MINDY DIAMOND ON INDEPENDENCE

A PODCAST FOR FINANCIAL ADVISORS CONSIDERING CHANGE

EPISODE TRANSCRIPT

Update on Transitions: Communicating the “Why” of a Move to Your Clients

A conversation with Louis Diamond

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is an update on transitions, communicating the why of the move to your clients. It's a conversation with my partner Louis Diamond. I'm Mindy Diamond and this is Mindy Diamond on Independence.

Mindy Diamond:

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Mindy Diamond:

It often seems that when an advisor's move is discussed, the value they derive from the change in firms and models is what drives the conversation, that is thinking what's best for the advisor. And certainly, the heavy lift of a transition sits firmly on their shoulders as does the ultimate rewards at the end of the day. But as we say time and again, the real impetuous behind a move should be to improve client service because it's the clients that drive the business growth and value. So, doing right by them is an imperative.

Mindy Diamond:

Yet the truth of the matter is that without communicating what's in it for them, your clients may never really understand the positive impact and value a change can bring. And ensuring a positive approach to the move will certainly enhance your credibility and relationship.

Mindy Diamond:

In this episode my partner Louis Diamond is joining me as we look at how to best identify and communicate the why of your move and the value clients can expect as a result. So, there's a lot to discuss and let's get to it.

Mindy Diamond:

Louis, thank you for joining me once again.

Louis Diamond:

Of course, always happy to join you and I think this is a very interesting and very relevant topic to discuss.

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Mindy Diamond:

Yeah, and it's funny. It seems almost obvious. Of course it has to be the benefit of clients, but I think you and I would agree that so many advisors, when we say to them, "How will you communicate the reason for the move to your clients?" They talk all about why it's better for them and they often leave out why it's better for clients. Do you agree with me?

Louis Diamond:

Yeah, I completely agree. It's also because the due diligence process is very much about the advisors, right? It's the advisors driving the process. They can't even tell their clients about what's going on, so they're doing things like technology demonstrations, but it's mostly from their vantage point versus the clients. They're making sure that there's certain platforms and that there's flexibility around marketing or fill in the blank of what an advisor's looking for. So, it is, I agree with you, it's harder sometimes to take a step back and think about how everything that you're looking at is to the benefit of a client when so much of the process is more about the advisor and their team and more of like the internal stakeholders.

Mindy Diamond:

Yeah, it's actually a really good point, Louis, because that's probably a good teachable moment for anybody who's listening to this who is tasked with recruiting for their firm because the firms do a really good job of painting a picture of why a move will be in the best interest of the advisor, but often times sort of assume that it's just obvious about why the move might be better for clients and it's a very important point that's often missed.

Louis Diamond:

Yeah, that's spot on. I think there would be a differentiator would be taking extra time to show the advisor why their client is going to be benefited. You're exactly right. It's easier to show the advisor what's good for the advisor, but I think going above and beyond to show why the client is going to be benefited can only help separate you from the pack.

Mindy Diamond:

Yeah, so I think as it stands in the current construct in most recruiting scenarios, an advisor can assume that the onus is on them to figure out and really be mindful about how this move benefits for clients to ask additional questions of the firm because they probably won't necessarily be communicated unless you ask.

Mindy Diamond:

So, let's jump in with that in mind. In the work we do with advisors, one of the first questions we ask is, "What's your why?" It may sound trivial or obvious, but why is it important for an advisor to know their why from the perspective of clients, Louis?

Louis Diamond:

Yes, I think it's important for two different reasons. The first is an advisor's why is what drives them. It's why they wake up in the morning. It's why they do what they do, and having a compelling why is ultimately why a client will work with the advisor. The same can be said though, as an advisor's thinking about changing firms, their why is ultimately what's going to drive their decision or their criteria for making a change because they need a firm's resources or value proposition to align with what's going to help them live their best why.

Louis Diamond:

And as we're talking about a move, the why from the perspective of clients, I can take that also as, "Okay, you're thinking about the move. Why does it matter to the client that the advisor's moving?" I think the obvious answer is there's a lot of good reasons for an advisor to move. It could be compensation driven or more efficient technology or a better brand or fill in the blank, business ownership, but it's definitely not as obvious for the client. A client is just going to see this as a hassle. They didn't have an opportunity to meet with five different firms and go on home office visits and dig into the weeds. They're finding out for the first time when an advisor resigns that they're making a change.

Louis Diamond:

So all they're going to see is changing of account numbers and new documents and having to set up bill pay differently at a new firm. So, it is a hassle for a client, so unless that why is communicated clearly, if you're a client why would you come along for the ride? That's where, I would probably stop there, but I would ask you the same question. What's another reason why from the perspective of a client, an advisor should care?

Mindy Diamond:

Yeah, well first of all, a financial advisor isn't an accountant who is just manipulating numbers. Their whole business life, their whole reason for being is all about clients. So the notion of being a fiduciary is all about doing what's in the best interest of clients. And I think your point around as you evaluate other opportunities to keep in mind your clients didn't have the benefit of being able to evaluate all these different opportunities. They're being tasked with following you, hopefully following you to the one opportunity you chose.

Mindy Diamond:

And I think, actually, it brings up the point that a lot of advisors don't take the time to really back up the train and explain not just why they chose what they chose for the benefit of clients, but also why they've decided to leave their current firm. And The point behind that is not in any way to bad mouth your firm. That's just in bad taste and doesn't serve anybody well. It's not about negative selling, but it is about acknowledging the fact that, "The firm I have been at for the last 10, 20 years, whatever it is, has served me very well and allowed me to serve you incredibly well, but now as I think about being able to do more for my clients, things like ..." and I'd ask you to fill in the blanks, Louis. What are some of the things that advisors look to do more for clients when they move? But, "As I look to do more for my clients, I feel somewhat limited in my ability to do that here and that's what really drove me to look elsewhere."

Mindy Diamond:

It's sort of telling the story behind a move and I think a lot of advisors don't think that that's obvious or don't do that well. Do you agree with me?

Louis Diamond:

I do agree, and also the best advisors are insulating their clients from a lot of the pressures and frustrations that their firm might give them. So bureaucracy, advisors shouldn't let a client know that, "Oh, it's so difficult to complete this request for you." The good advisors make it a seamless client experience regardless. So that's the other piece of it is, again, it may seem obvious that, "I'm unhappy and I can't do what I need to for clients," but if you're doing your job right, it also shouldn't be known to a client that you're unhappy. I would say, for the most part, clients are going to be pretty happy at whatever firm you're at. Their happiness is going to be much more about your relationship, your service, and your process. It's not necessarily about the name on the business card. That's why also, portability follows the advisor. It doesn't follow the firm.

Mindy Diamond:

Yes. So, what are some of the things that when an advisor move they hope to do better for clients? If they need to fill in that blank, "I'm moving not for my benefit, but for your benefit and here are the things I'm going to be able to do more or better for you." What are some of those things?

Louis Diamond:

Yes, I'll give you a couple. We'll also include a link in the episode page because our team member Wendy Leung wrote a very insightful article digging deeper into these different areas called "The Client's Why's In A Move", but I'll give you a couple.

Louis Diamond:

One would be more support. More support as far as having more professionals that are working in the business to support the client. It could be more investment flexibility, so having a wider or more bespoke list of alternative investments or more SMAs, or ability to advise on crypto, which is very germane these days. It could be more services, so offering tax preparation or bill pay or more trust in the state services, which obviously is a direct benefit to the client.

Louis Diamond:

Potentially lower costs. We don't really see advisors lower their cost in a move. Sometimes it's necessary to win the business, but it could be lower manager costs or lower platform costs, better technology certainly. This is could be a double edged sword as we were talking about before, the technology is usually evaluated from the advisor side. It's more efficient to run my practice and use my CRM, but the client facing technology, the app, the online web portal, that's certainly a potential benefit.

Louis Diamond:

It could also mean less bureaucracy. So, what I mean by that is if there's less red tape and hoops for an advisor to jump through it means more time to be spending with clients or it's easier for an advisor to creatively solve problems. So, as issues come up or there's exceptions that need to be made or even something like a client is moving to a new country, you now potentially have the ability to get to yes more often and you may see that in more boutique firms or certainly by going independent.

Louis Diamond:

Two others I'll give you is a better ability to communicate. So, pandemic is a great example. Advisors were able to get rapid communication out in their own voice at certain firms, but they were much more restricted in getting stuff out at others. So, even things like having a podcast or keeping in touch with clients and prospects in social media, that may be a net benefit to clients.

Louis Diamond:

And then finally, I'd say maybe it's a firm with a clearer strategy of where they're going and how they're going to scale, or even more longterm stability. So, no client wants to be a company that's not investing in the future or is kind of haphazard in how they're investing in the company. Certainly you can translate the benefits of a more scaled firm or a firm that's more forward looking or future oriented than my current firm, which is kind of stuck in the past. That was a lot of different examples. I think you got to pick and choose what's most relevant to your clients, and certainly the type of firm you go to would likely drive which on the list you're going to pull from.

Mindy Diamond:

Yeah, it brings up a good point because you and I talk with advisors a lot about the notion of connecting the dots. That it's easy to say, "I'm moving to a new firm because I'm going to get greater support," and presume that the client understands how the fact that you're getting greater support is actually for their benefit.

Mindy Diamond:

You gave the example when you talked about going to a firm where one of the statements you'd be able to make is less bureaucracy and you talked about how you'd connect the dots there, the notion that if I'm working for a firm where there is less hoops to jump through and less bureaucracy I will have more freedom and opportunity to serve you better to do more and better for you. That was connecting the dots.

Mindy Diamond:

How do you connect the dots on one like better technology? How does that connect? So, saying that an advisor will have better access to technology, how does that connect the dots to how it's better for clients?

Louis Diamond:

Yeah, it's a really good question. I think it depends how you perceive the client facing technology at your current firm, but what I would probably do is look for one or two features that are better on your new firm's client facing technology. Maybe it's an integrated document vault or we have better ability to move money in a self-service basis or we can pull in your assets that are with your advisor at Goldman or with alternative providers. I think you just got to look at your particular situation now and then look at some features that might be new on the platform. I think technology, I think you can always probably find one or two things that are better, but of course there's going to be some potential negatives or differences. Those have to be weighed and balanced.

Mindy Diamond:

Yeah, and so I think our point is it's important to obviously say, "I'm moving because I will have access to better technology," and presume that it's obvious to a client why that is to a client's benefit. But I think your example with some real sort of granularity connects the dots. How does it work with something like, "I'm going to have more support?" How do you translate that into a benefit for clients?

Louis Diamond:

"We're all working really hard here. We have two advisors and we have Bill who's our client associate. We're working 60 hours a week and it's tough. We feel like there's more we can be doing for our clients. Now, at this new firm, we're actually going to be granted a new team member and the firm overall has paraplanners that we can bring in. There's trust in the state's experts that we can bring into the relationship. So, we're going to a firm now that is investing more in our team and our ability to add team members, but also has some shared resources that we can pull into the relationship."

Mindy Diamond:

Love it. So, connecting more of those dots.

Mindy Diamond:

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The other thing I'd add just in listening to the list is really that as an advisor gains freedom and control, the clients benefit. Advisors are better able to customize their deliverables for the benefit of the clients the more freedom and control and flexibility the advisor is granted.

Louis Diamond:

Definitely. Let me flip the script and ask you a question. What about an advisor who is considering staying in channel? We know from industry data that most advisors will stay in channel when they're making a move. What we mean by that is moving from one wirehouse to the other or moving from one independent broker dealer to the other. Some advisors, the cynical ones, would say, "Well, that's a lateral move. How is that any different?" But certainly plenty of advisors do it.

Louis Diamond:

My question is, do you think that move is always about one's personal financial gain or how is it possible that that type of move could be to the benefit of the client?

Mindy Diamond:

Yeah. I love that question because as you know, that becomes not so much what advisors ask us, but what we ask advisors. We challenge advisors all the time. So, it happens. I'll give you an example.

Mindy Diamond:

I worked very recently with a significant Merrill Lynch team that really thought that they wanted to go independent, and we spent probably eight months or a year going down the rabbit hole, in a good way, in a productive way, of meeting with every possible service provider and custodian and understanding what technology looked like in the space and working on pro formas and all.

Mindy Diamond:

At the end of the day, the advisor realized that while there were definitely aspects of independence that were very, very appealing to them, it was a bridge too far. They just weren't ready to give up the infrastructure and support and familiarity of going to a major firm and wound up moving to Morgan Stanley.

Mindy Diamond:

Okay, so my query to that team all along was there is nothing wrong with making that move. In fact, I can list 10 things for you that you might find or be able to tell a client is better at Morgan than at Merrill. But at the end of the day, you're going to have to be the one to look clients in the eye or put your head on the pillow and justify whether it's better enough. Is it a move that is only being made because you're being paid three or four times your trailing 12 months production or is it a move you're making because you really believe you'll be able to do better enough, more than enough things better for a client?

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Mindy Diamond:

In the case of the particular advisor I'm talking about, what I advised that advisor to do was throughout the entire process of due diligence with Morgan Stanley, to ask every person they met from other advisors that work at Morgan, to leaders of product areas, to heads of the firm, to the complex manager, to everybody in between, "I'm going to ask you questions about why and how things are done at Morgan Stanley, but what I'm really looking for, I'm looking at it through the lens of how will making this move be better for clients? And by being focused on that, the advisor got really comfortable in this particular instance with the fact the examples were that Morgan Stanley is a wealth management firm that owns a bank, but not the other way around. They sound subtle, but it's a major difference. It means that the advisor has more freedom and control to customize things for clients. It means that at Morgan Stanley wealth management represents a greater percentage of the total bottom line, total revenue, and so the investments and innovations that happened at Morgan Stanley might be better or more often and more to the advisor and clients benefits than happen at Merrill.

Mindy Diamond:

There are many other examples I can give you, but that's the point, is that of course if an advisor is moving from Merrill to Morgan or Morgan to UBS or independent broker dealer to independent broker dealer, the advisor's personal economics certainly need to make sense. The advisor wouldn't do it if it was detrimental, but eye on the prize, it needs to be about the client.

Louis Diamond:

Yeah, and I would also say we know why it's important to make a move in the best interest of clients, but to make it a little bit more selfish, any advisor listening knows and they've probably used this trick when advisors have left their firm for a competitor you know that the advisors who are getting distributed your accounts are going to use the fact that, "Oh, he's only moving for his own personal financial gain," in order to keep your clients.

Louis Diamond:

So, knowing that the playbook is very clear on how that's going to play out means it's even more important for an advisor to be crystal clear on why they're making a move within channel and why it's going to be better for the client.

Mindy Diamond:

Yeah, I think that that's absolutely right. So, let me ask you a question. Is it ever all right for an advisor to make a move that is primarily driven by, or motivated by, what's best for the advisor, what's best for him or her?

Louis Diamond:

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I think the answer is yes. I mean there's six to seven different types of stakeholders involved when an advisor considers change. There's the advisor, there's the team, there's the client, there's a family, there's the new firm, there's the contra firm, the list goes on and on. So, you have to try to balance all of those out.

Louis Diamond:

Certainly an advisor's going to move unless there is a major benefit to them. Ultimately it's the advisor who is doing the lion’s share of the work. They're the ones that have to take the risk. They're the ones that have to do the due diligence. I don't think there's anything wrong with the primary motivator being for their own gain, but at the end of the day there still has to be a net positive for the end client. If it's, "Hey, this is great for me, but by the way, SMAs cost more. The technology isn't as good. It's a no name firm and we have less support," then the clients aren't going to come. I think it's all interconnected. It's a circle.

Louis Diamond:

The clients are going to come when it's better for them and ultimately the advisor's going to have a better experience if more clients come. I think one hand kind of feeds the other and if the equation's out of balance than I think everyone loses.

Mindy Diamond:

Yeah, I think it was a good point. It's all interconnected. You're absolutely right and I think the rule of thumb, it starts with do no harm. So at the very least a move needs to be able to replicate anything and everything that an advisor is currently able to do for their clients, certainly do no harm. The hope is that you are also able to make a case that certain things will be better and enough of those things will be better that can really justify it.

Louis Diamond:

I agree.

Mindy Diamond:

Let me ask you another question. What happens when an advisor goes independent? Are there different benefits that might come to mind?

Louis Diamond:

I think there are. At the end of the day it's the same thinking. What's in it for the client? I think it probably is easier thought exercise to come up with the benefits to a client if an advisor’s going independent and staying in channel just because there's more, we'll say obvious, benefits. Again, nothing wrong with staying in channel and there's plenty of benefits to doing so, but it's probably easier to get to your list when going independent.

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Louis Diamond:

I think a couple that would be different, if an advisor's going independent, again from the clients perspective, one would be true open architecture. So, not being limited to what's on platform. Working through multiple custodians, multiple lenders, bespoke one off kind of alternative investments. That's certainly a benefit to clients, but how much that matters to clients is up to the advisor to decide.

Louis Diamond:

Another one would be control over expenses. An advisor can choose if they're independent to invest in hiring and building new services and in areas that are most important to the client because now they have a higher payout to do so. In other words, they're in charge of allocating resources versus it being more prescribed by a larger firm or broker dealer. So certainly those could be benefits to an end client. We'll say technology, talked about the client facing technology, but in the independent model there's more customization around what the different technology platforms look like. There's probably a greater ability that you can build a tech stack that is most relevant to what your particular client cares about the most, whether it's more of a planning type relationship, they care more about alternatives, or higher end investments. I think you can customize stuff that way.

Louis Diamond:

I'll give you one or two others. I think marketing and social media is a big one. An advisor can get their own commentary out rapidly, almost instantly, have their own unique viewpoint versus more kind of canned pre prescribed type stuff that a major firm would provide, and be able to do it, I think, quickly is the key. Even at firms or broker dealers where advisors have the ability to have their own unique voice, having a two or three day lag is a death sentence to that content being relevant, especially in a pandemic or a crazy market environment.

Louis Diamond:

I would say the last one, this one might be less obvious, but it's called open architecture for succession planning. This one I think you really have to take time to explain to the client. It's not going to be obvious to them, but at any major firm, or even within a independent broker dealer, the buyers or the successors are either going to be someone within the team, which is great, or if there's not a viable successor within the team than you have to look external to the team and likely look at advisors that are currently affiliated with the firm. When the advisor goes independent they're able to drastically expand the universe of who buys the business, and ultimately who's going to succeed that advisor.

Louis Diamond:

Again, I think you have to be careful with how to message it. You don't want your client to think you're just walking away and selling, but I think having more options is a good thing. That's kind of the theme of all of this is more options tends to be a winning formula for what's best for a client.

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Mindy Diamond:

Let me ask you a couple follow-up questions to that. You mentioned when you talked about having true open architecture that the advisor could have the ability to be multi-custodial. In the spirit of the question about connecting the dots, how is an advisor's ability to be multi-custodial, for example, how might that benefit clients?

Louis Diamond:

I think this is one advisors often talk about wanting to be multi-custodial, but very few actually do it in the end because it's kind of a pain operationally to have multiple platforms, multiple types of account documents, but I think the benefit would be either for a new client, maybe they have a Schwab self directed account and you're at Fidelity. So you can have the option of still keeping that business there and still be able to service them. It could be, let's say, it's a client that has some family members in the US and then some family members in the United Kingdom. Certain custodians might be better with international business than others so it gives that advisor an ability to still service that end client.

Louis Diamond:

I think the same goes for something like lending. Certainly if you're independent you have many more lending options than if you're captive, but different custodians have different lending solutions whether it's private banking resources through BNY Mellon and Pershing or the bank that Schwab has, or Fidelity offers lending in a different way through Goldman Sachs and US Bank. So I think it really depends upon the clients needs, but again, more flexibility is going to be a benefit to the end client, but has to be balanced against the operational headaches that come with multiple custodians.

Mindy Diamond:

Yeah, and it goes back to what you just said a couple minutes ago. The notion that optionality ultimately is a good thing. I was also thinking when you talked about the ability to communicate rapidly. I think about the fact that if you're a wirehouse advisor and you don't have the ability in the midst of a pandemic or a downturn in the market by a gazillion points, that an advisor has to rely on picking up the phone and calling every client. And often times, clients don't end up hearing from their advisors as often as they would like.

Louis Diamond:

Yeah, I think that's exactly right. It's more scalable and it's more efficient. So, I think you're right. It leads to higher satisfaction.

Mindy Diamond:

Louis, I want to thank you again for joining me. I think that this was a really productive conversation. It's a good reminder about being laser focused on what's best for client in everything you do and the ability to communicate it in a way that's obvious and accessible to clients is really critical. So, I thank you again for your time and for joining me.

Louis Diamond:

Yeah, absolutely. I think just one other point I'll leave our listeners with is don't underestimate just making a list. I'm sure most advisors who move, they have scripts or their pitch, but have four to five bullet points at your ready where if you're kind of panicking or a client is really truly grilling you, you at least have your list that you're comfortable with. That's something that we offer to advisors that work with us. We help them with these client facing pitches, but it's also something that advisors should rely upon a firm they're joining, a custodian they're going to, or a platform they're affiliating with, is, "Help me craft my client facing why." I think it's critical to take the extra time to do it. You spent all this time kicking the tires on firms, building a website or making sure the book maps over. Take the extra hour to make a list and be really, really comfortable and clear on what your why is and I think that will serve you extremely well.

Mindy Diamond:

Yeah. We will wrap there, but that is the point. Put the onus on whatever firm you're going to to help you to craft your client facing why.

Mindy Diamond:

I thank you for listening and I encourage you to visit our website diamond-consultants.com and click on the tools and resources link for valuable content. You'll also find a link to subscribe for regular updates to the series. And if you're not a recipient of our weekly email, Perspectives for Advisors, click on the articles link to browse recent topics. These written pieces are an ideal way of staying informed about what's going on in the wealth management space without expending the energy that full on exploration requires.

Mindy Diamond:

You can feel free to email or call me if you have specific questions. I can be reached at 973-476-8578, which is my cell, or my email mdiamond@diamond-consultants.com.

Mindy Diamond:

Please note that all requests are handled with complete discretion and confidentiality and keep in mind that our services are available without cost to the advisor. You can see our website for more information.

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Mindy Diamond:

This is Mindy Diamond on Independence.