



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year, with my partner Louis Diamond. I'm Mindy Diamond and this is Mindy Diamond on Independence.

This podcast is designed for advisors like you who are interested in learning more about the evolving wealth management industry through candid dialogue with breakaway advisors, those from the C-suite, and industry thought leaders. It's available on our website, diamond-consultants.com, as well as Apple Podcasts and other major podcast platforms, so be sure to subscribe and share it with your colleagues.

At Diamond Consultants, our mission is to help advisors live their best business life. We want every elite advisor to find exactly the right place for their business and their clients to thrive. Whether it's at a wirehouse, a regional, boutique, or independent firm. As the industry's leading recruiters and consultants, we've transitioned more than a quarter of a trillion dollars in assets under management in the past decade. And each year, twenty-five percent of transitioning advisors who manage a billion dollars or more are our clients.

Curious about where, why, and how advisors like you are moving? Download the latest [Advisor Transition Report](#) to learn more, including Intel on recruiting deals and our insight and analysis on the latest trends in the wealth management space. You'll find it at diamond-consultants.com/transitionreport. Or if you'd like to talk, feel free to give us a call at (908) 879-1002.

It's hard to imagine that we're closing out yet another extraordinary year for the industry and this series. I'm grateful for our outstanding roster of guests who shared their unique perspectives to help provide a port through which advisors can view their own business lives.

In this episode, Louis and I take a step back to review all that we learned from the year past in an effort to help make you a better and more prepared advisor, someone who can future-proof their business by making strategic shifts based not just on data, but the trends they represent, and ultimately gain knowledge based on experience and insights from those who've gone before them, even if you feel perfectly happy where you are and have no intention of making a move.

For example, wirehouse advisors may be most interested in the fact that while there's been a decrease in overall advisor movement, there's been an uptick in the number of billion-dollar teams who transitioned to other firms or models. Why is that important? What is it that advisors can learn from this activity?

So in this episode, with an entire year serving as perspective, we'll answer that and much more. We'll take a look at transitions and deals, the winners and losers in the battle for top talent, and the change in the industry landscape, and its impact on movement. And then we'll dive into the trends we anticipate will have the greatest influence on the coming year, such as private equity's path for wirehouse teams with their sights set on building independent enterprises, the influencers on multi-generational teams,

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

Page 1 of 17



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

and their role in driving movement, changes in compensation and sunset programs, and much more. All this leading up to actionable advice for 2024, with a goal of helping you not just look at the moment, but to think and act with a longer term vision driving you.

We're grateful for the opportunity to have shared an extraordinary year of education, knowledge, and perspective with you. 2024 is going to be an exciting year, and we're looking forward to providing more impactful topics and insights, along with candid conversations about transitions, growth, and an ever-changing industry landscape with some of the industry's brightest movers and shakers.

With that in mind, we're excited to announce that we're changing the name of this show to better reflect the wider range of content that you've become accustomed to as this series has evolved over time. Because when we started this podcast six years ago, the expectation was a handful of episodes focused on filling a gap that existed for advisors looking for easy access to objective content on the independence space, but word got around, and the audience grew, and so did the content, and as a result, the show has become much more with guests and topics covering the entire swath of the industry landscape. So much more that my sons and partners, Louis and Jason, are sharing the hosting responsibilities, too. So starting in 2024, watch for our new calling card, The Diamond Podcast for Financial Advisors: Insights on Transitions, Advisor Growth, and Independence. But for now, there's a lot to discuss about the year past and the year ahead. So let's get to it.

Louis, thank you for joining me. I love this topic and this episode, because it's an opportunity to just broadly look at the year behind and make predictions, which are exciting for the year going forward.

Louis Diamond:

I agree with you.

Every year it's one of the most fun episodes to record, and it's hard to believe it's already been a full year. It feels like just yesterday we were doing a similar episode in the end of 2022.

Mindy Diamond:

You are a hundred percent right. So, there's a ton to discuss, so let's jump in.

So I'll take the first one. We're going to first talk about some of the most significant things we saw in 2023, and I think we'd be remiss if we didn't mention the implosion of First Republic Bank. I think what's most significant about it is certainly that it imploded and how it imploded, but that's not really what's most relevant to this conversation. I think what's most relevant here is that First Republic had really been the high bid on the street, outbidding everybody else by sometimes a factor of two, and we really expected that losing First Republic in the industry landscape might, in fact, slow down advisor movement. That top advisors, the ones that First Republic had been most attracting would stop moving, and that didn't really happen.

What do you think about that?

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

Page 2 of 17



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

Louis Diamond:

I think that's right.

Anecdotally, we certainly had some folks that were First Republic or bust, that First Republic was tailor-made for their style of business, and they were moving, probably not all that unhappy, but more opportunistically because of the high bid that First Republic represented, but also because the business model of it: very high-end boutique firm with a world-class bank was exactly what they wanted.

But, as the chips began to fall, most of the folks that were speaking with them or that would've been a good fit to join FRB, we saw join UBS, Rockefeller, Morgan Stanley Private Wealth, et cetera, et cetera. So I think it shows that when advisors are motivated enough, there's still plenty of really compelling options that are out there. So, we're very sad to see First Republic not in market, one because they represented a really different model for higher-end wealth advisors. But like you mentioned, two, having a high bid only helped the competitive dynamics of the industry.

Mindy Diamond:

And I think it's worth noting, too, that First Republic fell into the same category as, say, a Rockefeller and many other boutique firms that are built on an RIA chassis, that give advisors more freedom, and flexibility, and control than they had say in the wirehouse world without having to go fully independent. And today there's more and more of those legitimate models being born, and so there's no shortage of options to replace the loss of First Republic.

So you want to take the next thought about 2023?

Louis Diamond:

Absolutely. We've been publishing an Annual Transition Report. The new report will come out in the beginning of 2024 as we're able to synthesize the data. But the early read, anecdotally, and just from speaking with industry sources is that advisor movement in 2023 is expected to have ticked down to about 4% of the total advisor population changing firms or models, which is still a relatively large number, but pre-Covid, and certainly during Covid, it was probably closer to 6.5 or 7%. So number of folks leaving has gone down.

But the way we look at it is it's the quality of teams that move. Headcount does not take into account the size of teams, what they represent to a culture, and obviously the revenue opportunity for a firm recruiting them. What's interesting, I think, for advisors across the board is that we saw an equal number or more billion-dollar teams on the move. So, even though a number of folks in play was down, it was the bigger teams that woke up and began to move.

I think the reason this is, and let's get your opinion, is that larger teams were waking up to the reality that their firms were changing, that even though they're successful, they're growing, they have a bat phone to the top, this no longer is good enough, especially as they look a couple of years down the line.

Note: This is a transcription of a spoken word dialogue and as such there may be errors and/or omissions.

Page 3 of 17



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

So larger teams typically have different options. They have the scale to go independent, they get the highest deals possible, certain firms are on the table for them that may not be for smaller ones. But at the same time, I think it's folks looking at their business and saying, "Where can I be best served for the long-term?" And realizing that they're no longer insulated, perhaps, from some of the changes whether to compensation or compliance policies and the like, and those are the folks that we saw in motion.

Why do you think this is significant?

Mindy Diamond:

I think it's really significant. I think you hit it on the head, the last part of what you said.

I think for bigger teams it's really about pushes and pulls. So the pushes are the things that frustrate them, they're waking up to the changes and the battle for control that they're largely losing, rather, within the big firms. But it's much more about the pulls for these folks that they're looking at the big picture, the long-term, they want to maximize the enterprise value of the business that they've built, and they're wondering if they're going to be able to do that within their firms.

And not only long-term, big-picture focus, worried about how they maximize the value of the business, but are they able to build the business? Are they able to serve clients, do things for clients the way they really want to, the way they really envisioned? And I'm at this almost 30 years now, it's hard to believe. 30 years ago, or 25 years ago, or even a decade ago, a team, a billion-dollar team that might've thought all those things at the wirehouse has either been dissatisfied or wanted to do more for clients. The options were really binary. It's either stay put or go to another wirehouse.

But, there are so many legitimate options today for top advisors, and I think that's really what's driving movement.

Louis Diamond:

I'm with you. Definitely. I'll pick the next one, too, which is that breakaway activity, meaning captive employees moving to independence in some shape or fashion. We saw a little bit of a pullback. The number of moves was down, the amount of assets moving was, I think, a little bit down from years past, but it's still a very significant option on the landscape, and it still has a material impact on advisor sentiment and advisor movement. So while it may have pulled back, similar to how we saw advisor movement in general, take a little bit of a step back, as a firm, we're still incredibly bullish on the breakaway movement.

Number one, because teams, especially larger ones, they want to own their own destiny. They want to own their own equity, create enterprise value, build a legacy, and have the ultimate agency and control over their business, especially as we've seen more deep-pocketed private equity firms come to the table. And also a lot of broker dealers and platforms step up to the plate with their own creative takes on M&A.



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

So, when these teams are moving though, we're seeing them more likely than not opting for supported independence. We've had a lot of these firms on the show and a lot of advisors that have joined the ranks of supported platforms, the names like Sanctuary Wealth, Dynasty Financial Partners, LPL Strategic Wealth, Steward Partners, Kestra Private Wealth, et cetera, et cetera. And folks are joining these models oftentimes at the expense of de novo RIAs being launched.

So typically advisors have their hands full when they're transitioning, and folks that we're engaged with typically say, "You know what? I can make a little bit more if I built my own RIA firm from scratch, but it's a lot of work. It's already a lot of work. I know what I'm good at. I'm willing to invest in my future and pay for support even if in the future I can move off this platform and become fully independent."

So, I think that's what's notable is breakaway activity, pulled back a bit. When folks are moving, though, they're going to support independence. And there's been new entrants to this space this year, I expect more to come, that I think will serve as a catalyst for more captive, wirehouse folks deciding to join the ranks of business ownership.

Mindy Diamond:

And I think the notion of supported independence is what fueled the breakaway movement, because for the longest time, if an advisor was intrigued by the notion of independence, but didn't want to deal with the brain damage of starting something from scratch, and wanted some transition capital in order to soften the blow, if you will, or cushion the move, there wasn't a way to do it. So they either moved from Merrill to UBS by default, or they stayed put.

And the notion of supported independence, and the notion of boutique firms like Rockefeller that have come in to fill the space, have really fueled movement and I think that makes it exciting. And I think maybe that's... And why don't you take the next one too, Louis, where you think the next wave of breakaways are coming from?

Louis Diamond:

Certainly.

So like we just said, breakaways from the captive wirehouse space will continue, no doubt about it. Everything supports that conclusion. But really the way we're looking at it is the next breakaway wave is not going to come from the wires, but it's going to come from within the RIA space. That may sound weird, because you think RIAs are independent already, but what we mean by this is with all of the consolidation with RIAs, so a firm selling to XYZ RIA backed by private equity, there is a whole generation of displaced advisors, where their firm was sold, these are folks that were not the owners of the company that hit the bid on the sale, or that had a material amount of equity. These are more of the servicing advisors, the folks that are the next one's up. Maybe they stuck around in order to become an owner one day to become the succession plan for someone.



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

So as we see more M&A activity, the next wave is going to come from these captive employees of RIAs that all of a sudden, similar to wirehouse advisors, want the freedom and control of independence, or going to another firm and controlling their own destiny. What's really interesting, too, is that with employee advisors of RIAs, and we've written extensively about this topic, they're actually probably some of the most captive advisors in the space.

You may say, 'Well, an advisor who's at a private bank is the most captive.' I would sometimes say that employee advisors of RIAs might even be a little bit more, we'll say stuck, or stuck within a cookie-cutter model that typically investments are handled by the firm, client service models are preset in order to keep it scalable. They typically don't own their own books of business, they have tight employment agreements.

So as these folks wake up to the new reality and start seeing either their colleagues or other people that were in the same place as them begin to head for the exits, we think it's going to be a game of dominoes where folks will begin to maybe gain confidence and see that there's a way out.

So what do you think about this?

Mindy Diamond:

Well, I guess I'm wondering more about...

I think you're right. I think it's a trend that we're seeing for sure, but maybe it's worth sharing with our listeners. So how do these people get out? If they are among the most captive, are they able to bring meaningful assets with them and where do they typically go?

Louis Diamond:

So the answer is, it depends. Every RIA is unique in how they compensate advisors, their employment agreements, and the like, so it's hard to make a blanket statement on this. But from what we've seen, it's surprising. Many RIAs don't really have employment agreements for their advisors. Some have fairly weak non-solicitation similar to a non-solicit clause that a UBS or Morgan Stanley advisor has, and others are very captive and might get sued, similar to the Goldman Sachs personal financial management advisors who we've seen move en masse and not wanting to sign on to Creative Planning. So I think in some extent, too, litigation becomes a cost of doing business and some of these larger firms that these advisors might join, they may just factor in a settlement or legal fees as part of their modeling for bringing over advisors. It's hard to cast with a blanket statement.

I think the bigger thing, aside from legal risk, is who generated the clients and how loyal is the individual clients to the advisor? If all of the clients were generated by a firm's referrals or someone was slotted in to be a servicing advisor, harder to move that business, and harder for that individual to have a pathway to growing, which is what firms want. But if the business was built by someone who brought in their own clients, largely, and it's their own relationships, even if there is legal risk, I'd say for any firms



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

listening, or any aspiring business owners, it's actually a really fertile competition, and there's some gold that's buried within some of these national RIA firms.

Mindy Diamond:

All right, so speak of captive, let's talk about deals in the wirehouse world shifting a little bit. And it's worth noting that for 2023, UBS was offering a largely guaranteed deal, and we said even First Republic as the high bid, they really shook up the market. So let's talk about deals, because everyone's always curious about where they're going. And I mentioned captive because the bigger the deal, the more captive the employee is. And so, in today's environment it's always about deciding what you want to be when you grow up.

What do you value more? The short-term upside of a deal or the freedom and control of being some version of independent? But deals in the traditional space really increased as far as headline numbers, but I think probably the thing that's most notable is that deal structures in a lot of cases became more advisor friendly with more competition for top talent, it forced the bidders, the firm's bidding for these advisors, to be willing to play ball and to be flexible. What do I mean by that?

Not that long ago, a wirehouse deal was formulaic. There might've been a little bit of wiggle room around the margins, but not a lot. But today, deals have really... The firms have become much more cognizant of what advisors want and willing to play ball. And the UBS largely guaranteed deal is a perfect example of that.

I think in addition to this is deals in the independency space. We saw recruitment deals offered by the larger independent broker dealers almost double over the last few years, because they also faced increased competition and are trying to beat out rivals through their scale.

Anything you'd add to that, Louis?

Louis Diamond:

No, I think that's exactly right. The UBS deal, my prediction is it has to change because it incentivizes the wrong behavior. It's bringing over advisors with a massive payout, but not having back-end bonuses to hit, I think creates some adverse incentives. So, I expect as we go into 2024, this dynamic might change, but for some advisors that are risk-averse, or even just they're not risk-averse they're confident in portability, but as good financial advisors and planners, someone offers them a deal that is pretty much bird-in-the-hand. There's an upfront, and then there's a salary over a 12-year period, in addition to the normal payout for some, it's too good to pass up.

So I think the UBS deal had an impact on the market similar to First Republic, similar to others, but I would agree with you that we saw headline numbers slightly edge up on deals, that's what people often care about. But like you said, devil's in the details. And what's most important is we saw the up-fronts that firms would pay get higher. We saw bonuses be re-weighted towards earlier years, which means



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

advisors can get money sooner and shift the risk profile on a deal. And I agree with you on the independent side, that's where we saw the most amount of change in the three or four largest independent broker dealers almost doubling the deals they're paying, and it's because they have the scale, they have the balance sheet, and they're also emboldened by higher interest rates and are making a lot more money.

So, great time to be an advisor, still a very strong seller's market, and we do think there's still room for deals to increase, although it's anyone's guess on how that dynamic will play out.

Mindy Diamond:

Well the bottom line here is I think that competition is a good thing. Competition is good for the advisors because it drives deals and keeps the firms honest, it's good for clients, because it forces the firms and the advisors to be able to really work hard to create the things that are most important to them, and it's good for the industry overall. So it'll be interesting to see what it looks like in 2024 and beyond.

Louis Diamond:

I'll take the next one and this one I would say people are probably interested to know, from our vantage point as major recruiters and facilitators of change in the industry, who do we view as the top recruiting firms of the year? So we will back up this, these assertions I'll make, with data in our coming Transition Report, but just anecdotally going through headlines in our own activity, in no particular order in our view that the top five firms for recruiting this year were LPL Financial, RBC Wealth Management, Morgan Stanley, UBS, and Rockefeller.

Again, don't have the data to back it up, but I think what's really interesting about these five firms is, with the exception of Morgan Stanley and UBS, which are both wirehouses, these firms straddle four different segments of the industry. You have LPL, which is an independent firm and has branched into, we'll call it supported versions of independence, and also has an employee model, but still largely independent. RBC we consider to be a regional firm. Morgan and UBS obviously are wirehouses, and Rockefeller, we would call it boutique. So what's interesting here is, aside from the names, that these firms are spread across different models.

So this is symbolic of the fact that there isn't a clear winner, a clear-channel winner, and that advisors who are motivated can find success in a multitude of different models, and that there isn't one firm that's going to be a definitive leader. It really depends upon what an advisor values, what they're trying to solve for, and where they're trying to go. And if that's the case, they have top-tier options in a variety of different categories.

One other thing to note is we mentioned Morgan and UBS being the recruiting winners. I would say Wells Fargo did a great job of adding advisors, although they certainly had continued attrition. Merrill was a continued absentee member of recruiting both as far as advisors being recruited and also with

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Page 8 of 17



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

their attrition. So Merrill attrition, we think, ticked down a bit, but we still saw some of the largest teams at the firm consider change, and when they're replacing them, they're still replacing them with salaried folks, or people with low length of service, who don't necessarily match the profile of the typical advisors that the other firms you mentioned are recruiting.

Anything else to add?

Mindy Diamond:

No, I was actually going to ask you about Merrill, because one of the things that is interesting, and it's so funny, for the last number of years, we've talked a lot about protocol and its impact on movement, and of the top three wirehouses, meaning Morgan, Merrill, and UBS, Merrill is the only one that remains in protocol. For years we've talked about we don't understand why Merrill is still in protocol, and we've predicted that they would pull out of it, and they haven't.

So the combination of Merrill still being in protocol and the fact that the handwriting is on the wall in terms of how bankified the firm has become. They've really, of all the major firms, they seem to be the one that is losing the most top advisors and gaining the least in terms of recruiting top advisors. So, it'll be interesting to see what the next year holds.

So, let's switch gears now and talk a little bit about the fun stuff. What do we predict or see for 2024 with respect to recruiting and the wealth management industry as a whole? So you want to take number one, Louis?

Louis Diamond:

So, we did a whole podcast episode about this topic, but it's worth noting because we've seen it continue to gain steam, and we do believe it's going to be a defining factor of 2024, and that's private equity's interest in wirehouse teams.

We think, the prediction is this will accelerate and become a disruptive force. So this could mean a private equity firm investing directly in a large-scale team, but we think more likely than not the venue that this will take place are large, national RIA platforms that private equity has backed, making a play to acquire or merge in wirehouse teams. And doing this with long-term capital gains as part of the deal structure, equity, and also with deals because of the way businesses are valued, that can far exceed on a pre and post-tax basis, a traditional recruiting deal or a firm's retire-in-place program.

What do you think about this?

Mindy Diamond:

I think it's a really big deal.



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

I think number one, it's real validation for the wealth management space, and real validation for advisors that are building big businesses, that private equity is driving valuation, private equity is driving interest, et cetera.

You and I are representing a number of very significant teams that are interested in models like this, want to be independent, love the idea of private equity backing in some way, shape, or form. And just like supported independence has enabled a lot of breakaways to move private equity's interest in the space will do the same.

But, it is worth noting that for many of the top advisors that have been contacted by private equity firms, and private equity firms, either through recruiters like us or on their own, are reaching out to some of the biggest and best teams in the industry. In the end when many of those teams really look under the hood and go many innings with the private equity firm in terms of due diligence, many of them wind up opting for simplicity over the excitement of private equity backed independence. And actually, you and I had a conversation about this the other day, so let's talk about it a little.

What do you think they mean when they say they're opting for simplicity versus independence?

Louis Diamond:

So I think with these deal structures, it's one of those things where you hear about it, you hear the broad brushstrokes, and immediately your reaction is, "So what's the catch?" It almost sounds too good to be true. So, I don't think it's too good to be true. I think that the deal structures to certain advisors, but it's maybe 5% of the advisor population that would be interested.

So, what we mean by simplicity is a move away from a traditional wirehouse as an example, is anytime you go independent, it does add some complexity. You have multiple custodian choices, there's technology choices, there's extra explanations that have to go into what you're doing to clients. And obviously it's not insurmountable, the premise of this show was built upon this, but it is a little bit more complex, and advisors do have to take on business ownership in some cases or more managerial and executive level functions, that perhaps a simpler move to a warehouse or a traditional brokerage firm, you might pick that up a little bit quicker.

So that's what we mean by simplicity over complexity. We still think plenty will do this and the deal structures will, I think, reflect this extra risk and extra work that goes into it, but for folks that are trying to keep it simple, they know where they're successful, they're just looking for a bit of a different culture, then more times than not, we will continue to see folks move within their industry channel rather than move outside their industry channel and go, in this case, independent or to join a registered investment advisory firm.

I'll take the next one, and this one is fun to talk about, and I have no idea what this is going to look like, but my prediction is there will be a major acquisition, probably many, but I'm guessing at least one that will really shake the industry. An example would be perhaps Citi, which recently hired Andy Sieg from



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

Merrill to lead its Wealth Management Division. Perhaps they make an acquisition, a mid-size or even fairly large firm. And whenever there's an acquisition, folks are in play. It also potentially signals a new deep-pocketed and well-credentialed firm entering the industry. So I do think with all the consolidation within the space, it's a certainty that there will be more disruption caused by M&A.

And my prediction as well is consolidation in M&A within the independent space will return to pre-2023 form. So investment bankers like Echelon Partners put out an annual and quarterly M&A studies. The recent studies have shown that M&A activity has ticked back with higher interest rates. Probably more importantly, advisors not wanting to sell their house unless it's top of the market. So I think with, knock on wood, markets cooperating, interest rates potentially holding steady are coming down, and all the same drivers succession need for scale high valuations, our prediction is that independent deal-making will accelerate.

So I think a big acquisition in more of the traditional space, perhaps the Citi or another firm going out to market and selling or merging in, and then independent M&A activity spiking from what we saw this year.

Mindy Diamond:

I'm really intrigued by your comment about Citi potentially doing an acquisition because in talking with a number of the Citi private bankers who are wondering what Andy Sieg will bring to bear, they're expecting some revolutionary changes, don't really know what that looks like. It is a head-scratcher that Andy Sieg, who ran a 15,000 plus advisor force, has gone to a relatively small, 400 or so private banking unit. So what's in store is interesting.

So I will take number three. We are predicting that there'll be an increasing use of compensation plans to dictate or influence advisor behavior. That's always been the way of the world in wealth management, that firms use carrot or stick as a way of modifying or changing behavior. And it is perhaps the biggest thing that makes wirehouse advisors feel as though they're losing the battle of control. So, regardless of what the changes are, advisors are often left feeling an increasing lack of confidence in management, or just uncertain that whether they can anticipate or even predict what the changes are going to be.

And that ties into the whole notion of long-term focus. That they use changes in compensation to read the tea leaves to say, "What are the actions that the firm values? And are those values congruent with mine, with the kind of values that I believe are important for my clients and the kind of business that I want to run? So am I just growing a certain segment of my business, like increasing lending for growth's sake so I hit a certain grid point, but am I doing it for the right reasons?"

So I think in a lot of ways it's leaving advisors feeling uncertain and unsettled. And the prediction is that because of more changes in compensation, it will make advisors, at least top advisors, feel more



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

uncertain, and more unsettled, more curious about what else is out there and will wind up driving more movement.

Louis Diamond:

I agree with you.

Not much else to add other than outside the wirehouses, the hallmark of the cultures and the models are that compensation plans are simple and that they do not change. So, as advisors begin to get frustrated with shuffling of numbers around a page, and "this plan hurts me, this one helps me" and needing a supercomputer in order to figure out how these changes are going to impact their business. A lot of folks when they consider change will opt for independents where they control their own P&L and control all of their own expenses and help they want to invest in the business, or they'll go to a regional firm like a Raymond James, an RBC, a Stifel that have a history of not messing with compensation.

So I think that's the anecdote is for those that are worried about compensation plan changes or are sick of needing to wait at the edge of their seats in October, or whenever they come out, that there's options where they can take more control and agency over how they're paid in order to do their best work for clients.

Mindy Diamond:

Agreed.

So I think that the next prediction is that big firms and smaller firms are going to continue to use sunset programs or retire-in-place programs as a way to retain both next-gen advisors and retiring advisors. And one of the things we've been seeing is that firms incite younger advisors to sign on to sunset programs earlier in their careers, to really commit to their firms for 10, 20, 30 years.

And I'm not sure that's necessarily the best thing for the advisor, or it's certainly the best thing for the firms. It's not necessarily the best thing for the advisor or the clients, because an advisor is, in that case, is really committing to signing onto a firm where the advisor has little to no control, zero control actually, about what comes down the pike. It leaves the firms free to make whatever changes they want to, and the advisor is really stuck.

Do you want to talk more about that?

Louis Diamond:

I think we see this play out in a couple of different ways. Some of the firms have partial buyouts where they can sell a subset of clients, or part of the revenue stream, to their team. The challenge with this is even though they've only sold a portion of their practice, they're still signing on to the same post-employment restrictions that selling the whole thing has. So very smart for firms to give some of their



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

top advisors options for liquidity before retirement. It also, though, serves as the best possible retention tool for advisors that are retiring and folks that are receiving, or are participating, in this buyout.

We get the question often, "Will the big firms offer retention deals?" They're losing advisors and if they offer economic branch a forgivable note to keep people in their seats, people would stay. Well, I don't think they need to do that, because these retirement deals are the best possible retention vehicle. Most advisors that have the ability to take over a business, regardless of its size, will probably think long and hard about doing it. Most will do it without really asking questions. Once they sign onto these, they're locked in for 5, 6, 7, 8 years, sometimes more.

So part of our prediction is that the firms will make the terms of these succession programs more attractive for someone retiring. So either increase the dollar amount, increase the friendliness of the structure, but as a result, the lockup periods will be longer for the next-generation folks and they'll probably even become more captive than they were, whether it's strengthening the language in the agreements or some other mechanism to tie them in for life.

So this one, it's not nothing novel. Sunset deals have been around for a while, but we think the weaponization of them for advisory retention, that's the big prediction.

Mindy Diamond:

I would agree.

And I think it's worth noting that while many teams, the retiring, or senior, advisor and the next-gen inheritor will often just sign them without really reading the fine print and then find themselves more tied up than they thought, the smarter and more savvy teams are absolutely paying attention. They're making sure that legal counsel is reviewing the fine print, and with more options than ever before, particularly for multi-generational teams, we are finding one of the predictions is that smarter, multi-generational teams will move to either independence or some other model as a way of replacing the monetization event that the senior advisor could get through the sunset program.

Louis Diamond:

I'll take the next one.

So this one, we'll call it aggregation, and this will play out in a couple of different forms. So first, it's just the concept that a rising tide lifts all boats. So it could mean mega teams forming at the wirehouses in order to get better resources and higher payouts. This is nothing new, but I think we'll see more of it. Solo practitioners are being either forced to join teams through compensation programs or helpful nudges from managers, but also as the firms have hiring freezes pretty much across the board, larger teams stand to get a better slice of the pie, and a bigger slice, and also obviously can potentially get higher payouts. So I think we'll see more of these mega teams form that have fairly little association with one another, but for compensation and resource purposes form a team.



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

The downside of this is that these big teams sometimes become too big and it's like creating Frankenstein's monster where the firms, they want to aggregate in order to control the advisors better because larger teams are harder to move, but sometimes they get so big, and they have specialists, and they have investment professionals that they begin to kind of function like their own independent entity within a firm. And then the question is, "I'm not really getting anything from the firm. I have my own planner. I do investments myself, and the firm's taking 50% or more of my revenue. Why don't I just take the show on the road and do it on my own?" So I think that we'll continue to see that is aggregating within the wirehouses for resources and higher payouts.

Where this is interesting is I think we'll really see aggregation play out in the independent space. We're seeing equity swaps becoming much more popular. We're seeing groups aggregate in advance of a sale, or years before of a sale, in order to bolster their valuation. So an example would be, I'm a \$3 million advisor. My business would sell for seven or eight times EBITDA, I'm going to merge it in with you, who is doing \$2 million, who sells for six or seven times EBITDA, even though we still can even continue to own our own books, we come under a similar brand or similar platform. And then if we go to monetize the business, now or in a couple of years, the combined business might sell for 10 or 11 times EBITDA.

So, not rocket science. That bigger oftentimes equates to a higher valuation, but we're seeing this on steroids across the industry. And a number of firms, Merchant Investment Management, and through many of their properties, a newer firm called Ampersand Partners, which is founded by a bunch of Wells Fargo veterans, I think are really popularizing the notion of either swapping equity or aggregating in order to receive a higher valuation.

So I think this will have a major force on M&A activity because a lot of folks that are coming together are doing it in order to attain a once-in-a-lifetime liquidity event. The downside is are firms merging for the right reasons? And once you sell, even if you sell a portion of the business, you're really selling the business in perpetuity. So will folks get lured or attracted to these high valuations, the pressure to do this before it's too late, but at the flip side of it is they're then working for a firm with less economics, less ability to move the business, and then you also got to worry about the next-generation team members.

To one of our points earlier about breakaway activity within the RIA channel. Do these teams perhaps lose key contributors because there's less equity that's going to the next generation because of this aggregation? So the prediction is multifaceted, but bigger is going to continue to be better. But, I think it has its limits and folks have to think long and hard about the implications and the trade-offs of aggregating, especially if it's simply to achieve a higher valuation.

Mindy Diamond:

Well said.



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

And I think the real key here is that bigger can be better because scale matters, driving margins matter, being able to have more capacity and more resources to offer clients are better. But oftentimes in these deals, what's best for clients can get lost. And as long as what's best for clients and the business overall remains the true north, then it's a good thing, but it's when it gets lost that it's problematic.

So I want to shift to what I think is our last prediction for '24, which is, and it's an interesting one. We talked about Goldman Sachs launching a custody unit, shaking up the market as a prediction for the last couple of years. They were a little slow to start, took them a little longer to get it ready for prime time, but they announced a number of sexy deals in 2023. We were proud to have represented the first team in Los Angeles that joined them, the first wirehouse team that joined them. But we really expect this to catch fire in 2024 for a lot of reasons, and one of which is the Goldman Sachs name resonates.

So what do you think about that?

Louis Diamond:

I think that's right.

I think what we've seen so far is that for advisors that value independence, Goldman, especially for a wirehouse team, becomes an obvious addition to their solution set. They're not going to win every deal, it's not perfect, and there's still plenty of market share to be had for Schwab, and Fidelity, and Pershing, and LPL, and any other custodians in the market. But, for certain folks, especially those serving a higher-end clientele, or who are worried about moving away from a mega brand to their own kind of unknown RIA, Goldman is going to be a really interesting part of the market.

I think what's surprised me to an extent is it's not enough to get folks that aren't really interested in independence to all of a sudden be really excited about it. I thought that just having the Goldman brand and the reputation was going to motivate folks that maybe weren't really thinking about independence to consider it for the first time. I don't think that's going to be the case. I think Goldman will win their fair share of deals, and they'll be probably one of the more dominant players for wirehouse breakaways when they select a custodian. But my prediction is it's not going to impact the overall flows to independence, because an advisor still needs to really want it. They have to want to be a business owner, and no matter who the custodian is, it doesn't change the fact there's a lot of work that goes with independence.

Mindy Diamond:

Well, let's talk about that for two seconds, let's unpack that.

So, we know that if an advisor is thinking about breaking away and going independent, and they're going to choose a custodian, we know that firms into the tried and true institutional custodians like Bank of New York, Pershing, and Fidelity, and Schwab are really good at partnering with an advisor to give them the roadmap for how to do it.



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

Is Goldman as competitive?

Louis Diamond:

I think it's fairly similar, where you have to be a rugged individualist to build your own RIA, still. And I think they'll provide similar resources to someone wanting to build their own firm. What'll be interesting is will they begin to work with many of the enablement platforms, the support independent platforms? Because then they hit it on both ends. They have the brand and reputation of the platform, but also the support infrastructure that we mentioned earlier is what advisors are looking for.

Mindy Diamond:

And how client high net worth focused does an advisor need to be in order to make it make sense to use Goldman as custodian?

Louis Diamond:

I'd have to ask them directly, because they accept their own rules, but from what we're seeing, it resonates with higher end clients.

So I think they'd be interested in a more retail book of business, but where they're really be competitive is alternatives and lending and more product focused and other custodians, where unless you have a client that's a massive consumer of these, you probably aren't going to get the same benefits of the platform that you might if you're serving the ultra-high net worth.

Mindy Diamond:

As we wrap this episode, which again you and I love to do, it's worth really noting what an exciting time it is to be an advisor. What an exciting time, especially, it is to be an advisor who's built a quality practice, who has a decent book of business in terms of size.

Because, increased competition has made it so that no advisor ever needs to feel stuck. And that from an economic perspective and a platform perspective, a top advisor knows that whether they choose to stay where they are, which is always incredibly valid, or choose to go elsewhere, there is always a valid home. And we love this episode, because we think that understanding what happened this past year as a context for what we expect to happen next year and beyond allows advisors to really make better decisions for their businesses. And again, the whole thing is about a goal toward an advisor living their best business life.

So is there anything else you'd want to add, Louis, to wrap or... Mostly I just want to thank you for joining me again.

Louis Diamond:



EPISODE TRANSCRIPT

An Advisor's Guide to 2024: The Impact of 2023 on the Coming Year

A Special Industry Update with Mindy Diamond and Louis Diamond.

No, I think that's right. I think that the last parting words I give is advisors are moving, but they tend to do it for longer term reasons than ever before. So sure, there's plenty of advisors who want to monetize. It's life-changing money, and I don't blame them. But for the most part, especially larger teams, are considering change because they want to future-proof the business.

They're looking to create enterprise value in the independent space or be on a platform where they see a real future that has staying power. So I think that'll continue to be part trend, part prediction, and really be the undertone of advisor mindset for 2024 and beyond.

Mindy Diamond:

And that's a great thing.

We should conclude, saying that's a good thing for all parties concerned. Thank you so much for joining me, Louis. This was fun as always.

Louis Diamond:

Till next time.

Mindy Diamond:

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This is Mindy Diamond on Independence.