MINDY DIAMOND ON INDEPENDENCE
A PODCAST FOR FINANCIAL ADVISORS CONSIDERING CHANGE

EPISODE TRANSCRIPT

Two $10mm Teams Leave the Wirehouse World in One Week: An Industry Update on Advisor Transitions

A conversation with Louis Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is, Two $10mm Teams Leave the Wirehouse World in One Week. It's an industry update on advisor transitions with my partner Louis Diamond. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

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In two consecutive weeks in February of this year, we facilitated the moves of two extraordinary Merrill teams, superstars producing more than $10 million each. So why is this so relevant that we opted to discuss it on the podcast? Because it's rare for any team at that production level to make a move, let alone from the same firm and within a week of each other. As we've shared many times and illustrated most recently in our transition report, advisor movement has changed over recent years with plenty of factors driving that movement. But there are significant and often unique motivations that drive an individual advisor or team to consider change. So we thought it would make sense to discuss these moves in greater detail from our unique perspective, having served as their guides through the due diligence and transition process, I've asked my partner Louis Diamond to join me. There's a lot to discuss, so let's get to it. Louis, as always, I'm happy to talk shop with you.

Louis Diamond:

Me too. This will be a fun episode to get in.

Mindy Diamond:

You bet. So first and foremost, we just want to give the disclaimer that we have not launched this episode or not talking about this to disparage Merrill. Even though both big teams that left, left Merrill, what really we are paying closest attention to is the number of big teams that are leaving big firms. And it's rare to see $10 million plus teams move, because there are many different considerations. So Louis, let me ask you probably a good place to start. How unusual is it for $10 million plus team to leave? And I guess what are those additional considerations that a smaller team might not have to consider?

Louis Diamond:

Yeah, it's a good question. So in years past, there was only a handful of $10 million plus teams in the industry. Now, with the ways that advisors businesses grow and compounding, there's certainly more than a small number of $10 million teams. But still those teams tend to be the most entrenched within a firm and for good reason, they're extremely successful. They're usually growing faster than the industry norm. They kind of have the firm unlocked. They know how to access resources, they get special treatment oftentimes, and they know how to do everything that they need to. And clearly from a growth standpoint, there really isn't anything wrong. So it is somewhat unusual to see two leave. My guess is in any given year, there's probably less than five $10 million teams that change firms. So the fact that we saw two from the same firm within seven days time, I think is pretty remarkable.

And then you asked about what are the things that a longer tenured $10 million plus team has to think about that maybe a smaller team doesn't have to, or maybe it's not as important to them. I think the biggest thing is headcount. These teams tend to have many more folks on the team, so more stakeholders at play, more CAs, more investment folks, more advisors. So it's harder to corral such a large team from a headcount standpoint and make sure everyone's on the same page. I think another thing is they have a little bit more to lose, a $10 million business, and these advisors were taking home millions of dollars a year. They also had mega deferred comp balances they're leaving behind. So those things certainly are pretty major that if this transition didn't go right, they're kind of disrupting this amazing momentum they have. Not to say that a smaller advisor doesn't have a lot to lose, but from a pure dollars and cents standpoint, these big teams probably have a little bit more that they're looking in the rear view about.

Mindy Diamond:

Yeah, and I think we will see that as we talk about the inside baseball around both teams, because what you will see or what we will talk about is the fact that both of these teams had come to the due diligence table that is earlier in their careers and opted to stay put. That is also something that's typical of big teams is that they usually don't just wake up one day and say it's time to move and then move. It's usually something they're sort of considering over time. Do you think that big teams think of their business more as a business than say a $2 million team might? And what I mean by that, just to clarify, is we talk a lot about how one of the things that's really changed in advisor mindset is advisors thinking about their business as a business and the notion of how to maximize enterprise value at days end. Do you think that's something that bigger teams think about?

Louis Diamond:

I think it's not necessarily fair to say only big teams think about their business as a business because as you said, that's the big shift. I think across the advisory universe, certainly teams of this magnitude, they are more in the enterprise category, especially for the Chappell group that went independent. Immediately their business is worth tens of millions of dollars, probably two to three times more, and even more if you look on a net basis after taxes, if they sold it on the open market than the same business through CTP at Merrill. So certainly the dollars and cents are more compelling, but I think every team is looking at their business as a business. But these larger teams tend to be more institutionalized, more structured. They have dedicated investment folks, they have specialists on their team and they have advisors that are either serving their own segment of the book but come together with a larger service team or it's more of a super ensemble where everyone's growing in the same direction and serving the same client base. So I think larger teams just given their scale, they can operate more like an RIA might, but I think every advisor of all ranks is thinking of their business as a business these days.

Mindy Diamond:

Yeah, that's a really fair statement. And that notion of advisors thinking of their business as a business might have started at the upper end of the advisor spectrum, but I think we're finding advisors of all sizes today really thinking more about the enterprise that they're building and not just the practice that they're running. Let me ask you another question. So these two big teams happen to leave Merrill in one week. Are big teams only leaving Merrill or other firms as well?

Louis Diamond:

Certainly not. No. I mean, look, Merrill as one of the four major wirehouses certainly has many large teams of this caliber. So first off, kudos to Merrill that they have advisors like this because not every firm has that. But no, we do see teams like this leave other major firms too. Even just thinking back to past podcast casts like Rob Sechan who left with Jeff Kobernick a couple of years ago with $5 billion under management. That's one example. And every firm, Morgan Stanley, Wells Fargo, et cetera, they lose teams like this. Although I can't really think of a time when two from the same firm and of this size left so close together.

Mindy Diamond:

Yeah. So let's talk about the reasons why top teams are leaving, and in doing so, it'll highlight that it's not just about Merrill, it's not that there's something inherently wrong with Merrill. They're leaving big firms because in a lot of cases they're looking at different things. So I guess I'd start with, one, these teams are thinking more long-term and worried that what got them here may not get them there. That all the things that they've relied upon in the past while serve them incredibly well, and not at all an indictment of the past, but as they look to do bigger and better things, they recognize that there are more things they want to do for clients and wondering if they can do it where they are. The second thing is this notion of thinking of the business as a business and holding that business to a different standard than they might have in the past, a higher standard, looking to take the business upstream.

I think the third thing is probably again the statement that is true at all big brokerage firms that as long as an advisor is an employee and doesn't own the business, they are managed the lowest common denominator. And there are frustrations that will limit them to what extent they limit them. Certainly not every $10 million team is going to leave, but it is the fact that there are more pushes, if you will, at play at big firms these days than ever before. Things like increased bureaucracy and managing to lowest common denominator and heavy-handed compliance and a feeling I think of vulnerability to termination. And that's a big thing. So let me turn it over to you and I'll let you take the rest of the list, but ask you, do you think that big teams are more or less vulnerable to termination than smaller producing counterparts?

Louis Diamond:

Yeah, it's a good question. I would say that, and this is probably new, larger teams are more vulnerable than smaller teams these days. It used to not be the case. We used to hear that if you're doing more than $1 million worth of production, you could really do whatever you wanted and your manager was going to have your back, and as long as it wasn't something criminal, you probably could avoid termination. Now many of the terminations we see, it goes up and down the board as far as size, but we do see a handful of billion dollar plus advisor teams get terminated every year. I think part of it is the firms believe if they terminate a larger team, they have a better chance of retaining those assets than they otherwise would. And obviously there's more assets at play and usually larger teams, if there was an issue, it could potentially be a larger issue than if it was a smaller advisor.

So firms are a little bit more risk averse and cautious than if it was a smaller team. But the answer to the rest of your question, I would also add to your comment about pushes that similar to terminations kind of being avoided for larger teams, we used to hear that large teams, they had the firm leadership on speed dial, they knew how to get exceptions, they knew how to get around some of these limitations and frustrations that other advisors were feeling because of their size. Their manager would take a bullet for them, they had preferential treatment, they got extra resources, whether it was the top CA that was interviewing that week or new trainees. And all that's kind of changed, where now, I think many advisors report that all advisors kind of feel the same, whether you're a $300,000 LOS 20 advisor or you're a $10 million plus team, you're kind of treated the same way.

So some might say that it's only fair, they're still people, but this business is a meritocracy and big teams, especially ones that move, they're looking to be treated differently because of their professional standards and because of their accomplishments. Let me also add a couple of others to this list of why big teams move. In this environment, there's certainly more pulls. We're seeing more options and certainly new options in this kind of mini case study, Rockefeller and Sanctuary Wealth, neither of which really existed over five years ago. So many, many more options than ever before, especially for larger teams. It's not just going to another wirehouse that's on the table, it's many independent options. It's high-end boutique options and everything in between. So with more choice comes a better chance, that advisor kind of hits the nail on the head with what they're looking to solve for.

And it already existing, or in the case of the Chappells looking to build something because in their view, there wasn't anything out yet that met exactly what they're looking for. Another couple of items is deals. So neither of these teams we can report from personal experience moved because of the deals, but still, for many large teams, valuations have gone up for practices, not just at the RIA M&A level, but also for moves in the traditional space and bigger teams fetch higher multiples. And we have seen deals hit a high point. So a lot of folks are looking to capitalize on that, especially when we've seen a bit of a market rebound and we're not really sure what the next couple of months hold. So let's now pivot to where are top teams going. It's a hot concept. We certainly hit on it in our newly released transition report, but I'll ask you Mindy, where are top teams going and how are they being compensated in order to do so?

Mindy Diamond:

There is no one clear winner, that is for sure, that has played out. When we talk about these two case studies, they've gone to two disparate, not only firms, but disparate sort of parts of the industry. And today, an advisor is as likely to move from one wirehouse to another as they are to go from one firm to a regional firm, from a wirehouse to an independent, to a regional firm to a regional firm. And we talk about it a lot in this advisor transition report that we've just recently launched. It talks about there are tombstones and all sorts of case studies about advisors that have moved, so we would refer you to that. But the thing about compensation is, as you mentioned, Louis, the deals, no matter what corner of the industry and advisor is going to are the biggest we've ever seen. 27 years ago when I started the business on my bedroom floor and I would call an advisor, their line to blow me off and get me off the phone was call me when deals get to 100%.

Now that's laughable, because today an advisor in the independent space can get 100% and that's unheard of. But advisors in the traditional space, we're seeing deals today with a four handle, more than 400% of trailing 12 months production. Of course that's not all upfront and every deal is structured individually and lots of caveats, but pretty crazy eye-popping numbers all over the place.

Louis Diamond:

Yep, I would agree. And also I would put in that category, the advisors that go independent and do it with zero upfront capital, so they're self-funding that launched the business or maybe they move to a platform and get 30% or 40% of their trailing 12, even though they might not be getting a big deal today, we're still seeing RIA business valuations at a high with the higher cost of capital for many private equity funds. So far we haven't seen that put a damper on RIA valuations. So aside from we call it the short-term deals that one can get from moving from one big firm to another or from a large firm to a boutique firm, on the independent side, the valuations when someone sells their practice are as robust as ever and really aren't seeing any signs of slowing down. So short-term orientation, medium-term or long-term, it's a really good time to be an advisor, especially one that's looking to hit the bid.

Mindy Diamond:

Heck yes, I couldn't agree with you more.

All right. So now let's talk about what I think a lot of people are tuning in for is let's talk about the inside baseball or the stories behind the two deals. So I will take the first one, which is The Jones Connolly Pollock Group formerly of Merrill Lynch in Winter Park Florida. In full disclosure, Barbara Herman, who is one of our top recruiters, facilitated this deal. So I am representing the information that Barbara shared with me about the team. The Jones Connolly Pollock Group is an 11 member team that generates about $10.5mm in revenue on $2.5B in assets, and some of those assets, the focus of the business is on ultra-high net worth clients, but they do do some business with endowments, foundations, and nonprofits. They moved on February 17th, 2023 to Rockefeller Global Family Office. When I asked Barbara, what was the main reason for the move, while this team was certainly interested in acting more as a fiduciary and certainly talked about some of the frustrations that most wirehouse advisors talk about, for them it was much more about a pull to a model that would allow them to do what they couldn't do at Merrill or to do it better than it was about a push that came from frustrations.

And Barbara said that many years ago, I don't know how many, but years ago, the table was explored as well, and there were just worn options that seemed better enough. That happens a lot with big teams. What they were excited about being able to do at Rockefeller was to access unique customized resources such as tax and estate planning and high-end alternatives. Rockefeller has a focus that is congruent with the team's vision and client needs and those needs meaning to double down more on working with $10 million plus clients. They loved Rockefeller's true wealth planning approach, the multi-family office model, if you will, and loved that it was a bespoke partnership. While they looked at independence, probably a decade or so ago, they probably asked curiously about other firms or models, but Rockefeller to them really represented the best of both worlds. And I think the final thing that is really worth mentioning, and then I'm happy to ask any questions you might have, Louis, is that the team was in major growth mode.

And one of the biggest things that keeps big teams or teams of any size from considering a move that they might otherwise consider is not wanting to disrupt momentum. So when I asked Barbara how could they be willing to justify it? It was because, one, they wanted to be the first team, the Beachhead team to really put Rockefeller on the map in the Orlando or Winter Park Florida market. And two, because they believed that by joining Rockefeller they'd accelerate their growth greater than they would despite whatever disruption to momentum that a move would cause. So clearly a fabulous team, a fabulous move, and one that Barbara was and Diamond Consultants was really honored to have facilitated. So Louis, why don't we pivot to you and have you talk about the Chappell Wealth Management Group.

Louis Diamond:

Absolutely. I was fortunate to have met Brad and Brent Chappell and their team probably about three years ago. I personally guided them through their due diligence process. I have to say, I'm not just saying this because we're being recorded, probably some of the nicest, most down to earth and humble people you would ever come across. Vince Fertitta, who's the President of Sanctuary, I remember when I introduced Brad and Brent to him, he told me a parable about their father, Robert, who just finished up CTP recently and has since retired. But when he was training advisors in the field, he would talk to the people about being a Robert or think it was being a Mike or a Bob. And to him, Robert was the humble, very successful advisor who you can bump into in the coffee room and would never know he was a knockdown success.

So to me that says it all, it's humility and also quiet confidence that I think that Robert instilled in his two sons. So these guys were in the Woodlands, outside of Houston. They built the business to well over $10mm of annual production, about $1.5B in assets serving the high net worth, not the ultra-high net worth like Jones Connolly, but I would say the comfortable high net worth. And they really prided themselves on having a brand that the Chappell Wealth Management Group, and coincidentally that's the name of their independent firm, which you don't always see of being a real institution in the market that people across the board knew the team, knew the legacy, et cetera. With this team, they certainly could have stayed at Merrill. That was always on the table and that was really the plan B, was we go independent and we find something that gives us the support and scaffolding and resources that we need or we're just going to stay.

And ultimately, obviously they found something where they felt like their needs were met, but they would've been very comfortable staying at Merrill because it was just that comfortable. The tech was good, the platform was certainly good enough. They used all of the firm's CIO models, which was a very cost-efficient way to manage assets in a scalable way. So they got maximum value from the firm. The reason they even considered moving was to really create a legacy. So Robert had started this legacy at Merrill in the '80s, and then Brad and Brent took the baton a number of years later, and both of them are in their early 40s and really took the business to new levels. But they knew if they wanted to bring their kids into the business and their kids after that, that it wasn't going to be on a platform like Merrill.

It had to be at a firm that they owned where they could control every little decision from the branding, to the technology that they used, to the custodians that they offered, to investment solutions on the platform, to how they monetize their team members, to who they hired, to every little thing that the firm did. They really wanted to create this legacy. So to me, that was the big push. Of course, they had some frustrations with the one size fits all marketing and bureaucracy and compliance, but this was much more about eye on the horizon rather than running away from something. With this team, they knew from the start, if they moved, they were going to be independent to them. Anything else just wasn't going to move the needle enough. Certainly a Rockefeller would've been very interested in them and they saw the appeal, but they wanted to be 1099s.

They wanted to own their own equity so any wires were off the table, even though they knew how much money they could get, they really didn't consider starting their own registered investment advisor from scratch because while they were amazing practitioners, they were also focused on bandwidth and efficiencies in their practice, focusing on their families being pillars of their community. And they felt that if they had to do everything that it takes to run an RIA from the ground up, that they would've had their attention diverted and their highest and best use of their time or their unique abilities was in bringing in clients and relationship management and thinking about the business rather than compliance and tech and HR and facilities. So it was pretty clear what they wanted. They wanted supported independence, and in this case, they had a decades long relationship with Vince Fertitta from Sanctuary.

He was always good to them, kind of brought them into the business and it was, honestly a match made in heaven. They were able to solve for some capital needs to extricate themselves from a CTP arrangement. They were able to have some seed capital to launch the business. And then most importantly, they thought that Sanctuary's model of supported independence gave them exactly what they needed to be successful. So I'll pause if there's any other questions to answer, but to me, this was a textbook case of a multi-generational team focused on the right things in the big picture and they were clear-headed with what they wanted and once they knew that they were going to go, nothing was standing in their way of executing on the plan.

Mindy Diamond:

And I forgot to mention when I talked about the Jones Connolly Pollock Group that like the Chappell Group, that group, three of the four partners were also lifers with Merrill, one 38 year Gregory Pollock, LOS 38 year, Sean Connolly, 20 of 23 years with Merrill, and Garrett Jones, LOS 21 years all with Merrill. So how often do we see lifers move and the fact that not only two $10 million teams move in a week, but two lifer $10 million teams, and in the case of Chappell a multi-generational lifer team moves, what does that indicate?

Louis Diamond:

Yeah, it's exactly right. The Chappells, Brad and Brent, I mean they grew up going to Merrill events. It was their dad's only employer for the most part as well. So to me it means that the firm that all these folks joined had changed, and changed more than a little, otherwise they would've stayed. Clearly they were successful and if they were at this firm for this long, something clearly had to change. It wasn't just the opportunities that they ran towards, it was also something that was pushing them. I think it's also notable that there's been comments by really all of the leaders at the major brokerage firms talking about, or we'll say minimizing what it means when advisors leave. They talk about advisors chasing checks and the people who leave are mercenaries. Clearly in this case, these teams left, they were making one moves in their career and they could have left 10, 15, 20 years before and been a lot richer. So in this case as well, it's clear that both teams were focused more on the long-term and they weren't just those that were chasing money.

I think that just about does it, but I would be remiss not to circle back around and let's recap how these two case studies could be made relevant to advisors at any firm and for advisors with any size business. We highlighted these two moves because they were extraordinary teams that happened to move in similar time periods. And honestly, had much commonality between them. But to me, the major learning of this, is number one, no matter the size of a team or the size of a business, no matter how much a team has to lose, if you get a feeling of incongruence that what you're trying to accomplish no longer meets the agenda or the goals of your firm or your platform, that you always have an option, regardless of whether your firm's part of protocol, whether you own the business or not, whatever your firm's view on that is too.

If there's a will, there's a way. And in these cases that it's a big transition, it's a big book of business, but if these folks can do it just about anyone can. I think that's one learning. Another one is that the options for teams of any size are greatly expanded. Again, we said this earlier, five years ago, these moves wouldn't have happened or they would've happened to Morgan Stanley or to Raymond James or to Schwab. They wouldn't have happened to Sanctuary Wealth or to Rockefeller. So the industry keeps evolving. This is the deals we're talking about now. Five years from now, it's probably completely new names and it's a really exciting time for advisors, more options, biggest deals we've seen, and really, really good and sophisticated support for those looking to transition, whether it's independence or in the employee world. Anything to add, Mindy?

Mindy Diamond:

The only other thing I'd add, certainly well said, is the notion of how you justify disrupting growth? Especially after a good year and advisors having some of their best years ever, even despite volatile markets, it's hard to justify growth, and that often is the number one thing, as we said, that sort of gives a team pause, I'm doing well enough. Yeah, it may be imperfect here. Yeah, it may be interesting to go there. Yeah, there may be things I want to do elsewhere, but how do I justify disrupting the momentum? And the answer is maybe you don't. That's a personal decision, an inside job. If you talk to 10 teams, five will opt to say, good enough isn't enough and I want more. And the other five will say, good enough is more than good enough. I think probably the threshold question comes down to how long a runway you have.

And in the case of both of these teams, we've just highlighted both were relatively young teams with long runways, and so they would not have been satisfied with the status quo if they looked back at the end of their careers and were still at Merrill. I think that's really the threshold question.

Louis Diamond:

Agreed.

Mindy Diamond:

Louis, I love this conversation. I always love talking with you because I think it's a good, spirited conversation, but I loved it because we have a lot of gratitude for the work that we do and the privilege of guiding these advisors. There's a lot of exciting things to talk about. It's certainly coincidental that these two moves happened within seven days of each other. It's exciting. It's an exciting time to be an advisor, and we really feel privileged to be at the center of it.

Louis Diamond:

I do too. Thanks for having me.

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A conversation with Louis Diamond.

Mindy Diamond:

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