it for?

Mindy Diamond:

So it's surprising to me that they've been in it for as long as they have. And it's anybody's guess, I mean, the truth is I've been wrong, I predicted last year they would pull out and they didn't. So it remains to be seen if I'm right, but I think the message to any advisor is not drama, not you have to move with Protocol protection or you can't without it, because that's not true. Plenty of advisors have left Morgan and UBS very successfully without Protocol protection. So it's not that you have to move in a hurry, but it is to say that a non Protocol move can be riskier and come with a little it, more of a hassle than a

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Protocol move. And so the message is, if you are a Merrill advisor and you believe you have a move in you, it doesn't serve you a lot to wait. It is better and easier to move with Protocol protection if you can, if you can't, there are many ways to do it, many wonderful attorneys, much great counsel and guidance out there, and it's very possible.

Louis Diamond:

Yep. I'm with you. And I think we saw particularly with Merrill that for the first time recently, Andy Sieg acknowledged that attrition was a concern. I think it was close to 6% attrition. So they rolled out the Project Thunder, which was more of an olive branch to the field saying here are a number of changes that you've been asking for and hoping that would kind of plug the holes of advisors, walking out the door. We know from conversations and just from looking at our business, that Project Thunder, likely isn't going to stop attrition. So maybe that was the carrot and then the stick will ultimately be pulling out of Protocol, your guess is as good as mine, but I'm with you that it's a head scratcher, why they're still in it. So it would not surprise us one bit if they decided to pull out.

Mindy Diamond:

Yeah. We'll see if we're right, we've been predicting it for a while. Okay, prediction number six. That new disruptive brands will continue to enter the wealth management space. So the proof of concept for this, that new disruptive brands will come into the space is probably Rockefeller. Rockefeller has been recruiting like crazy and with great success and really proved that when a sexy name came, advisors will come. Obviously the story and the infrastructure needs to match the name, but name brand is important. So will highly regarded names that play adjacent to wealth management like Blackstone, BlackRock, Lazard, or even Amazon or Google, will they make more of a push to come into the retail wealth management space.

Mindy Diamond:

And one other thing I'll add is that just us yesterday, I interviewed Ron Carson, CEO and founder of Carson Wealth Management, for an upcoming podcast interview that I believe launches in early January for this series. And one of the things that Ron talked about was the investment by Bain Capital, the third largest private equity firm in the world, that made an investment in Carson Wealth Management earlier this year. The fact that a private equity firm of Bains stature having interest... Forget about whether it's Carson or anything else, but interest in wealth management space speaks volumes about what's to come. We've seen KKR and other tremendous brands come into the space and we expect that to continue. Do you agree with that, Louis?

Louis Diamond:

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Yeah, I completely agree. It's not just proof of concept and validation of the industry and of the independent wealth management space as a whole, but I think you're right. Rockefeller was a template or a blueprint that if a firm has a prestigious brand and it can offer an advisor more independence and autonomy, then it's a big, big deal. I think we're going to get to this as number seven, but I think it's going to be similar to having Goldman Sachs as a custodian option and advisors feeling more comfortable and confident that they can leave the big brands and the very well regarded brands and either go independent or to go to a model that's a little bit more unproven. And I think the brands you mentioned are great examples and probably many we're not even thinking of, are potential options to make a move into the wealth management arena.

Mindy Diamond:

Yeah. So that brings me to number seven, Goldman Sachs launching a custody unit to really disrupt the space. Tell us what you know about that.

Louis Diamond:

Yeah. So this isn't a prediction, it's happening. It's already been launched and Steward Partners, a little bit earlier this year, they were announced as the first big client of Goldman's RA custody unit. Mindy, we've done a podcast on this, what Goldman is doing, they acquired Folio, which was, say a smaller, more boutique custodian and they're making it now an RA custodian that will likely compete with Schwab, Fidelity, BNY Mellon Persian, and even LPL and Raymond James' custodian. So a lot needs to be known about the pricing and the technology and what it will all mean.

Louis Diamond:

But what's very clear is advisors are watching, especially advisors at a major wirehouse who would look at the Goldman brand as a step up from their current firm and could be a home run because it would allow an advisor to go independent, start throwing RIA, or join a platform provider and still leverage the Goldman brand and some of the Goldman platforms and resources, whether it's on the alternative investments or the lending side. So we think it's going to be a big, big deal. Likely many advisors have been waiting for something like this. They want independence, but haven't really felt that the brand and the prestige is there. So we think it's going to be big things to come and it's going to be a disruptive year as Goldman finds its way into the RA channel.

Mindy Diamond:

Yeah. I think what it will do, to echo what you're saying, is it will absolutely accelerate high net worth focused movement. It may be just the thing that makes an advisor that has had interest in independence or interest breaking away from the big firms, but worried that Mindy Diamond Wealth Management or some unknown name won't resonate with those ultra high net worth clients and the

Goldman name certainly will, so interesting more to come. How about number eight? The further RIA-ification, R word, of the traditional broker dealer space. What does that mean exactly?

Louis Diamond:

Yeah. So across the industry, the lines are being blurred between what we would consider different models or buckets. I mean, where this is front and center right now, is firms that we would traditionally consider independent broker dealers, the likes of Commonwealth, Raymond James, LPL Financial, and many, many more are morphing their businesses to look more like RIAs and I'll explain what that means. But the reason for this is practices are becoming much more advisory focused, either completely advisory or maybe 70%, 80% plus, and moving away from the brokerage world. And it's clear through the movement to the RA channel and all the developments in technology and transparent pricing and capabilities of the RA channel that it's no longer the biggest competitor to these traditional broker dealers, isn't one another, but it's Schwab, it's Fidelity. It's Sanctuary, it's Dynasty, it's advisors that are starting their own firm.

Louis Diamond:

So in response, these firms that have scale, have a ton of capital and have big budgets to spend are changing their business model, first to retain some of their advisors who may look for more freedom and control. And also just to play more in the supported independent space. So things like a more open technology platform, instead of having completely proprietary technology integrating through APIs with third party technologies like an RIA would. Instead of having kind of esoteric or confusing pricing, creating just a transparent fee that an advisor pays, more of a service fee. We're also seeing that these broker dealers are allowing for many of their practices that are duly registered to drop their FINRA affiliation and just go advisory only, or even start throwing RIA without having to repaper. So I think we'll continue to see this. This is just one example of the lines blurring between kind of different models and firms, but it's going to be front and center as broker dealers continue to adapt to the times.

Mindy Diamond:

So how does that impact, or maybe ask it another way? Why then would an advisor considering independence go, the independent broker dealer road versus going right to the RIA space, is there an advantage to that?

Louis Diamond:

Yeah. One of the advantages is upfront capital. It's also the broker dealers are impressive, they have scale, they have really good integrated technology. And part of the way that this RIA application is happening is the broker dealers are adding a lot more upfront turnkey support for advisors looking to start a business. So whether it's LPL Strategic Wealth Services or Commonwealths Access or everything

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Raymond James is doing through some of their platforms like Concurrent, all of these different options are making it easier and easier for a captive advisor who's never had experience running a business, to now do it in a very turnkey way. So really the way I look at it is the traditional broker dealers, their technology platforms and there's just platforms in general. And just like an advisor will evaluate whether they should start their own RIA, join one, hire a service provider, these broker dealers are becoming much more realistic landing spots, especially for larger teams, as they've kind of morphed their models.

Mindy Diamond:

Interesting. Okay. And how about number nine? We're predicting more IPOs of independent wealth firms.

Louis Diamond:

Yeah, absolutely. So Focus Financial was the first big IPO in the RA space a couple of years ago and that IPO's been relatively successful. CI Financial, the massive Canadian asset manager who's just been on a buying spree across the US wealth management space filed to go public earlier this year, we saw Tiedemann, a large multi-family office firm go public through a SPAC deal a couple of months ago, we're definitely expecting more of this to come. With IPOs being in high demand right now and a lot of later stage more mature multi-billion dollar RA firms already with private equity backing, I guess, coming to maturity, we're definitely expecting more. Some names to look out for, Hightower Advisors, potentially, maybe Mercer, the advisor group, maybe Dynasty Financial Partners. We don't have any sort of inside knowledge of this, but just looking at the iteration and the evolution of these businesses. It's very possible that we'll continue to see one or multiple of these and probably ones we didn't mention, head for the public markets.

Mindy Diamond:

Yeah, it's been a crazy time and we know that M&A has been through the roof. So I think those predictions could actually become reality. And how about number ten, advisors will have more interest in recommending crypto for clients and that will drive greater interest in the RIA space.

Louis Diamond:

Yeah, so we're not surprisingly seeing many more advisors talk about the desire to recommend crypto as an asset class to clients and as being really front and center. Not necessarily the number one driver, but as an advisor thinks about how they want their practice to evolve and just trying to impose their own philosophical beliefs on their practices, right now and probably for the foreseeable future, if an advisor's captive at a brokerage firm, at a broker dealer or really on most platforms, crypto is not something that advisors can recommend, or if you're at a wirehouse, even talk about.

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Louis Diamond:

So as crypto becomes more popular and the technology keeps developing, we're forecasting that the desire to recommend crypto and to market your services around advising clients on the various cryptocurrencies is going to be a driver towards independence. We saw this over the last couple of years with the proliferation of direct private investments as being an alternative investment that an advisor who is captive wasn't necessarily able to recommend, and it was a push toward advisors wanting to launch their own RIA or leveraging a platform that was multi custodial and had access to bespoke investment ideas.

Louis Diamond:

So we definitely think this is going to accelerate likely at least for the moment, advisors are going to have to start their own RIA in order to recommend this because that's how they have maximum control over the platform and what they recommend. Fidelity right now is probably at the leading edge of this but I think we'll continue see the other custodians and even companies like Coinbase and other FinTech providers become pretty appealing options for advisors looking to recommend crypto to clients.

Mindy Diamond:

Yeah. And that actually brings me to our last point. The last prediction that giving up some ownership for scale will make advisors want to be part of something bigger. I forgot how Ron Carson said it yesterday, but advisors looking at independence should want to be part of a behemoth, a firm that can afford to invest in technology and provide, as he said, an Amazon-like experience for the future. And if an advisor's able to do that as a standalone RIA, that's great. But we think that this desire to get access to and provide services more and better will make advisors look... Not only, we absolutely think they'll continue to be tremendous surge in the breakaway movement, advisors leaving the traditional firms to build their own firms. But equally we are already seeing top teams looking at larger, even if they are nascent, but larger RIAs. So some names that come to mind, New Edge was started, as a good example, this past year by Rob Sieg and Jeff Kobernick, we actually did a podcast interview with them.

Mindy Diamond:

They partnered with a private equity firm and are building what we call part of the ecosystem, sort of boutiques 2.0 and there are many firms like them that fall into this category. So they're sort of RIAs, but RIAs on steroids. And they provide an independent minded advisor with the opportunity to also have scale and greater access and capacity and turnkey infrastructure. And if they're getting equity as part of their currency for joining, a greater likelihood that the valuation of that business at the end of the day will be greater than a standalone independent business would be. Would you add anything to that, Louis?

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Louis Diamond:

Yeah, I'm in agreement. I think we're going to continue to see, say relatively unknown RIA firms attract advisors who are looking to trade either all of their own equity for equity in something larger or who are looking for maybe an opportunity to earn into becoming an equity owner. RIAs in particular, the values are way up. So it's pretty clear that it's a real growth opportunity to join an RIA firm and to be part of something bigger than you could build on your own. So I'm completely with you. You talked about how after the financial crisis, there was a loss of enthusiasm about equity as a currency. We've kind of seen that ebb and flow over time.

Louis Diamond:

I think right now, advisors are pretty enthusiastic about firms that offer equity because there's tons and tons of proof of concept of how firms that offer equity are able to monetize their equity in a really attractive way. We saw Steward Partners get valued at a huge number this year when they recapitalized, any advisor in Rockefeller is going to do really well. Hightower, they've been on a growth spree and those advisors have done really well too. So it's pretty clear if equity is on the table, you have to do your due diligence, but that it's more attractive than it once was for advisors.

Mindy Diamond:

So, let's wrap it up. Let's talk about what the big theme of 2022 is. And you and I talked about this off line. I think it comes down to one word. The word more. Clients want more from their advisors, advisors are demanding more from their firms and firms want more from their advisors, or at least they want more of their blood from their advisors. So it's the constant push toward the next big thing, something better that's driving change. And while clients seem to be at the top of the food chain, when it comes to that push, it's really advisors who are leading the charge because they're being pushed from both sides. And it's that very premise that's paved the way for the fastest evolution the wealth management industry has ever seen. It's almost mind boggling.

Mindy Diamond:

Because smart business leaders are back in the labs, updating their offerings and creating new models at a frenetic pace to keep up or to satisfy the need for more. That's great news for advisors and the clients and the industry at large. No doubt, 2022 is going to be an exciting year for wealth management yet again. Louis, I can't thank you enough for joining me and to all we thank you for listening. We'll be back in January with more on these topics, plus behind the scenes insights from some really exciting firm leaders and industry legends and candid conversations with top breakaway advisors. Louis, thank you.

Louis Diamond:

Of course. Thanks for having me.

Industry Update on 2022: 11 Trends Destined to Impact Advisors and Their Businesses

With Louis Diamond

Mindy Diamond:

And I thank you for listening. 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 articles linked to browse recent topics. 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.

Mindy Diamond:

Feel free to email or call me if you have specific questions I can be reached 973 476 8578 or by mdiamond@diamond-consultants.com. Please note that all requests are handled with complete discretion and confidentiality and keep in mind that our services are available without cost to the advisor. Please see our website for more information. 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 the show a star rating and a review, it will let other advisors know if it's a show worth their time to listen to. This is Mindy Diamond on Independence.