



EPISODE TRANSCRIPT

The Next Big Thing: Private Equity Disrupting the Landscape for the Best Teams

A Special Industry Update with Louis Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is The Next Big Thing: Private Equity Disrupting the Landscape for the Best Teams. It's a special industry update 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. 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 are considering change or simply looking to learn more about the industry landscape, please feel free to share this episode or the series widely. Our industry updates are designed intentionally to keep you informed about the latest evolutions of the industry landscape. And this is a big one, especially for top wirehouse teams or top teams, in general, looking to make the leap to independence.

Historically, meaningful upfront capital and independence was an either-or scenario, not an end. Meaning you had to choose between being independent or opting for transition capital. And we're following what seems to be the next big thing, a way for wirehouse teams to monetize for big dollars while entering the RIA space. While private equity has been all over the RIA space for a few years, they've missed out on the breakaway movement, that is, until now, as several top private equity firms have actually cracked the code of investing directly in wirehouse teams on day one.

These firms are providing liquidity and upfront capital to a breakaway team as well as the scaffolding and support resources needed to actually launch the independent business. It's opening a new world of potential for breakaways. So I've asked Louis to join me in laying out the details. Louis, thanks so much for jumping in on this one.

Louis Diamond:

Absolutely. This is a very fun and fastly developing topic, so excited to dive in.

Mindy Diamond:

Yes, a lot to talk about, and we're excited about it. So let's jump in. So let me ask you, why is this a relevant topic? Why is this we'd even go so far as to call a disruptor to the industry landscape?

Louis Diamond:

Yeah, I think it's fairly simple. By our count, there's over 40 different private equity sponsors that have invested in at least one RIA or independent firm. So clearly, private equity isn't a novel concept in our industry, but what is new is it encroaching on the landscape of opportunity for breakaways. So similar to



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how private equity's infusion into the space really fueled RIA deal-making and the massive wave of consolidation, we're expecting something somewhat similar.

So we think it's going to be a big topic because, to your point in the opening, there are advisors who would love to be independent, but either because of a pending retirement deal, a very large forgivable note they pay back, unvested, deferred compensation or even just the desire to monetize for the amount of risk they're taking have kind of gone either underground and stayed put or went to more traditional options.

So we think this is going to be big because it blends together, I think, what a lot of advisors want, which is the power of the RIA channel, but not necessarily having to build a firm from scratch. But also the creative economics and financing that either you have to go to a traditional employee model for or where we're seeing private equity really make a difference in RIA deal-making. So it could be for some the best of everything.

Mindy Diamond:

Yeah, and I agree with everything you said completely. Maybe you could talk then because you were talking about more than 40 PE sponsors already being invested in the wealth management space. What are some examples of PE firms that are already here?

Louis Diamond:

Yeah, there's... Obviously, we're not going to go through and list all 40, and it's probably even more right now, but some of the bigger names that you might be familiar with is Bain Capital has invested in the Carson Group. We had Ron Carson on the show a couple of years back. KKR backed Beacon Pointe, a major RIA acquirer. And we had folks from KKR and Beacon Pointe on the show as well.

We've also seen more financial services-specific firms like Stone Point Capital investing in IEQ, Parthenon Capital investing in NewEdge, and Rob Sechan's business. So it's kind of funny, many of the big names we've had in the show for anyone interested, and we'll kind of include or feature those episodes on this page. That's a couple, and there's many, many more that are under the radar or for those that are in the know you may find interesting.

Mindy Diamond:

Yeah. So is that private equity firms have not been interested in wirehouse teams before this, or is it that they hadn't figured out how to entice them before this?

Louis Diamond:

I think it's a little bit of both. It's probably more the former than the latter. When private equity is making investment, they're looking for existing businesses with free cash flow, with growing businesses, et cetera. They're looking for more certainty, and certainly, a team breaking away from a wirehouse or



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needing to go through a transition is anything but certain. The amount of business that's going to come over is somewhat up in the air. There is an existing infrastructure, and there is an existing business to invest in. So in part, they've kind of ignored it because they were just uncomfortable with how to price it and how to handle a transition.

The other piece of it is even for firms that were interested, and honestly, why wouldn't they be? It was hard to match the private equity firm's appetite with matching something up with what a wirehouse team would find compelling. So what we mean by that is wirehouse teams oftentimes need infrastructure. They don't have a chief compliance officer. They don't have an existing RIA. So how do you solve for that? That's one piece. And they're solving for that through bolting advisors onto existing RIA firms. The other piece, which might be more important, is how to figure out the economics because, like we said, teams are in transition. They don't have a value or equity that they own in their business.

So how do you actually put a multiple or figure out what the value of the business is? So it's figuring out and kind of the iterative process of working through how do we make it so that the economics, the upfront payments, the earnouts, et cetera, are compelling for a team that's taking the ultimate risk of a transition while also balancing the risk that a private equity investor is taking in deploying capital. So I think it's kind of all of the above. It was appetite was maybe there, maybe not because there's just uncertainty or skepticism about the model. But also trying to land the plane on finding the right balance of infrastructure and capital that made sense for a wirehouse team that may consider an option like this.

Mindy Diamond:

Yeah. So I was going to ask you later on to talk a little little bit about how, for example, these private equity firms have figured out the structure in order to... the compensation structure or the economic structure to solve for that. But I do want to ask you something before I go there.

And that's, you're saying they're attracted to wirehouse teams, yet we have a very significant private banking team that's very interested in this model. So do we mean just wirehouse teams, or are they interested in other non-traditional teams as well?

Louis Diamond:

Yeah, I think it can really be teams, we'll say teams, and employee constructs in general. It doesn't have to be wirehouse. We'll use wirehouse as more of an overarching term. I would say that wirehouse teams do tend to have stronger and more predictable portability than private bankers. So it's probably a little bit easier to figure out a model that makes sense for a wirehouse team that typically moves 85, 90%, or more of their business versus a typical private banking team that might have a very large amount of assets that they're servicing, but maybe 20, 25, 30% of the business actually moves.

So it can really, I think, be any of the above, and it can even be an employee team from an RIA. There was a deal very recently where a team of employee advisors from Avidian Wealth down in Texas, one of the advisors was actually a podcast guest on the show, took on a private equity investment from



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Hightower. So that was a team of employee advisors at an RIA. So we'll use wirehouse teams as kind of an overarching term, but it can really be captive or employee teams across the board.

Mindy Diamond:

So let me ask you to clarify that. Hightower investing in an employee-based team. I don't know that most of our listeners would consider Hightower a private equity investor. Are they?

Louis Diamond:

Yes and no. So Hightower draws its capital base from a number of institutional investors, including private equity, and Hightower is then deploying that capital in a way very similar to how private equity does. So they're buying enduring stakes in businesses and then providing a platform for teams to operate. So there's a lot of, and we'll kind of get to it, a lot of wrinkles in how private equity is entering the space and deploying their capital. Investing through a platform like a Hightower is certainly one way that we're seeing the capital be deployed.

Mindy Diamond:

Mm-hmm. So let's talk about that for a second. If I'm a wirehouse team or a team that works, a significant team that has entrepreneurial spirit that would love to go independent and is intrigued by the notion of private equity investing in them, there are two ways I think that we're talking about that team could go independent.

One, as you say, is to join an already established independent firm or private equity-backed platform, and two is to go independent on their own and the private equity firm invest directly in that team. So let's talk for a second, and then I definitely want to turn to the economic structure of this, but what's the difference between the two? Is the appetite the same for both? What does that look like?

Louis Diamond:

Yeah, it's a really good point, and I would agree with you. Probably the two different venues or forums that we're seeing private equity invest in wirehouse teams are those exact two use cases. So the first one, which we think is going to be more of the norm, would be a team joining or merging with or being acquired by an existing RIA firm that is backed by private equity capital. The reason we think that's going to be a more popular option is because the RIAs already have a lot of the needs solved for. They have the RIA infrastructure. They have compliance. They have an investment platform. They have subject matter experts. So a lot of the house has already been built, and a team doesn't necessarily need to go and recreate the wheel in order to break into the independent space.

So that's certainly one way, where a private equity firm has bought a majority stake, a minority stake in an existing thriving RIA, and then they're using that firm's chassis to go and merge firms in. So that's one way. The other way, which is likely reserved for much, much larger teams that have a vision to be, we'll say, more builders, they want to build their own firm with their own identity. They have the



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infrastructure already or want to kind of build it themselves, and we'll use a private equity infusion to provide liquidity for themselves in the move. But I think, more importantly, to have the creative deal-making expertise and the capital to go buy other teams or to buy RIAs. The common theme with private equity is they're looking for a pretty meaningful return.

So it probably doesn't work for a team that's just growing organically and doesn't have a vision to go and roll up other businesses or other advisors. So, in summary, those two venues are exactly right. It's private equity investing directly in existing RIA and firms merging their practice or advisors merging their practice into that firm, and then private equity buying into a much larger team that's looking to build. So I'd say the second one requires someone that certainly wants to be more independent, is probably more entrepreneurial, and has a likely larger business than others that are going to join existing RIA firm.

Mindy Diamond:

Yeah, I agree with that totally. And I think, as to the latter, we are talking about teams that, meaning... the latter meaning where a private equity firm would invest directly in a team as opposed to a team or an advisor associating with an already established RIA or platform firm.

That would require a team that was probably managing multiple billions under management, and that, as you say, had the ability or had the desire, the vision to really build an enterprise not only to grow significantly organically but to build a national or regional enterprise or franchise that will turn around then and become one of these platform or mega RIA acquirers in and of itself. So let's turn then to so how are they structuring these deals since that was really the biggest impediment to advisor's interest in joining the independent space.

Louis Diamond:

Definitely. That's the multimillion-dollar question is how are deals structured? I don't mean to give a, we'll say, a vague or kind of a murky answer. But unfortunately, that's all we got today because each individual deal is completely customized to an individual business. Each private equity fund will have a different way to deploy capital. And the way in which an advisor joins a firm, meaning it's a private equity firm investing directly in a business or an advisor merging their practice into an existing firm, is really going to change the way deals are structured. The easiest way to think about it is what an advisor has to monetize is basically their payout.

So there's expenses that are associated with running the business, so office space support staff salaries, marketing, et cetera, et cetera. What's left over is a mix of the profits that today are remaining with their wirehouse firm and then what the advisor's being paid or their payout. If an advisor joins an existing RIA firm, what a private equity firm will do is monetize a portion of the advisor's cash flow or revenue. They'll pay the advisor a payout to keep running the business, and then there'll be expenses. So if an advisor's making, let's say, keep it simple 50% today from their firm, they may knock themselves



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down to, let's say, a 35% payout so that the private equity firm has something to monetize, and the proceeds of that deal will be a mix of cash and stock.

The other thing that is different about the way deals are structured in this part of the world is instead of thinking about multiples of trailing 12, so 300%, 325%, 250%, et cetera, these firms instead look at businesses as an independent business, which is conducting or creating a proforma profit and loss statement looking at what's the EBITDA or free cash flow and putting a market multiple on that. So it's different because the metrics and terminology are a little bit off the beaten path from how advisors typically think of a deal, but that's really the way to think about it.

Mindy Diamond:

All right. So a lot to unpack there. So number one, why would someone be willing to go from a 50% payout to a 30% payout, as you mentioned?

Louis Diamond:

Yeah, and it could really be 25, 35, 40, 42. That's the lever that advisors often have and get to decide, "Do I want to hire payout, or am I looking to monetize more of the business?" I think the short answer, Mindy, is many advisors would not entertain that. Many would say, "I'm growing. I'm working really hard, and I would much rather control more of my ongoing economics rather than taking a deal today." The advisors where this appeals to, I think, fall into two or three different categories. One is an advisor who's fairly close to retiring and they're considering their firm's retire-in-place program, whether it's Merrill CTP, UBS's ALFA program, or most firms have some sort of phase-out program for advisors. So, for an advisor like that, they are already going to get a reduced payout to sell the business to the next generation by going through those programs.

So this isn't that unfamiliar. And obviously, with less time to work, the ongoing payout probably matters less to them. That's one example. The other one would be a team that looks at the amount of cash they can take off the table today and thinking that it's a good investment to unlock some liquidity from the business, invest it the way they see fit, and still have a meaningful payout but have de-risked their business. They also likely believe in the power of the equity. So with just about all of these deals, stock is a very important part of the structure. Typically, there's a customization of the mix of cash and stock, and an advisor would likely only do a deal like this if they really, really bought into the value of that equity and how the equity value might expand.

So while they might get a deal today based upon their business value today, they are looking at what this business is going to be worth combined with everything else the RIA and the private equity firm are doing and saying, "This can be worth 3, 4, 5, 6, 7 times what it is today. So I'm willing to take a little bit less payout or bet a little bit less on myself, and I'd rather push my chips to the middle of the table and kind of bet on this collective firm together." So those are kind of the two, I think, different ways to think about it and why some folks might consider taking a lower payout. But honestly, most probably would



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say, "You know what? It's not for me. Interesting, but I got a long runway, and I'm looking to control more of my own destiny here."

Mindy Diamond:

Yeah. So I think you're 100% right. I think someone close to retirement who was going to sign on to their firm's retire-in-place program is absolutely looking at a lower payout for the balance of their career. And so if they are independent or entrepreneurial-minded or probably more likely the rest of their team, their next-gen of the team is entrepreneurial-minded. Makes perfect sense.

And secondly, the folks that are really interested in unlocking liquidity in the now, de-risking the business in the now, who say, "Would I... Do I want to go from a 50% payout to a 30% payout? No. But I think that unlocking liquidity or de-risking or monetizing in the short term is more important to me, and I have entrepreneurial DNA, so I'm excited about it." So I agree with that in terms of the two categories.

You mentioned that deals are structured, part cash, part equity. Can you give us a sense? Is it 50/50, is it 70/30? And we've often heard for years that advisors looked at equity largely as a lottery ticket, and especially after the financial crisis in 08 when advisors at Smith Barney watched their stock go from everything to zero, people are pretty skeptical in the wirehouse world of equity. So talk to us about that for a second as well.

Louis Diamond:

Yeah, so it really depends upon the firm someone's joining about what the mix is going to be. Like I said, I mean, these deals probably just don't make sense. If someone wants all cash, they likely too would be a little bit too risky for the advisor if it was all equity. So usually, it's a healthy mix of the two. Whether it's 50/50, 70% cash, 30% stock. We've kind of seen it all. So it's kind of choose your own adventure there. The other thing I'll mention I forgot to say it earlier. The way these deals are structured can be largely at long-term capital gains.

So because the firms are buying the personal goodwill of an advisor or having the advisor transition their business into an LLC that will then be purchased after a year and a day, the deal structures can be very tax efficient versus the ordinary income tax associated with a recruiting deal or a retire-in-place program in an employment scenario. So I'll just point that out. But your question about the equity and how to think about it or, I guess, being skeptical of it, I think the answer is many will be skeptical of it. They would prefer cash. They would prefer to control more of their economics.

But if you look at recent history, really every RIA that has taken institutional capital, that private equity firm has been able to make an incredible return on the equity. And what firms do is they'll show a model showcasing what needs to happen for the equity value to increase. So even if the value doesn't increase as much as a firm says, or you might want to discount that. I haven't seen an RIA go to zero. When they sell or monetize, it's typically at least at par, but usually, it's a significant multiple above what it was traded for.

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And I think advisors look at private equity as kind of being the smart money, if you will, and you wouldn't risk your career or your business on a firm that you didn't feel really strongly about. So I think it's kind of par for the course. If you're going to transition the business into this firm instead of staying put or going to another organization, you're already buying the stock, if you will. So why not get more of the deal in stock or get some stock and have another wealth-creation opportunity down the line?

Mindy Diamond:

Yeah. And I think you're right. And it's worth mentioning that if we talk to this about 10 big teams, 10 teams that a private equity firm might be interested in, five would say, "Sign me up. That sounds amazing." And the other five would say, "No way. I don't believe in the equity. I want to have more control over my business. I have no interest in lowering my payout. I don't trust it," whatever it may be.

But I do want to ask you talk about the tax-efficient nature and so... of the private equity investment deals. So how do these deals as they're structured... And I know each one is... it's structured differently. They're customized. But how generally might they compare to someone taking a transition package from another wirehouse firm?

Louis Diamond:

Yeah. So like I said, they're typically based upon a multiple of EBITDA or free cash flow, so it's harder to make it apples to apples. But in deals where we've had the privilege of representing teams that have gone this route on a pre-tax basis. So prior to long-term capital gains versus ordinary income tax, we've seen some deals that can be three and a half or four times trailing 12.

We've seen some that are less because it's a team that's valuing a higher payout or has a large infrastructure behind them. And certainly, for much larger businesses, the multiple can be even higher than that. So it's, again, kind of a wishy-washy answer. But obviously, an advisor wouldn't go this route and especially selling their business, if they couldn't get a deal that was more than meaningfully better than kind of the safer or the simpler model of going to a competing firm and getting a traditional recruiting deal.

Mindy Diamond:

Yeah, I think that's 100% right. So let's turn to, you made the comment, private equity is considered smart money. So my next question is, what's the appeal to wirehouse advisors or traditional advisors in private equity investment?

Louis Diamond:

Yes, it's probably three different things. I think the first one is it's a way to monetize the business in a meaningful way, day one. So instead of needing to go independent, build the business, certainly have a decently long time, usually it's about five years or so before the math behind going independent versus taking recruiting deal really begins to align. They can skip ahead a couple chapters in the book and



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monetize like they would sell their independent business day one or at some point in the future. I think that's the first one. The second one is they believe in the power of the equity.

They want to be part of something bigger than themselves and believe in the private equity playbook of, "A rising tide lifts all boats." That we're being bought at this multiple. We're going to then acquire a business for another multiple together. It's going to be worth much more than it would be on our own. So they buy into the deal-making acumen and the way in which private equity or just an investor, in general, is going to juice up returns on an eventual exit of the business.

And I think third is some of these deals have pretty compelling growth mechanisms attached where the private equity firm has portfolio companies. Those portfolio companies obviously have management teams and executives, and it might be access to those executives as a referral source. So I'd say those three are probably the main ones. And then the obvious one is, depending upon the private equity firm, there might be some curb appeal to having a firm like this invested in the business as a legitimizer.

Mindy Diamond:

So I think you're absolutely right, and I think it might help our listeners to give an example. So I was working recently, not that recently, but probably six months ago, with a very significant team that I had talked to about potential private equity investment and the two different ways to do it to join an established firm or to build their own. He was all over it, thought it was the most exciting thing in the entire world. Loved the idea of the equity. This is someone who's probably generating maybe 18 to 20 million... It's a team generating between 18 and \$20 million or so in revenue, managing billions, very, very focused on growth, and youngish, say, early 40s.

So a long runway. And the most compelling thing, aside from the tax-efficient deal structure and the legitimacy of getting private equity investment, was this referral access to the executives of the private equity's portfolio companies. Why didn't he do it? Because at the time, there were some things going on within his company that were creating some instability and some concerns for him, and he felt that it just wasn't the right time to consider it. But when and if things stabilized for his company and he feels ready to approach his clients, this idea, this notion of private equity investment, would be exactly what he was interested in.

Louis Diamond:

No doubt. I agree.

Mindy Diamond:

Okay, so it's not all peaches and cream, and it's not perfect. So what are the turnoffs or the negatives? And maybe with it, you can share an example of a team or teams that you've spoken with about it who said, "No way, and here's why."

Louis Diamond:

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Yeah. So I mean, honestly, there's a lot of negatives or perceived negatives. It really matters more about someone's perspective, and where they are in their career, and what their goals are. I'll give you a couple, though. So if a team is selling their business or merging their business at the time of transition, their business is going to be at a low point as far as its value. A buyer doesn't really know what's going to come over, although obviously, they have to have some degree of confidence, as does the team. And there is a fairly limited pool of potential buyers, which means you're not selling your business on the open market like you would in existing independent business.

So that's one is just the deal structure might be more backended or more earnout based kind of less certainty for both the investor and also for the team. And they're not really able to create an extensive market for their business like they might if they were an existing independent that owned the relationships and you knew with pretty much a hundred percent certainty what would come. The second negative is you're selling your business. We're transacting your business. So typically, or almost always, you're going to be signing a pretty onerous set of employment documents, non-competes, non-solicitations.

It's non-protocol now, even though you might transition in a protocol way. So it's really going to be the last move you make. And you may say, "Why would I sell my business now and monetize a portion of it or all of it when I still have many years left to work and a lot of growth left in the tank? Why wouldn't I just wait until I'm closer to retirement, the business is much larger, and I'm more comfortable taking a lower payout?" And then I would say it's also the fact that many advisors just aren't comfortable operating in the RIA channel. So we saw this with in kind of the First Republic events of a couple of months ago. Many advisors looked at what happened to First Republic and kind of fell on two sides of the ledger.

One said, "I need a balance sheet if I'm going to change firms." And I'm looking at big firms with big brands who have a bank in-house and others who say, "I prefer more of the family office model," which you find with RIAs, which is not having a balance sheet and having multiple lenders as an example to compete for the business. So I'd say it's those three things. It's the value of the business at time of sale. It's selling... kind of the timing of the sale and the employment documents you sign, and then just whether the RIA channel makes sense for a business or whether a more traditional brokerage firm or financial institution is going to meet the mark.

Mindy Diamond:

So I want to clarify something because I think those are the exact right reasons why a smart and savvy team may not be ready for an investment like this or not interested. But I want to clarify something. Despite those negatives, and despite the fact that probably the majority of teams that might be approached about this will not be interested in it for one reason or another, we still believe that this is going to be the next big thing for the industry.



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And the reason we do is because we think that private equity investment in the industry, in general, is going to raise valuations and, in general, make wealth management businesses more valuable. So Louis, given that, how do we connect the dots between, we're saying a lot of teams are not going to be interested in this, and yet we still believe it's going to be the next big thing.

Louis Diamond:

Yeah. So I mean, similar to why we're seeing right now as being a very rich time for advisors considering change, we call it a seller's market it's because there's more than just the traditional wirehouses that will bid for a team. It's the Rockefellers, the Raymond James's, the RBCs of the world, and now you have a new category of very, very deep-pocketed and sophisticated investors that can bid up the price for a team. So the way to think about it is, if you are an advisor considering change, you're doing your homework, you're working with a firm like ours or on your own. Our job is to set a discreet market for a business.

We would say, "It makes sense to look at wirehouses to kind of have a more familiar comp. It makes sense to look at boutiques and regionals to see if that kind meets the mark." So now you've got all those bids in the ring, but now we also have this other kind of wildcard that could make the value even higher. So even if a team says, "You know what? It's interesting, but not for me." They may have an offer in hand that's far greater than what they can get from another firm, and perhaps they can use that to leverage a better offer.

Or another way to think about it is if this does become kind of a norm or it becomes a, we'll say, a more durable part of the wealth management ecosystem, other firms will have no choice but to either change their deal structures to compete or raise the bid to retain teams or to win business. So I think that's exactly right. It's just supply and demand. And the way the market works is if you have a new option that is going to meet the mark of what other deals are. Naturally, either the bid goes up or firms are going to lose advisors. And I don't know if they're comfortable with that.

Mindy Diamond:

Yeah. I think that's exactly right, and I actually appreciate that connection there. But yet you and I have spoken to a number of top teams about this, and they're not interested. So give us an example of a team that said, "Interesting. Thank you for putting it on my radar, but not what I want."

Louis Diamond:

Sure, yeah. Probably the examples I was giving before about why this wouldn't work. You could think of an example of a team that kind of meets all those criteria. So I'll give you one. It would be a multi-generational team. Let's say it's a father and it's a daughter. The father likes the idea of this. They're going to take their firm's retire-in-place program. It makes sense financially. But they don't want to lock up the business in perpetuity with a new buyer. They would like for their daughter to be able to move



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the business again or go independent. They also aren't interested in having their child have a much lower payout.

So that's an example. Another one might be a young team that's growing at 15 to 20% per year. They may look at this and say, "Interesting. I like the idea of equity. I like the idea of monetizing a piece of the business. But if I... why don't I go independent, or why don't I go to another firm and come back to this idea in five to 10 years when I'm two times bigger or three times bigger?" So I think those are kind of two different avenues. One is a team with an older and younger advisor who isn't looking for a permanent option for the business. The other one is a team that's growing very quickly and isn't looking to sell the business.

Mindy Diamond:

Yeah, I think that's exactly right. So is this happening now? Are there any examples of wirehouse teams where private equity firms have made investments in them?

Louis Diamond:

Yeah. I mean, I'll give you a couple. And there's many that are kind of under the radar or unannounced, or we have knowledge of some... many that are coming down the pike that we aren't at liberty to share. But a couple that are public, and we can talk about Rob Sechan, another podcast guest. A couple of years ago, he moved his 5 billion dollar team from UBS Private Wealth in the New York City area, partnered with Parthenon Capital, the private equity firm, to launch NewEdge Wealth. That's a great example. He then actually has gone out and created a model where he's going to acquire wirehouse teams.

An example would be Ghislain Gouraige, who was a very large private wealth team who sold or merged his practice into NewEdge. So that's a great example of kind of both a direct investment that Rob took. But also using an existing RIA to acquire a business. A couple of others. Melissa Bouchillon was a podcast guest. She was a Merrill Regional director managed a little bit over a billion. She sold a portion of her business to Focus Financial, the largest private investor in the space. Focus has probably done this at least eight to 10 times with teams where they invested directly in a team in transition. Like Bill Loftus of Coastal Bridge was a Merrill Private Wealth team that did this many, many years ago.

So anything through Focus is kind of this concept as well. A few others. Cresset, a very large family office RIA. They're not a private equity firm but they are acquiring businesses in a similar fashion. And they've made a whole business of acquiring JP Morgan private bankers, and private bankers from across the industry. And then another one. This one will be interesting, so a bit of a wrinkle. But recently, it was announced that Tom Naratil, the prior head of UBS, took a job as an operating partner of Lightyear Capital, a very well-known financial services-specific private equity firm. And we're going to watch very closely to see what his involvement's going to do. And there's many, many other examples.



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I mean, really think of any platform that's in the independent space. Steward Partners, Sanctuary Wealth, Dynasty all have received private equity capital and are looking at buying teams or recruiting teams. So even if you think, "This phenomena isn't happening," really, look at every firm that's recruiting in the independent space, and there's likely some sort of institutional capital at play and many, many others coming.

Mindy Diamond:

Yeah, I think that's actually an incredibly good point. It feels like this is a little bit we're saying the next big thing and implying as though it's new. The truth of the matter is private equity has been invested and fueling the space, fueling the breakaway movement, and fueling the space for years.

So let's wrap up. I mean, this has been enormously interesting. You and I are incredibly jazzed by this topic because we really believe it's going to have major impact on the industry. But let's make some predictions here on how we expect this trend to take shape as we wrap up.

Louis Diamond:

Yeah, so I think what we're going to see the next year or two is this is going to capture some very large teams both on the direct investment but also probably on a more prolific basis with existing RIAs with private equity acquiring wirehouse practices. So hard to say what percentage of the market this is going to capture. I think even if it's five to 10% of it, that might even be generous. That's a pretty meaningful dent. And like we said, there's more and more coming.

So I think, at a minimum, we're going to see that. And I think, like the question you asked, how is this going to impact the market overall? I do think this will ultimately increase the valuations on practices and transition. And competing firms, traditional firms will have no choice but to wake up to it and either change their deal structures to become more creative or more advisor friendly.

We've already kind of seen that begin to happen or increase the bid they're paying overall, especially if a traditional firm can't compete with long-term capital gains. So that's my prediction is even if it has a five to 10% kind of share of advisor moves, that's meaningful when you think about all the billions of dollars that's at play and where those advisors may have landed if it wasn't for this. What do you think?

Mindy Diamond:

I agree with you 100%. And while, again, if we spoke to 10 teams about this, five would say, "Sounds so interesting." But four of the five would say, "But not now or not ever, or Here's the reason why I can't or I won't." But I absolutely agree with you that over the next year or two, we are going to see some of the biggest teams really disrupting the industry by not moving from Merrill Lynch to Morgan Stanley or Morgan Stanley to UBS. But by moving to one of these, either to build their own independent firm with private equity investment or to join an ever-growing number of private equity-backed independent



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platform firms and large mega RIA firms. So the bottom line is we have been saying this, you and I, for a long time, that it is very much a seller's market.

As you mentioned, more competition for top advisors is good for everyone, clients included, and it's a great time to be an advisor, particularly a profitable and productive and growing advisor. So you and I are keeping, and our whole firm is keeping very, very close watch on this trend. We are involved excitedly in many of the transactions and promise to keep our listeners up to date as things evolve further and teams move. And we have a lot of these, both investors and sellers, the advisors themselves slated to join us on the podcast. So, Louis, I love this topic. Love, love, love this topic, and thank you once again for joining me.

Louis Diamond:

Yeah, absolutely. And anyone who's even just curious about what's their business worth, does their business fit, or even just getting an objective consultation on how this concept applies to them, please feel free to reach out to Mindy or I. No obligation, free of charge to you, and we'd be happy to, in a very succinct way, bringing you up to speed on this mega trend.

Mindy Diamond:

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 articles link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full-on exploration requires.

You can feel free to email or call me if you have specific questions. I can be reached at (973) 476-8578, which is my cell, or my email 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. You can see our website for more information.

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