Steward Partners Revisited: Jim Gold Offers an Insider’s Perspective on Why Supported Independence is Thriving

A conversation with Louis Diamond and Jim Gold, CEO and Founding Partner of Steward Partners.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Steward Partners Revisited: Jim Gold Offers an Insider's Perspective on Why Supported Independence is Thriving. It's a conversation with the CEO and founding partner of Steward Partners. I'm Mindy Diamond, and this is Mindy Diamond on Independence.

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It was back in March of 2019 that Jim Gold first visited our show. At the time, Steward Partners was just over five years old and already considered a success with 104 advisors in 17 offices and almost $11B under management, while still operating under the Raymond James Independent Contractor platform. Here we are today, three and a half years later with less than a decade under its belt, Steward is managing some $27B in assets, with 350 partners, 200 of which are financial advisors in 30 locations throughout the United States. Steward has expanded their custodial options, making headlines as one of the first to sign on to the Goldman Sachs Custodial platform. The firm now offers a 1099 option as well as the original W-2 path.

What's changed since we last spoke with Jim? How has the firm evolved over the years? What's driving all of it's growth? Where is the firm headed? Jim shares all of that and more in this conversation with Louis Diamond. There's a lot to discuss, so let's get to it.

Louis Diamond:

Jim, thanks so much for joining us again.

Jim Gold:

Oh, my pleasure to be here. Thank you, Louis.

Louis Diamond:

Very good, so for background, can you explain your history and journey up to launching Steward Partners back in 2013?

Jim Gold:

Sure. Yeah, so I started in the industry back in 1995 at Smith Barney, so I was a financial advisor trainee. Went through the training program there, and as I like to say, Smith Barney tricked me into branch management. They said I was going to make a lot of money and have fun. I spent a bunch of time in management at Smith Barney. I started out as a national training officer. Went on to be the Assistant Manager in a large office up in Boston, Branch Manager, Complex Director. Then, ultimately, was at Morgan Stanley through the merger for about three to four years prior to launching Steward, as you said, Louis, in 2013.

Louis Diamond:

Outstanding, so 2013 you decide to launch Steward. What was the motivation behind it? On this show, we talk to a ton of breakaway advisors, so those advisors who have the itch to become business owners, and they have a vision. They want to accomplish something, but a little bit different for a manager without a book of business so, what was it that kind of was the light bulb moment for you back then?

Jim Gold:

Yeah, it's funny, Louis. I think it's different, but it's not, and I tell people we talk to who are thinking about breaking away that, "Hey, we went on the same journey you're on and we had a look at all of our options and say, 'What is the best path forward?'" Sometimes, listen, the best path is easily to stay where you are, so in my mind... I'm one of the co-founders of the firm. I think we looked at and saw the flight to independence really starting to pick up steam at that time almost 10 years ago now. We were fortunate that we were correct and the trend has not dissipated at all. As a matter of fact, it's actually accelerated, but I think it really was the opportunity to say, "Look, if you're not happy where you are, whether you're an advisor or a manager, you can take the step and say, 'Hey, I'll try and build something myself.'"

Whether that's a microcosm of a team or it's building an entire firm, and I think people talk about the risk in doing that, and I never really felt it was a risk because I looked at it and said, "You know, if I try to do this Steward building-a-business opportunity and it's not successful, I'm no less qualified to be a complex manager at a wirehouse firm." In some ways, I'd say I'm more qualified because I'd have a broader level of experience. To me, it was a trade and a leap of faith worth taking, and feel fortunate to have spent a lot of time in that wirehouse model and learned they do a great job in training branch managers. I think really had all the skills I needed to help be part of the formation and the running and building of Steward.

Louis Diamond:

It's a pretty fascinating take that you saw it. Of course, it's a risk. You had a family. You had a steady paycheck and a really, really good job, but that you didn't really see it as a risk because you could always go back to what you were doing. If you struck out or it wasn't as successful, you had options, so it was more you saw something, wanted to take your shot, but it wouldn't be the end of the world if it didn't hit. Luckily, I think it was quite the opposite where I'm going to assume Steward Partners is the last job you ever have.

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Jim Gold:

Absolutely. Yeah. No, and I actually... I felt it was a greater risk not to take the chance. I really did.

Louis Diamond:

Absolutely. Amazing, so back in 2012, 2013 when you were formulating with your co-founders the idea of Steward Partners, what did you see as the gap in the marketplace? With really most good businesses, they're created because there's something that isn't quite there, or there's an idea or concept that you believe as the entrepreneur should be developed. What was that kind of gap for you as you look to cross the new and booming breakaway marketplace and saw other firms that were out trying to compete in a similar way?

Jim Gold:

Yeah, I think there was three things in particular, Louis, we focused on... I think culture was a huge gap and especially coming out of the wirehouse model, people would generally say that, "Hey, I think my best days are behind me now," and that's not a great way to live or go to work every day. The second was true equity ownership and partnership, and really you care about the company you represent when you're a shareholder. It's a very different dynamic than you're an employee and you're employee number 5179Y.

I think the third part we saw, which I still think exists today, is we talk about independence with infrastructure. There are many advisors that have, I think, a keen interest in independence, but say, "You know, I don't want to run an office and I don't want to be the landlord and I don't want to do payroll. I don't care why the printer's not working. I want someone else to those things for me." We've always started out with this concept of running a local concierge-level services, boots on the ground, operations managers, risk officers, branch managers, coaches. I think that gap still exists today, and I think all three of those gaps still exist today at the wirehouses, and certainly, I think, in some forms of independence, those gaps are there today as well.

Louis Diamond:

When you launched the firm, you're saying there weren't any other companies that you saw that had all three of those attributes?

Jim Gold:

Correct.

Louis Diamond:

Very interesting. I think that back then, it's a long time ago, but we had Hightower was kind of new on the scene and, hey, they're offering equity and probably something somewhat similar, but certainly the ecosystem and the number of options was very different than it was today. I would say even today, you still have a very unique and innovative business model, but I would assume back in 2013 we probably had a little bit more green space.

Jim Gold:

Yeah, I would agree. I think the two big names at the time were Hightower and Dynasty and I think, again, very different forms of independence from each other and I think different from us. As you said, there wasn't that boots on the ground, as a good example, that independence with infrastructure. I think there's home office resources and helping you launch a firm and, obviously, Hightower at that time was offering equity, but again, as you said before, they had some of the pieces and parts of Steward. Look, I remember telling people, "We'll be as big as Hightower and Dynasty someday," and people literally laughed in our faces, which was okay. It's always going to be right long term.

Louis Diamond:

Right, you got to have that vision.

Jim Gold:

That's it.

Louis Diamond:

Back when the firm was just launching, you're thinking about recruiting your first couple of advisors. How challenging was it to attract advisors to Steward? Even today, no offense, but Steward isn't a household name with clients. Most advisors probably aren't even familiar with the brand. Hopefully, we'll change that a little bit today, but how hard was it to attract advisors to a firm that was brand new? It wasn't a big, flashy name like UBS or Smith Barney or Morgan Stanley, and it wasn't even as established as Hightower.

Jim Gold:

Yeah, honestly, I look back and I kind of joke about this now, but I don't know why the first people ever joined our firm because we would go to our pitch on really at that time what was the vision for Steward. There was no deliverable, and you think about those conversations, they would say, "Well this sounds really interesting. How many offices do you have?" "Oh, we don't have any offices." "Oh, well, how many advisors do you have?" "We have zero." Or, "We have one," or, "We have three." You really think about people joining Steward in the earliest days, they were truly the people getting on the Mayflower and saying, "I want to go to the New World and the New World has to be better than where I am." They made I think a greater leap of faith than we made in starting the firm.

We do something at our conference every year, which we started years ago, which I think is kind of a neat idea, is we give every advisor a Steward jersey with their name on it. There's a

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number on it, and that number is the number advisor at the company they are. It's kind of cool when you go to our offices and you'll see them all around the hallways, you'll see them in the conference room, and advisors run into each other and they say, "Wow, you were the 12th person here?" That's amazing to think about now it's 200 advisors here.

It was a huge leap of faith. We have so much respect and appreciation for that leap of faith at the time because it was, it was a huge gap. Hey, listen, we are not a well-known name, I think, anywhere near what we should be. When I talk to folks who don't know our name, I get it and I agree with it, and I say, "Listen, we're the best story you've never heard." When they hear the story, we're fortunate that generally the answer is, "Wow, this is a really great story and I'm glad I did get a chance to hear it." Appreciate this forum, as always, and Diamond's opportunity to tell our story. Just thank you.

Louis Diamond:

Very good. I really like that idea of the jerseys. That is a really interesting part of the culture and you could see how people would be prideful of being an early responder. Not to mention they've probably done a pretty nice job on the equity that they got early on.

Jim Gold:

Sure.

Louis Diamond:

Let's pivot to just what's Steward's value proposition or secret sauce. I think you hit on some of it, the three components you mentioned earlier, but as you sit here today, how would you describe Steward's value prop to a prospective advisor or to an end client?

Jim Gold:

I'm going to probably keep going back to this, Louis. If you think about the equity component today, we're really the only firm that still does that. We're sort of the last firm standing when it comes to equity. There's certainly no other W-2 form of independence that does it. There's definitely not a 1099 option of independence that does it, and I think that's critical because what it says is, "We want everyone to win." It's interesting when you hear about some of our competitors talk about monetization events or IPOs or what have you. I say, "Well, think about that. If you're an advisor there and there's a victory parade, you're not on the float. You're standing on the sidewalk clapping and you're going to kind of wonder to yourself, 'Why am I clapping? I don't benefit from this.'"

That really, really is a core differentiator. I think the culture is critically important. We talk about the no-jerk policy. I always joke I grandfathered myself on the policy because I was already here at the time when the policy went into effect, but that's important, too. I think the real secret sauce, and this is so critically different than anywhere else I've ever worked, every year more than half of our new hires are referrals from existing advisors of the firm. That's a powerful message and I tell every recruit I talk to, I say, "Listen, you can go on our website, you can call anyone at the firm and ask what it's like to work here. I have no fear of what you're going to hear."

That is really powerful because I think people come in, especially from the wirehouse, I always say, "Listen, if you're not paranoid coming out of a wirehouse, you should probably get drug tested." To me, that message is critically powerful. Hey, listen, we have nothing to hide. We have a very simple comp plan, a very simple structure, and our goal is to run a great place to work. We're here to serve our advisors and their teams and they are truly our clients. That is the secret sauce, and I think what is critical here is it's not just lip service. It's really how the organization functions.

Louis Diamond:

Yeah, definitely, and I would push back a little bit on the beginning. There's obviously plenty of RIAs that offer equity, but perhaps what you're talking about is a firm of your size and scale that is an oasis for wirehouse breakaway teams. That also has the other components that you're talking about, so I'll just put that out there as potential clarification.

Jim Gold:

Yeah, I think the equity, listen, I think it exists. I think where we see, and the number seems to keep moving up, is there's a level of revenue that an RIA has to generate that the business itself has a distinct value away from the underlying revenue in the sense of if it's two advisors doing $10mm, that's an amazing firm. Is that firm worth anything more than the revenue that they're generating in buying that out versus the actual entity has distinct value, distinct and separate from the underlying revenue? I think there's a number there, and I've heard numbers like $50mm in revenue, sort of where that starts. Maybe it's lower, maybe it's higher, and it's obviously a moving target.

Louis Diamond:

I like that concept, so meaning that the brand and the infrastructure and your platform has value above and beyond just the revenue of the advisors that are on the platform.

Jim Gold:

Yeah, exactly.

Louis Diamond:

I like that. Okay, so let's get to what I think is kind of the meat of this interview. The structure I'm going to take is let's do a kind of, where's Steward now? We had you on the show back in January of 2019 and the company was in a completely different place than it is today. I think it's very exciting the leaps you've made and all of this was through a pandemic, and now out on the other side. Back in 2019, you as a company were managing just under $11B in assets. Nothing to sneeze at, but certainly not where you are today. The platform was a hundred percent captive to Raymond James, meaning you were part of the Independent Contractor Division of Raymond James and used their technology and their custodian and their broker-dealer exclusively.

You only had a W-2 affiliation model and you had one outside investor. I think it was somewhat new at the time. Let's talk a bit about the evolution of Steward the last few years, and let's go point by point, so four or five different changes. I'd love for you just to comment on where you are now, how you've gotten there, and why it's a benefit to advisors. The first is the growth and AUM in advisor headcount, so $11B back in '19. Can you just talk about where the company is today and how you've achieved that pretty incredible growth?

Jim Gold:

Yeah, we finished last year just over $27B in assets and that is total assets. These are long assets, not assets under advisement. We have a corporate RIA which was established in 2016, which was just under $17B of that $27B, so about $10B outside of that at the time. Current advisor headcount is just under 200, and I always say to put an asterisk on that. That is fully diluted, so that is a $2mm producer who has a $200,000 junior partner, so we count that as two advisors.

This year, we're forecasted to do, and obviously the market's not helping anyone, we're forecast to do a little bit under $200mm in revenue, which is, again, more than double where we were even two years ago. We've had, I think, a tremendous, tremendous growth, but our focus is to continue growing. We really talk about, Louis, so look, we want to have great people who run a great business, and it really is important that it's in that order.

Listen, a partnership is not for everyone. You have to sort of opt into a partnership culture, but we also tend to attract people who are million-dollar-plus producers, heavily fee-based. Our RIA, say that 10 times fast, our RIA was about 82% of our revenue last year. Another 10% was recurring trails, so we're at about 92% recurring revenue. More than half of our advisors have a CFP designation or higher, so planning and holistic wealth management is a big core of what we do here. It's not a mandate on our side, it just seems to be who the model attracts.

Louis Diamond:

That's some incredible growth. Some of it is market appreciation. I noted that you said where you were before 2022. Probably not so far off than where you are today, but what do you account for that ridiculous growth? Was it just a torrent of advisory recruitment? Was it organic growth? Or kind of a mix of the two?

Jim Gold:

I think it's a mix of the two, and I think nowadays we're fortunate as the firm grows, we have organic growth overall, high single-digits, which is pathetic to say, but that's very high number for people that came out of a wirehouse. If you think about $200mm, if we're compounding at 9%, now you're talking about $18mm next year end quote. I would look at that as sort of free recruiting. The recruiting we do, the inorganic growth is now on top of that, which the organic growth is sort of gravy to what we're doing. I think it's... Listen, it goes back to the larger we get, the more people that are here, the greater network we have of potential advisor referrals as well. I know we're going to talk about some of the structural change at Steward I think also opened up the door to other opportunities that we would have been previously unable to compete for.

Louis Diamond:

Yeah. Well, congratulations, and I know it's just the beginning of something, but that is absolutely ridiculous growth, and to think that even just doing over $200mm in revenue when you started the firm in 2013 from literally nothing is a major accomplishment. Congratulations to you and the team.

Jim Gold:

Thank you, and I would just add there, which is important, I don't know of another firm ever built to our size that did it without taking in capital to launch. That's really a big difference in our story because many of the firms that are out there today and have been founded previously started out with seed money, and then ultimately that creates, we think, misalignment in the cap table. Today, we have two outside investors. They own 25% of the firm. The advisors own over half the company, so not only is there an equity stake, but it's a real meaningful stake, and I think that alignment is correct, which is the people that are driving the bus here receive the best and the most reward for the ultimate success of the organization, which again, is very, very different.

Louis Diamond:

What you said is important because aside from the misalignment, meaning you have to look for a liquidity event in a certain period of time, you're also talking about the fact that when you start off with an investor, you and the advisors own a much smaller portion. Even if the company's really successful, the stake they own isn't going to be as valuable because the early investor is going to reap more of the rewards.

Jim Gold:

Right, and if you're leaving a wirehouse because you're sick and tired of them focusing on the shareholder and you're going to join a firm with one single shareholder, I don't know if you fixed the problem.

Louis Diamond:

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Right, so let's go to the next big update on your side. You moved off of the Raymond James Independent Contractor platform, so really the captive independent platform at Raymond James. You bought a broker-dealer. You expanded the RIA. Let's talk about that and that change, why you did it and what it means.

Jim Gold:

Yeah, so I think aspirationally we always had the goal to acquire a BD, and the opportunity presented itself with our acquisition of Umpqua Wealth Management. We were excited to do that and we worked with Raymond James and Scott Curtis and Paul Reilly and the team there who have been terrific to us from the very beginning and continue to be a really important partner to us. Really, the conversation was to say, "Look, we are going to have a broker-dealer. How do we maintain our really important relationship with Raymond James?"

The vehicle to do that was their Custody and Clearing Division, which the acronym, which we have lots of acronyms in our business, is RCS. We worked with Raymond James for about 18 months to be prepared for this conversion to RCS, which went really well. The RCS team's been great. We have full access to the Raymond James platform and capabilities there, but we thought that was a really important step for us in the growth and the evolution of the company.

Louis Diamond:

Wouldn't it just been easier just to keep operating as you did? I mean, no one gets excited about owning a broker-dealer, and even though you kept most of your stuff with Raymond James, it's still a change. What was the motivation behind doing that?

Jim Gold:

I think it's a bunch of things, Louis. You grow up and eventually you graduate and you move out of the home. I think it was a step and I think a sign of the growth of the company. Things that we're doing today, becoming multi-custodial is a perfect example. We couldn't have been multi-custodial while part of RJFS because we would be on their broker-dealer. We recently closed I would say what we would call a traditional credit facility, something we could never have done before. Again, when you're on someone else's broker-dealer, understandably, you're under their rules.

We needed to have the corporate flexibility and autonomy to make the business decisions we thought were the best thing for the firm, and those are, I think, two good examples of why you would do it. I think for us, again, the benefit was we weren't losing anything, so we weren't losing Raymond James. We've had a number of recruits go to Raymond James. We have a bunch more coming this year and into next year, so the relationship continues in a really meaningful manner, but now it's a matter of giving advisors choice versus saying, "Hey, this is our singular model, hopefully this works for you."

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Louis Diamond:

Right, and you hit on the next one, which was the move to become multi-custodial. Can you talk a bit about that? Who are the custodians? Why do you think it's a benefit to be multi-custodial?

Jim Gold:

Yeah, so we have a custodial relationship with Goldman Sachs. We have a custodial relationship with Pershing, which is really just about to go live, and I think in our mind we always wanted to have a small group of custodial partners. We were careful in picking the ones we chose, and I think if you look at the commonality amongst the three, they don't really compete with our advisors. There are other custodians that are great and have terrific resources, but they're also competing directly with the advisors and you see the ads on television. That was an important tenant to us is we don't want to have a situation where the parent company, if you will, of a custodial partner is also a competitor for the firm.

I think what's great for our advisors is, listen, no firm is best at everything. I've used corny metaphors my whole life and I'll give you the example of when you were a kid and mom and dad brought home a thing of ice cream, and if it was vanilla, chocolate, or strawberry, that was great, but you know what was even better? When it was all three in the one and you got some choice in there. I think about the opportunity for any of our advisors to say, "Hey, I have a client or a new prospect and now I want to shop this relationship amongst the custodians of Steward and see what the answer is."

Whether that's capabilities, whether that's a securities-based loan, whether that's a platform thing like alternatives or what have you, we're not beholden to a single source of all of our information, which you think about coming out of a wirehouse and firms that are sort of one custodian, you're relying on that one custodian for everything. We don't think that's appropriate. We think you should give people a choice. We should give them the opportunity to vet out the best opportunity for their business and ultimately for the clients, which is most important.

Louis Diamond:

Right, and it seems, like you said, you didn't really lose anything because you still have access to the Raymond James platform, so may as well have multiple options and still have one really good choice that you've always had.

Jim Gold:

Sure.

Louis Diamond:

I like it. Okay, we'll come back to the Goldman Sachs piece. I think that's something that many of our listeners are curious about. Well, let's talk about the addition of a second investor. Back when we recorded this in 2019, Cynosure was an investor. Maybe we talk just a bit about them, but you also welcomed the Pritzker Organization relatively recently as another source of capital. Can you talk about these two entities and what they do for Steward?

Jim Gold:

Sure, happy to. Yeah, I think the commonality, so Cynosure invested back in 2019, Louis. As you said, they are a Salt Lake City, Utah-based firm. Really a family office, predominantly representing the Eccles family, which is a very well-known family in the Greater Mountain West. The folks running that family office had backgrounds in private equity, and if you look at the Pritzker Organization, a very similar structure.

This is Tom Pritzker's family office. Tom is the current Chairman of Hyatt Hotels. Tom's father founded Hyatt Hotels, which is the Pritzker's most well-known investment, but they are sort of serial entrepreneurs. I think what's really, really critical there is all this capital came out of family offices, so there is no timeline on it. It's not coming out of a fund. There's no forced liquidity. There's no forced duration, and if you look at both of these organizations, they have a history of investing in some cases over decades of time, so we really fell that was the right type of capital. In today's environment, I think it's very easy to get capital, but is it the right capital? Do you feel as excited about the capital the day after the check clears the account? Right?

The second part of it is we really are fortunate to have internal sort of family office, private equity resources at our fingertips at no cost to us. Clearly, both those entities, only one was good for the organization because that's how they win and that's how we all benefit. Their ownership is, again, very much a minority. They have representation on a board commensurate with their equity ownership, but I would tell you you could not be happier with both of the organizations. Things like this recent credit facility was really something we thought about conceptually and they helped us drive the whole process, so really, really helpful to us.

They love getting involved in recruiting and talking to recruits, too, because that's a question people get is, "Hey, Jim, we expect you to be as excited about the company as one of the co-founders, but I love to hear about people who invested and, why did they pick Steward?" In both cases, we were the first company of our type that they had invested in, and the largest investment for Cynosure, and the first investment for the principal organization. Again, couldn't be more happy with them as a partner and a resource to us.

Louis Diamond:

Very exciting. I have to ask, though, just thinking about what advisors might say, so, obviously, life cycle of any successful business, especially in the wealth management industry, if you're writing big checks to teams to join, you're buying businesses, you need capital to keep growing, so no one doubts the need for external capital. One of the, I would assume, the fears of new partners or prospective partners is, "Doesn't this mean Steward Partners is going to sell?" What happens, the company sells, are they going to sell? Are they going to IPO? What's your answer to that line of questioning?

Jim Gold:

Yeah. You know, what's funny, I always tell our board this is my least favorite question, and it's not because it's a bad answer, it's because there really is no definitive answer, and I think that's a good thing. Our board does not sit around and say, "Hey, we're two years from the liquidity event. We have to keep working backwards towards that event." It's really a focus on continue to grow a great organization, and I look at it and say, "Look, all of the options will be on the table, whether it's an IPO, whether it's, 'Hey, we got to continue to sell a minority or sell a majority at some point or sell the whole company at some point.'"

What's really important, though, is that, as I said before, everyone here is a shareholder, so if there was a company sale, for example, or a majority sale of the company, everyone's shares immediately vest upon that transaction and they unlock the value of their shares. There's sort of no trap door here and, again, the value that's created, they participate in the value, so they're excited about the value. I think what we can say is we've taken in capital twice. It was a total of $150mm and out of that $150, we took $70mm and created an internal tender opportunity for all of our partners. In particular, when Cynosure came in, no one was vested.

We created liquidity. We said, "Hey, it's optional. If you want liquidity, you can take it. You're going to get the full value that the firm received." I think it's a great compliment to the firm that a number of our advisors didn't take liquidity. They said, "Hey, I don't want to sell. I'd like to buy more if I could." I think another great testament to the firm is that it's very traditional that when a second investor comes in, that capital is normally taking out the first investor. Cynosure retained a hundred percent of their investment in the firm, and while they had rights to exit, they kept every bit of it on the table and continued to help us grow the organization.

Louis Diamond:

Very interesting.

Jim Gold:

The answer is sort of that future history is still to be written, but I think our advisors and their teams are going to have a big say in whatever the future event looks like.

Louis Diamond:

I'm going to press you one little bit and then we can move on to another topic, but what about, okay, UBS comes along and writes a crazy check and now the company is bought by UBS or bought by fill in the blank of a bank or a large company. Now, you're saying I'm going to be captive to UBS again and I just left them?

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Jim Gold:

Right, so there's been other deals done like this that I would say, I don't want to be rude to anyone else. There's a famous one that was I think they had 96% attrition within the first year. I think if we did that at Steward, you'd have 100% attrition including me, so that will just never happen. I think we get that and the last thing we would do, and there really is no dollar amount of an offer that I would personally sign off on, and I'm one of 11 board votes. Yeah, that's just never going to happen. It's just not who we are. It doesn't make any sense for the organization.

Louis Diamond:

Got it, so you got to look at the fact that those who hold the assets, hold the power, and I believe it's still the case that every advisor that joins Steward owns their book of business. Is that correct?

Jim Gold:

Absolutely, and in writing as well and a non-solicitation if you decide to leave.

Louis Diamond:

There you go. Okay, so last kind of update, and there's others, but last major update from 2019, you launched the business and were very successful being W-2-only, meaning advisors join, they get approximately 50% payout on revenue, they get W-2s and they own their books, but they're not independent contractors or business owners. Now, you have the option of advisors joining as employees or being independent. Can you talk about the pivot to open the doors to independent advisors?

Jim Gold:

Yes, I think great companies evolve, and I think for us it was a situation where we ran into a couple of good situations that, unfortunately, did not go our way because they said, "Listen, we really want to be a 1099, we want to have our own office, we want to build our own little sort of empire, if you will." We didn't have a model to support it, so it was fairly easy with all the infrastructure we had to build that. There's been great validation of the build. First team to join in that model joined us from Royal Alliance. It was $1.3B team doing almost $7mm in revenue, and they're a perfect example where they say, "Hey, we already have our own office, we already have our own space. We have no concerns about continuing to run it and we would never join you in a W-2 environment." Right? I think-

Louis Diamond:

Right.

Jim Gold:

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... for us it was a natural pivot and, ultimately, we provide the same services to a 1099 as a W-2. If it's a breakaway, we're going to help them find space and work on design and payroll and benefits and getting them machinery and computers and everything else.

It really wasn't additional services we had to provide, it was just really a P&L exercise of saying, "How do we give them competitive economics?" We like to pay at the top of the house and, obviously, the local cost is their decision. I think a really critical difference here again, Louis, is that you think about a 1099, and I don't know if this exists anywhere else, when they want to recruit additional advisors to their branch, we pay all of the recruiting capital. Now only do we lay it out, it costs them nothing, and we provide equity as an incentive for them to recruit people, also at no cost to them.

We provide literally an unlimited capital and unlimited equity pool for them to continue to grow their franchise because we don't differentiate if it's Louis Diamond Wealth Management and you want to add another partner to your branch or another person joining is setting up their own branch. I think that is a really, really different benefit we offer for folks who want a 1099-type affiliation.

Louis Diamond:

Interesting, so now it also sounds like by opening up the 1099 option, you expanded your addressable market to advisors that are already independent, but also to a massive swath of the breakaway audience that wouldn't consider a W-2 option regardless of the attractiveness of a platform. They just want to be business owners, they want the tax benefits, they want their own brand, et cetera.

Jim Gold:

Sure.

Louis Diamond:

Can you talk a little bit more about the support that you provide to breakaway teams in particular? Those that haven't been a business owner before, but are looking to kind of enter the space for the first time. You mentioned some of the facilities and the technology, but how else do you help these groups launch? Then, how do you support them once they're up and running?

Jim Gold:

The launch is a critical component and that's really the big sort of fear factor is, "How do I do it? I've never done it before." Listen, for all the things you might complain about of the wirehouse captive model, you walk in and the office is there and the lights are on and the coffee's hot and everything's working. We really help everything from legal review, establishing your LLC, again, finding space, architectural design, signing leases, lease approval, lease review , again, all the equipment. I think the benefit they have is we already have things like we have a PEO that we use, so we really encourage people to say, "Look, I would adopt what Steward is using. We give them access to our deal."

Steward has over 400 partners now at the firm, so they get access to our costs and our contracts and the pricing there. Then, I think a really critical part of the deliverable, which, again, I think is very rare, is we also take care of all of their operational issues and support as well as all of their supervisory and compliance. Everything is on Steward's ADV from an asset perspective and, again, they have no supervisory responsibility. Critically important, they have no supervisory risk. No one needs to get the 9 and 10 or supervisory licenses.

Again, I mean, that is a really rare attribute of our model because I think what you see is there's a lot of firms that help you launch, but then what is the deliverable over time? What is the longer term value to that advisor? In some cases, they vote with their feet and say, "I'm not seeing the long-term value." I think the long-term value of saying, "We're really going to give you infrastructure that you can truly focus on running your business, and if you want to have your own office, we're going to make the work around that as easy as possible for you."

Louis Diamond:

Right. I like it. I agree with you. That is what's needed for breakaways is they want the soft landing spot. They want the support, but also critically important, it's, "What are you going to do for me after I've launched? The launch is critical, but it's only a small snapshot in the life cycle of when someone's with your company. It's, what have you done for me lately? It sounds like you've kind of hit on that with the supervisory side, the operations, and also being a partner in the company.

Jim Gold:

Yep. Right.

Louis Diamond:

Let's talk a bit about Goldman Sachs, if you don't mind. I think it was 2020, there's a lot of press and fanfare around the big news that Steward Partners was going to be the first institutional custody client for the nascent Goldman Sachs RA custodian. I know you mentioned, too, Goldman is one of the custodian options. Can you talk about the appeal of Goldman and the overall relationship?

Jim Gold:

Sure, yes. I think the appeal of Goldman is clear. It's obviously one of the premier names in wealth management, so for us, we were really honored to be chosen as the sort of first institutional client. I think what people have maybe lost sight of is, listen, at the time there was nothing there. Goldman was literally building this from zero, so it's the first institutional client, but there's also a component of readiness. We did a beta test last fall with some of our colleagues who are Legacy from the Legacy acquisition, and I think there's issues around it's very different for us as a broker dealer. What's important in our relationship with the custodians is we like the idea of being multi-custodial by choice, not because you have to be.

I think the important thing for listeners who are not aware is Steward is a hybrid. We have the broker-dealer, we have the RIA. We expect our custodians to be able to support both so that an advisor can have all of their assets at one custodian if they choose to. In many of these cases where they are RIA-only-focused, advisors are now looking for a friendly broker-dealer to do their brokerage business with. For us, that wasn't a model we felt was appropriate. We wanted it to be an option, not forced to do that.

Goldman, which I think is smart from a competitive perspective, is really focusing on the RIA space right now, and we're working closely with them to work through the broker-dealer regulatory reporting and supervision tools that we need to make sure that we can support it. I know for now that the focus is RIA-only. We're in regular contact with Goldman. We're excited for the future opportunity there, but we also feel like, listen, we want to make sure that the deliverable for what we need to do as an organization is there, that we can feel excited urging folks to join Goldman as a platform provider.

Louis Diamond:

Right, and once everything is fully ready to go and Steward feels a hundred percent ready to bring as many advisors who want to Goldman, what do you expect the deliverable's going to look like? How do you see the Goldman platform to be different than other custodians, whether it's Fidelity or Pershing or Schwab or Raymond James?

Jim Gold:

Yeah, I think it's new. David Solomon, I always say I don't know David Solomon. I've never spoken to him. I mean, he talked about this in their earnings and not this quarter, which just came out, but last quarter, which was this is a new channel for them and they expect it to be meaningful in the next three to five years. I think people mistook that to mean they're not going to be ready for three to five years. I think the channel will be in many ways similar because technology... We all know we can all get Black Diamond or other technology in any of these places. I think the Goldman name is, obviously, hugely unique. I think the Goldman platform, things like having access to Goldman Sachs Research, having a Goldman Sachs structured product and alternative investments and investment banking, so there are clearly hallmarks of Goldman that are unique to Goldman that will be a big selling point.

Look, I think if you look at Goldman today, I think what I heard is that they have a couple of hundred private wealth advisors, and what I've heard is, again, this channel is going to have access to many of the capabilities that the Goldman Sachs PWM advisors have. Clearly, that's going to be appealing to a client, but I think there are... This functionality that people sort of take for granted today that, to Goldman's credit, they want to do it the right way. Sometimes the right way takes a little more time, and that's building a technology interface from scratch, so things like bill pay or taking a picture of your check and scanning it into your phone.

Some of it's integrating tools like Goldman, everyone knows Goldman has Marcus. Well, Marcus is going to be integrated to a new custody clearing channel. It's not there yet, but they are two standalone entities today. I think part of it is internal integration of what they already have, both the platform and some of the tools, and then building the technology to interface with their custodial partners, whether you're a one-person RIA up to a firm like Steward.

Louis Diamond:

Right. I thank you for opening up about that. I think it does clear up a lot of questions that folks have, and I agree with you that when Goldman is ready to rock, it is a potential anecdote for many of the fears that some folks have about entering the independent channel, which is my clients don't know who the firm is, where I work with ultra-high net worth clients, or access to products. If they can get it right, which it seems like they certainly will, it can be a game changer for, I think, being an even greater catalyst for the breakaway segment.

Jim Gold:

Yeah, if nothing else, certainly great validation for it. Right.

Louis Diamond:

Terrific, so let's talk briefly about the economics at Steward. I guess if you want to take it separately, the W-2 model and then the 1099. You don't have to give exact numbers unless you want to, but how do you think about payouts? How do you think about structuring recruitment deals?

Jim Gold:

Yes, we've recently gone through an exercise of updating these numbers, so I would say on the W-2, I would take them just quickly separately. Listen, in both cases we are very competitive from a recruiting perspective, I think competitive across the industry. Two, starting at a million dollars in production, you're looking at 140% cash with a 75% equity grant in the company for walking in the door. There's another 85% in back end cash, which very achievable hurdles. The first hurdle, for example, is 90%, you're hiring 12 in 18 months, a hundred percent, you're hiring 12 in 30 months.

I think it's a real opportunity for a million-dollar-plus producer at a W-2 to think about a 200% cash capture, which is, again, I think super competitive. Our payout's 50%. I think what's really important with that, though, is you can never get paid less than 50. Our advisors are fully empowered, charge what you want, whether that's advisory, whether that's a transaction. You never have to worry about taking a haircut. We don't have minimum tickets, minimum fees, minimum, et cetera. A $3mm producer makes $1.5mm. It's a pretty simple algorithm there.

On the 1099, a little more complicated because you have some tiering around payout, but again, a 1099 is a cash deal starting at 60% up to 80% depending on production, and then an equity grant starting at 40% up to 60%. Again, equity unheard of in a 1099, so the bid is zero versus our offer. Then, the cash side, I think we're right there at the upper end of the range of the street. Then, in both cases, again, a real, I think, attainable back end hurdles, which could add another 50% to 75% on the back end depending on the production that you're generating coming in.

I should have mentioned on the W-2 as well that the upfront, the W-2 starts at 140 and goes up to 225, so there's some tiering on there as well. I think very aggressive pricing and we want to bring in as many great partners as we can. I think we want to make sure that our deals are competitive and people feel that not is it the best opportunity, but they're getting the reward they deserve for the business they built over time.

Louis Diamond:

Yeah, I agree with you that it is at or above market for the various segments and you do have the equity component, especially for 1099 is not something that we typically see. Question just on the equity. I know it's a major part of your culture, it's really been the culture since inception, but how do advisors typically respond to an offer that has some equity? Obviously, cash is king. It's a known entity. You can bank it, you can invest it, you can spend it, but how do they normally think about equity?

Jim Gold:

Yeah, I think it's evolved over time like everything else we've done. That's why I think partly why there's more cash today than there's been historically. There's also slightly less equity as a percentage. We really encourage advisors and we share very detailed financial information about the organization at the right time. We encourage them to talk to the outside investors and I think, listen, there's real validation of we can talk with them under an NDA. We could talk about what was paid for the organization. How is it valued? When you think about we go back to the earlier adopters, Louis, we talked about earlier, the equity had zero value at that time. They knew that coming in and we were telling them that coming in, so I think it's very different today where an advisor in the early years was looking at a zero real value to a hopeful value of the future.

By the way, the value we told them we might get to in 10 years, we got to in five, and now it's been more than double that in seven. We feel really good about that, and that's a real validation of... I always kind of say it's like you can look on Zillow and hope that's what your house is worth if you like the number, but until someone pays that, it's not worth that. I think the outside investors, very savvy investors validate the value of the equity, and then really it's just looking at, what is the valuation in the industry? You used the term before, which is appropriate for Steward, is we are a platform provider because of our size. What does a platform provider trade at? What is our EBITDA going to look like? If you multiply one by the other, it's pretty simple to come up with a valuation that you can justify.

Louis Diamond:

Yeah, and I'm sure you still get pushback on the equity until it's monetized. It still doesn't really have value. It's illiquid. Do you often see advisors that just want all cash? Or just aren't even considering you because equity's part of the deal?

Jim Gold:

Not anymore. We used to in the beginning and it's almost we can laugh about it now where an advisor in the early days would say, "Hey, I love your story, but I like all cash. That way when you guys go bankrupt, I don't have to worry about the equity." Now, actually, I got an email from one of our colleagues this morning where someone's asking for an all equity deal. They don't want any cash, which we don't do that, either, but that tells me that it's working, right? People do-

Louis Diamond:

Yeah.

Jim Gold:

... see the value and they do recognize it. We also, which is important to mention, the equity does create cash flow and profit sharing. When partners are eligible and eligibility's real simple, get back to your hiring T12 and you're eligible.

We paid out $8mm in profit sharing last year, and that number's expected to grow every year, so it is not legally a dividend, but it somewhat acts like a dividend. You have vested units, you have a pool of money, you divide the two by each other. It creates an amount per unit and you receive that as a distribution. We think about partners joining today in either channel, which, again, is unheard of. That should add somewhere between 3% to 5% to your net payout on an annual basis. I think that number's going to grow over time.

Louis Diamond:

Yeah, I agree with you and, again, thank you for being so open about that. A couple of questions to take us home here, and this will be more... We'll put it in the, "Okay, what can we do differently now that we're independent?", category. We hear all the time from advisors that operate on a large bank's platform that independents or kind of the non-bank environment is just not for someone who serves an ultra-high net worth client base or who has clients with significant lending needs or sophisticated needs in general. How would you respond to that now that you've been operating on this side of the ledger for almost 10 years?

Jim Gold:

Yeah, I think for this thing from the truth, and you know this as well, Louis, people need to do their due diligence. Listen, don't take anyone's word for it. Vet out your potential partners, both the firm and the custodial partner. I would say don't go on assumption. Go on facts and look at... You know, the organizations we work with and the high net worth clients they serve today, which are the millions. Look at the fact that from 10 years ago, which is amazing, there are now more advisors who manage over half a billion in assets that are outside the wirehouses than are in the wirehouses.

That is unheard of in our industry because things like technology and platform, everyone has them, and they're not really that dissimilar when you think about the good platforms or the good platforms. You get into really specialized lending, really specialized alts. There's plenty of opportunities out there outside of the traditional big four.

Louis Diamond:

I like it, and proof's in the pudding. I like that stat that there's more advisors that manage over half a billion in assets that are external to the wirehouses than are there, so that's validation. Okay, so two more questions for you to take us home. What are some things that advisors employed or affiliated with Steward can do now that they couldn't do under a wirehouse or a more captive umbrella?

Jim Gold:

One of the big ones I'd focus on is marketing, and it's very easy at a high level to say, "Oh, well, I have social media," but what can you really do with it? We have stories and we've heard stories where at certain wirehouse firms, you can't even like something on LinkedIn without having compliance show up in your office the next day. Our advisors have a true full marketing platform. We have advisors tweeting and blogging and doing podcasts. We have an advisor who writes books about financial services. Live video, YouTube video. We work with a tool, and this has been in the media a lot recently, with texting. We have a MyRepChat, which is a tool that you can text and it's all captured and no one gets in trouble for it.

The wirehouses, listen, big organizations. They're always going to be a meaningful part of our industry, but you're trying to turn around the aircraft carrier. They're not nimble. They can't adapt quickly. They always have to think about, "We have 15,000 advisors," or whatever their number is. They know if they open it up to some, they have to open it up to all, and that's a comment that we all hear and you guys hear at Diamond, I'm sure, is it's always lowest common denominator policy. No one wants to work in that environment unless you are the bottom of the lowest common denominator. You feel good about that.

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I would tell you that is the driver of our really significant organic growth is the advisors being always following the rules, but being able to do things that make sense and being able to market their businesses and get in touch with our clients in a way that the clients want to interface today, especially in the now hopefully post-COVID world. The whole world of you think about Zoom as a phenomenon. I mean, three and a half years ago, people would be thinking you're crazy you want to talk over Zoom, and now it's the norm. We have advisors doing town halls through Zoom on a weekly or monthly basis as a good example.

Louis Diamond:

Yeah, I love that, so more flexibility on the marketing side, and those are some great tangible examples. Any other just brief examples to share?

Jim Gold:

I mean, there's things we're looking into with the broker-dealer now, so I think being able to, again, offer more choices, whether that's platform, whether that's resources as well. I'd say more to come on that, but I do really feel that that is a big driver today is the flexibility. My father used to say, "Common sense is not that common," so we try to make a firm run that under common sense, which is a nice way to think about it.

Louis Diamond:

You got all these sayings.

Jim Gold:

My father was a smart guy.

Louis Diamond:

Last question for you. Any advice to those thinking about change and whether they're considering moving to the independent channel or even just staying within a W-2 world? Any advice for those thinking about change?

Jim Gold:

Yeah, the biggest thing you can do is do your homework. You're always going to have choices. If you're a successful advisor, you can do anything you want to, so don't fall in love with any firm, including ours. Talk to everyone you should talk to. I would certainly say talk to advisors who are at that firm because, again, I always tell people, "I know you look at me as management, so if I'm lucky, you believe every other word I'm saying." Talk to the advisors that are there because that's not the sales pitch. It's, "Hey, what is it really like?" In particular, talk to advisors that are there that join from the same organization you're planning on leaving. Do your due diligence, look under every stone, look under every rock. Make sure that there are no surprises, and that really is our goal in a due diligence process.

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There are way more choices today for advisors who are breaking away than ever, and I think that's great. Listen, I truly want all of our independent brethren to succeed because there's so much opportunity out there. If you think about $30T in assets in the U.S., and maybe slightly less now with the recent market activity, but there's $7 or $8T of that is held at the wirehouse firms. There's plenty to go around, there's plenty of good options in the independent space. Do your homework and just find the right firm for you and your team, and there's plenty of good choices out there.

Louis Diamond:

Terrific, and I would completely validate that, that speaking to advisors is a really nice way to get the more unbiased kind of pitch, but also just to hear what worked for them in their transition, what didn't work, and, what would they do differently?

Jim Gold:

Absolutely.

Louis Diamond:

Very good, Jim. Thank you for joining us again. I'm going to mark maybe three years from now you'll be at like $100B and we'll do this again and hear about all the amazing things that Steward's up to. Really appreciate you opening up about the growth, various aspects of the platform, and all of the different things that are going on. so thanks again, Jim.

Jim Gold:

Yeah, absolutely. My pleasure. Great to spend time with you and look forward to the $100B next call.

Louis Diamond:

Absolutely.

Mindy Diamond:

Just as the wealth management landscape has evolved, so have relatively young firms like Steward Partners. Less than a decade ago, they created a firm that took a commonsense approach, as Jim put it, to offer advisors a blend of what worked in the large firms and those things advisors lacked, adding in greater freedom and control. Steward's growth over the years serves as a testament to the formula's success.

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 linked 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 by 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. Again, if you enjoyed this episode, please feel free to share it with a colleague who might benefit from its content. If you're listening on the Apple Podcast app, I'd be grateful if you gave it a star rating and a review. It will let other advisors know it's a show worth their time to listen to. This is Mindy Diamond on Independence.