



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is Disrupting the Landscape: How a \$12 billion Plus Multifamily Office is Making Waves Amongst Advisors and Their Clients. It's a conversation with Avy Stein, Founder and Co-Chairman of Cresset. I'm Mindy Diamond and this is Mindy Diamond on Independence.

Mindy Diamond:

This podcast is available on our website [diamond-consultants.com](http://diamond-consultants.com) as well as Apple Podcasts and other major podcast platforms. If you are not already a subscriber and want to be notified of new show releases, please subscribe right on your favorite podcast platform or on the episode page on our website. For Apple Podcasts users I'll be grateful if you give the show a review. Your input helps us to make the series better and alerts other advisors like you who may find the content to be relevant. And while you're at it, if you know others who are considering change or simply looking to learn more about the industry landscape, please feel free to share this episode or this series widely.

Mindy Diamond:

Advisors and clients have been the beneficiaries of a more than decade-long evolution of the industry, changes that have led to opening the eyes and minds of advisors, awakening them to the fact that the status quo need not be something they settle for. And for their high-net worth clients, they too have recognized that wanting more from their advisors and the firms they work for is a right they've earned. As such, new models have emerged that are taking the best from all others and delivering options that are more flexible and client service-driven, topped off with the ability for advisors to take greater agency and control over the businesses they are building.

Mindy Diamond:

It was a vision that came to Avy Stein and partner, Eric Becker, who as family office clients found themselves exploring options and were struck by the limitations of existing wealth management approaches, including sophisticated advice and access to an ecosystem of direct private investments. So as business investors and innovators, Avy and Eric set out to build a better mouse trap, a model that checked off all the boxes that they saw were missing or not up to the standards that a high-net worth client wanted and deserved.

Mindy Diamond:

And so in 2017, Cresset was born. It's an employee and client-owned multifamily office designed to deliver a new paradigm for wealth management, with rockstar leadership and advisor talent and a value proposition that's resonating with the wealth management world. For example, in 2020 Cresset made headlines with their acquisition of \$2.3 billion RIA, PagnatoKarp. The firm that Merrill breakaways, Paul



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Pagnato and David Karp first launched with HighTower in 2011, and then made another break for full on independence in 2016.

Mindy Diamond:

Plus, Cresset has had unprecedented success in recruiting private bankers and high-net worth focus advisors from throughout the industry landscape. I'm thrilled to have Avy on this episode to tell us about Cresset's journey, to talk about what it takes to build what they describe as a better model for advisors and clients, how they compare to firms like Rockefeller, what's driving interest amongst advisors, and so much more. Let's get to it. Avy, I can't thank you enough for making the time to join me today.

Avy Stein:

Thank you, Mindy. I can't thank you enough for having me and congratulations on the incredible work that you and Louis and your team do for advisors.

Mindy Diamond:

Thank you. All right, lots to cover so let's jump in. You come to the wealth management space as a high-net worth client-turned business owner. Tell us a little bit about your background and that of your partner and co-chairman Eric Becker, if you would.

Avy Stein:

Sure. Eric and I both are entrepreneurs and private equity investors. Eric and I both have built... Well in the aggregate we've built about 150 companies over our lifetime investing, over \$8 billion of equity capital, and don't even want to say how much debt capital on top of that, building several businesses. We were both family office clients. Eric had his own multifamily office with some other folks and I was a client both bulge bracket firms and of family offices. We were investing our own family capital together, buying companies and doing real estate transactions when we decided that we were very unhappy with what was available to us in terms of multifamily office services and decided we would do some research with a research firm on what might be possible, what were the trends in the industry, and what we thought would be an interesting investment proposition which is how we got started in Cresset.

Mindy Diamond:

What specifically was missing? What were you looking to solve for?

Avy Stein:

Mainly we were looking to solve for something that had four components. First, an uncompromised investment infrastructure led by macro strategies, what we call efficient beta. We didn't really believe



## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

that there was a lot of beating the market, we weren't looking for beta in the public markets but a very strong macro strategy, goals-based planning and investing, a manager selection, deep infrastructure, and research. Coupled with broad and deep family office services, everything from family governance and education down to healthcare advocacy, wealth strategy, wealth planning, financial planning, tax compliance, tax strategies, and everything else that a multi-billion dollar and multi-generational family might have, whether it was helping buying houses or buying cars or buying jets, all of those kinds of things.

Avy Stein:

Then true expertise throughout the private investment landscape. So developing a detailed private equity team, a detailed private equity secondaries team, a very deep real estate team, we have about a 20 person real estate team and being able also to be very good at credit. We felt like we needed to have a true institutional quality, private investment infrastructure being the third leg of the stool. And then the fourth piece was building an ecosystem, peer-to-peer learning, lots of events, lots of strategies for people to really enjoy the value of what they've created.

Mindy Diamond:

What you're saying is you were high-net worth clients, you looked out across the wealth management space, both in the RIA space as well as in the traditional bulge bracket space, you didn't find what you were looking for so you and Eric set out to build it. Is that accurate?

Avy Stein:

That is 100% correct. And just one other thing I would say about that is if you looked at the bulge bracket space there's some very great people in there and there are a lot of things that are done well. Full alignment with the clients wasn't necessarily something that we experienced in that space. And then when you looked at the RIA space it was very fragmented, not a lot of scale. You might have some very good alignment but you wouldn't necessarily have all the optionality that you might've gotten on the other side so we thought we can combine all of that and create both in one entity.

Mindy Diamond:

A lot to unpack there. But let me ask you then first and foremost, so what is Cresset's value proposition? Cresset is what?

Avy Stein:

Cresset is a multifamily office which as I mentioned has four really significant pieces to it. As I said before, a deep investment infrastructure, broad and deep family office services, and it has I think the only among RIAs fully functioning private investment strategy that goes across private equity, private



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

equity, secondaries, real estate and credit. And it has a big ecosystem with peer-to-peer learning, lots of events, and a commitment to creating community.

Mindy Diamond:

Okay. You mentioned before that when you looked at the bulge bracket space, the wirehouse world, you saw a lack of full alignment. What does that mean exactly?

Avy Stein:

Right. If you think about what's happened recently there's been a 12% share shift over the last decade away banks and wirehouses to independent firms. And the proposition of the independent firms has been very simple, we get paid once. We get paid one fee and we are completely indifferent as to what you the client invests in because it doesn't affect our compensation. So we only choose the best things for you because nobody gets paid to sell you anything. We don't get paid to sell you a private deal, we don't get paid to sell you a house fund, we don't get paid to sell you anything so we can be fully your advocate.

Avy Stein:

And then added to that has been real help with your estate plan or your tax, or finding somebody to run your house or whatever else you might need. In the bulge bracket, obviously there are a lot of house products. There is a presumption that you'll use the banking services you're only allowed in many of those places to use what the bank has to offer for lending products, lending vehicles. We always say we're not one bank for every bank. So it's a very significant difference in the approach.

Mindy Diamond:

I know you've had a lot of success in the past three plus years since your launch. Let's first start out, tell us a little bit about the success, where you've recruited folks from, how you've grown organically, and why you think it's resonating so much in the market place.

Avy Stein:

Sure. On our ADV we're about \$14 billion, there would be if we filed an ADV today. And then there's about another three to \$4 billion or assets that we advise on and that's been done in about a little over three years, it'll be four years next October since we took our first money. A lot of that has to do with the fact that we've invested over \$130 million in our platform. We built the platform first, the idea was to build the platform, build the brand. We invested in marketing, we invested in platform, we invested in digital strategies, we invested in creating a deep private equity team, a deep real estate team, a deep private equity secondaries team that's actually a '40 Act fund, credit partnerships with top credit funds in the country.



## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

Avy Stein:

And so all of that is resonating. Out of the \$14 billion roughly of actual AUM only 3 billion has been purchased. The rest has been bringing in private bankers, assembled bracket, warehouse folks as well, and using our networks and building our networks and working very hard on the marketing and in the brand.

Mindy Diamond:

Yeah, well, that's extraordinary. One of the things I think I want to ask you about is when I think of Cresset I tend to describe the industry landscape in buckets, if you will. And when I think of Cresset I think of Cresset in the same bucket that I would put Rockefeller. And Rockefeller is also crushing it, having enormous success. For a lot of the same reasons that Cresset is resonating, except Rockefeller has a name that is easier to explain, that advisors find it easier to embrace because it's a well-known name synonymous with ultra high-net worth clients. Help us to understand if you would, how Rockefeller, how and where Rockefeller and Cresset are similar and how they're different.

Avy Stein:

Sure. There is I think a substantial movement toward the independent space. And if you think about where this is going, if we have this conversation a decade from now, Mindy, my guess is there will be half a dozen or so private firms, independent firms that have a hundred billion or more of a AUM, and I certainly think Rockefeller will likely be one of them and I hope that we will also be one of them. The similarities are that we're independent firms and we're growing fast. And the differences I think are significant as well in that Rockefeller has more of a look to it like an old wirehouse but less of a look to it like something that's very different. Yet it's a great firm, nothing negative about Rockefeller, we're very different in that our clients, that our family office clients, they're getting a significant bundle of service.

Avy Stein:

If you look at our ADV and their ADV, we only charge one fee. They still do get paid commissions and some other things and that can be good or bad depending on what people's proclivities are. Ours is very focused on private offer and if you think about the way private investing was always done when I had my private equity firm, JP Morgan or someone else would be an investor of ours, they would pay people to sell investments in our funds. Someone would be paying 2% fee, 20% carried interest, and then they'd pay an additional fee and potentially an additional carried interest depending on whether it was JP Morgan or Morgan Stanley or whoever our partner was.

Avy Stein:

Very different what we do, we do direct investing in family companies. We do joint ventures with the Marriott family buying hotels, we do joint ventures with asset management firms and asset



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

management acquires where the fee might be totally one in 15 or something like that. So it's lower fee. We do a number of things where our clients do joint ventures in the credit space where they actually get a piece of the general partnership, not just the limited partnership. Same thing when we will do a family investment with one of our family companies where we're doing a recapitalization.

Avy Stein:

We structure things differently. We structure things largely with very significant yield, downside protection, and upside participation and low leverage. Whereas in general firms like Rockefeller investing in funds or fund to funds, which is very different from what we do. And I think we really focus a lot on our digital marketing, our strategies. Our organic growth is where we focus really hard. We do like to bring in strategically terrific people, people who are aligned with us who want to have multiple ways to win.

Avy Stein:

When we bring in an advisor they're owning a lot of stock in Cresset. Our first movers who came in their stock is probably worth about four times what it was when they first came in. So we're offering multiple ways to win, Rockefeller is more of a traditional deal. And again both appeal to different people and nothing wrong or right with either, and we also are very big on building our ecosystem. One thing I always mentioned to people thinking about coming over is we have over 300 investors in our private investment vehicles who are not on platform that are prospects for all of our advisors. We spend an enormous amount of money building a non-traditional marketing group that is obviously growing very fast we've. We've onboarded over 100 clients organically, not by bringing new advisors but organically from existing advisors year-to-date this year, approaching \$2 billion of new assets.

Mindy Diamond:

Yeah, okay. Amazing success. And what I want to say is that in my view the reason I say that firms like Rockefeller and Cresset fall into the same bucket is because they appeal to the same kind of adviser, the private banker or bulge bracket or wirehouse advisor that is running a great business, a growing likely ultra-high-net worth or high-net worth focused business doing multi-millions in production, managing multi-billions in assets who is looking for more freedom and control, and has likely looked at the independent space and felt that it was a bridge too far to build their own and didn't want to go out and help to pull together all of the support and resources and infrastructure that you did and liked the idea of joining an affirm on an RIA chassis that offers them more freedom and control, but not the heavy lift of building something from scratch. In your opinion, why do you think that is resonating so much not only with advisors but with end clients?

Avy Stein:



## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

Sure. Well, first of all, whether it's Rockefeller or Cresset, whether a couple other names that you could throw in there, I think the independent space is resonating. I think that Fidelity, Schwab, and others are spending many, many tens of millions of dollars to make that point. And I think that if you just look at the evolution of where things have gone, I don't want to get too far off track here but I always say Elliot Spitzer had a little bit to do with this. If you go way back in time when you separated sales and trading from research a lot of independent research firms grew up, therefore independent firms could buy the same information that basically the bulge brackets and the banks were getting. That had a lot to do with the proliferation of these independent firms.

Avy Stein:

Now, that there are so many and that the marketing has changed from all having to spend a lot of money on television building a brand to digital and other means, it levels the playing field. There's been a true democratization of information and a leveling of the playing field and I think the consumer especially the sophisticated consumer, especially the younger consumer, owner/operator of a business, tech executive, understands that they want alignment of interest, they want independence, they want uniqueness, they want differentiation and they realize that the playing field is leveled and the independence can absolutely compete and do a great job for them.

Mindy Diamond:

Yeah. Well, I couldn't agree with you more. I think those are very much the reasons why advisors are looking to move toward versions of greater independence. Let's focus a little bit for now on the advisor talent you've brought over. You mentioned that 14 billion under management in three years, which is extraordinary, and only 3 billion has been purchased. So maybe tell us a little bit about the 3 billion that was purchased and a little bit about the private banking talent and wirehouse advisor talent you've recruited.

Avy Stein:

Sure. So the 3 billion has been purchased with three acquisitions. One was a small firm in San Francisco called Cyprus, about \$400 million of AUM. I think at the time one was a small firm in Chicago called Evanston, a similar size. And the other was a slightly larger firm called PagnatoKarp, about 2 billion at the time we bought it, which was based in Reston, Virginia. PagnatoKarp was about 15 million-ish when we bought it. I think it's 20, maybe approaching 20 million in that office today in Reston, Virginia and it's nine months later.

Mindy Diamond:

And it's annual revenue, correct?



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Avy Stein:

Annual revenue.

Mindy Diamond:

And PagnatoKarp just for clarity is of HighTower fame, correct?

Avy Stein:

Yeah. Paul Pagnato and David Karp, were Merrill advisors. They went to HighTower but they left HighTower and started their own firm. They built it to about \$2 billion and then decided to partner with us. And so that's all the acquisitions. And then in terms of the folks that we've recruited, I'd say it's been a preponderance of private bankers with more recently a gentleman from Goldman Sachs and we have done a couple of other lift outs. But it's people who recognize a couple of things. One, they're wanting to build a great business and they want all the support possible they can have to build that business, marketing support, family office service support, private investment support, and an ecosystem.

Avy Stein:

It's people who recognize that while the selling of their business from time to time may very well be great, there's also another opportunity which is to get equity interest in something that's growing very, very fast and that usually large pools of cashflow traded higher multiples in small pools of cashflow so the opportunity that they can leverage off of what we're doing is very important to them. I think about the old partnerships like the old Alex Brown or the old Goldman Sachs pre-IPO, that's what we're building. We're building something where people will earn dividends annually over time and they will also earn great interest in the business over time and when they were tired get paid out on those interests. So it's a different model, a very different model.

Mindy Diamond:

I wanted to ask you a question, you mentioned equity. It's so interesting because before a decade ago or so advisors were really negative about equity. Recruiting deals had historically been paid part cash and part equity. And in the financial crisis when all of that equity was worth nothing and they realized that they left a whole lot on the table, advisors were low to take equity as part of a recruiting deal.

Mindy Diamond:

But in the last decade or so the RIA space and firms in it like Cresset have really proven that equity can be incredibly valuable. And what you said, analogizing it to the old partnerships of firms like Alex Brown or Goldman Sachs pre-IPO is exactly right. Can you talk to us a little bit about how you structure deals, the part cash and part equity, and how these advisors or bankers coming on are feeling about cash versus equity in the incentive form?





# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Avy Stein:

Sure. First of all, let me just go back one step. A lot of the failures of the firms where equity was a big deal, at least the more public and known ones, had to do a lot with structure, where they were giving equity but they were giving equity in a pool that was consistently being diluted by additional people coming on, only diluting that pool. In other words, they weren't aligning the advisor equity with the owner equity, that's not what we do.

Avy Stein:

We only bring on advisors and give them equity if we think it's equative to the whole business. Each time a new advisor comes on our business grows, there is dilution of everybody pro rata but hopefully the dilution is less than the accretion that we will get from having brought on those great people that are going to help propel the business forward. We're very, very careful and selective obviously about what or who we bring on.

Avy Stein:

The equity value is a really interesting thing. We're in the third inning of Cresset, maybe, maybe the second inning, obviously not even four years old for a new business. And our view is that that equity will continue to double every few years and as a result advisors have a really good opportunity and feel really good about it. I will tell you the best evidence I have of it is we have two things going on right now. One is that we have a number of our advisors who have asked if their compensation can be in net profits interests or equity as compared to cash. In other words, they want a higher percentage of their compensation in equity.

Mindy Diamond:

Yeah, okay. Well, that's pretty much unheard of. Keep going.

Avy Stein:

Well, it's incredible, yes. Well, we say yes, and every year we do compensate if there's bonuses for our people who are not the advisors, we give them a portion of cash and stock but the advisors themselves are asking to take some percentage of their compensation in equity versus cash. The second thing is that for the last several months we have been working legally to figure out how non-qualified investors, certain of our advisors and other folks can invest directly in our private investment opportunities. And we finally figured that one out and it's been much more demand there than I thought there would be. So some of the folks that are working for us are understanding how this is working and they're very excited to be part of.

Mindy Diamond:



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Yeah, well, I think that that's... I talk a lot about a real shift in advisor mindset in the last decade or so. And when I started the business almost 25 years ago cash was king and it was all there was. And I think today when a firm can make the case, can be transparent about what the equity can be worth, how the firm is valued, what they see as the end game and ways for the advisor to monetize the equity advisors are pretty excited about it. And then the calculus says do I want to bet on building my own equity or do I believe that to be part of the whole of what you're building will ultimately be more valuable?

Avy Stein:

I say, why not bet on both? Now, you asked about structure it can be 75-25, it can be 70-30, it can be 60-40, it can be 50-50 with the first component being cash. If somebody says, "My business has this value. You're going to buy my business, I want 70% or 75% cash." I'm willing to do that, I don't necessarily think that's the best thing for them and I think they'll probably wish they had taken more equity, but certainly happy to do that.

Avy Stein:

I think it's great because they get the opportunity to monetize a portion in cash and have two bets going. And I always tell the story of when I was in the private equity business I had a very good friend who was a private equity, a senior person at a bulge bracket firm that had a private equity group who decided to leave, go off on his own. I was very excited for him and then he told me that he was partnering with a boutique investment banking firm and he was going to give up half of the carried interest that he was getting on his private equity side, but getting some stock in that firm. And I thought, "Gee, that's kind of curious," because this guy was a kind of this guy who was going to make a lot of money in the private equity business.

Avy Stein:

And in the end it was very interesting. He made a lot more money on what he got in stock from the firm than he necessarily did on his carried interest. And it really opened my eyes to this multiple ways to win philosophy and the idea that it just makes a whole lot of sense. And then if you add to that, that our people get a chance to invest in some very unique investment opportunities along the way it ends pretty well for them to win and I think that's resonating.

Mindy Diamond:

Yeah. How are the advisors and bankers that you've hired over the last three and a half years, how are they doing now? How much have they grown under the Cresset umbrella and what do you think is driving that? Maybe you can give us some specific examples.

Avy Stein:



## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

Yeah, sure. I saw it in one of the sheets today that UBS was bringing on another group of private bankers and I think the line was they think that they're going to bring 25% of their clients and 50% of their revenues, on that I'm not sure how that math works to begin with. But the 25% number is pretty aspirational generally. Obviously there are always outliers, but when private bankers come over the history is 12 to 25% for better private bankers generally what they'll bring over two or three years. It's not a great growth curve yet because of our brand and because of what we've done, every one of the private bankers that we brought over who needed to get to a crossover point where 40% of their revenues would cover their salaries has gotten there and gotten there sometimes two to one or three to one.

Avy Stein:

Most of the early movers who have been with us two years or more are well over three and a half, \$4 million practices. So they've grown and as everybody recognizes there's the garden leave and the little bit of a difficult start for them so it doesn't happen immediately in terms of cash. I think that's attributed to who they are but also attributed to who are they, who they are, coupled with the brand. And then the businesses we bought have grown dramatically. I mentioned PagnatoKarp is the best example. It's grown over 30% in the last nine months.

Mindy Diamond:

And I know one of the things you've done is really doubled down and invested in building an extraordinarily robust infrastructure with real rockstar leadership talent. And I imagine it's part of that support that drives some of the growth that the advisors you've recruited had experience. What can you tell us about those folks you've hired and why it matters?

Avy Stein:

I think it's critical to hire people that you know know how to bring in business. And advisors are a continuum. There are those advisors that are fabulous new business people and fabulous with clients, in servicing clients. There are those that are one or the other and there are those that are somewhere in the middle and it's a continuum. If you can add to that mix the ability to create a tremendous volume of leads, both people like Pat Canning who we brought in. Pat was the Lead Director of KPMG. He was head of their Chicago office. Prior to that he was heading their Boston office. He just has such an incredible bevy of contacts and if you give him the right platform and you team him with the right advisors there's just no limit to what he can do, and that's more of an old school way of doing it.

Avy Stein:

And then on the digital marketing side we've spent years perfecting what we do digitally and are willing to spend quite a bit of money doing that. And that yields tremendous lead flow and faster closing lead



## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

flow which is interesting when people come digitally to you, they've already researched and they know that you have something they want and they have a need, so it's just very interesting. That's a lot harder than the many pitches that you might make to ask somebody to come from one investment advisor to another.

Mindy Diamond:

And what is the average client size or median client size of these clients that are coming in via digital marketing efforts?

Avy Stein:

About \$22 million is the average. But it's interesting, we have several hundred plus million clients and we have smaller. You see, what's really interesting about it is we were not executing on the smaller leads and we have a brilliant young man who was actually Eric's chief of staff at the time who was very involved in his marketing. And he said, "We should take a look at who are these people?" And what was really interesting is we found a lot of them were founders of businesses and though they didn't have a lot of liquidity they had tremendous upside in their equity values. We created a way to service them as well which we internally call Cresset Catalyst. But there's 10X their value of the equity they hold in their businesses to liquidity.

Mindy Diamond:

Yeah. And you're saying then that these referrals or leads that come in via digital marketing get distributed amongst your advisor talent, is that right?

Avy Stein:

Yes.

Mindy Diamond:

Okay, that's another good reason to... It's another way to win to quote you.

Avy Stein:

It is another way to win. We are very committed to helping our advisors grow the business. And again, there's one key differentiator here when you give a substantial portion of equity to people coming in, and that is, everybody knows that they win when we win and we win when they win. So it's unlike what exists in a bulge bracket firm where everybody's kind of on their own. I saw something, you asked for Rockefeller earlier, one difference, and again, there's no right and wrong here, but one difference is someone joined Rockefeller and they said they're going to be the so-and-so team at Rockefeller. There's



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

no so-and-so team at Cresset, there's just Cresset and everybody benefits from the halo. Everybody benefits from Jack Ablin on CNBC three times a week. Everybody benefits from our interviewing Mark Cuban and our interviewing former CEO of McDonald's and Gretchen Carlson and a whole lot of other people.

Avy Stein:

Well, last week we did Walter Isaacson. We're interviewing Matthew McConaughey. I mean, we're doing all these events where clients come. We had a cryptocurrency event where we had 450 people sign up to come and listen to a gentleman who had made a lot of money in cryptocurrency speak about what there was to do there and where blockchain is going. These events bring in clients and prospects and then we distribute them obviously to our advisors and everybody is working together realizing that because they own stock if the person next to them does well, their stocks are going to be very... so it's a very different mentality.

Mindy Diamond:

All right. So as Cresset continues to grow, what does your ideal advisor or private banking prospect look like? And I'm talking both in what geographic markets and I'm talking in terms of where the advisors are coming from and what kind of business there are running.

Avy Stein:

Growth markets in general. The markets that we're in, San Francisco, a little bit in Seattle, Denver, we are in Minneapolis, Chicago, West Palm Beach, Atlanta, Houston, and DC area. Where we want to be in addition to those is more in Texas, Austin, Dallas. We want to be in Southern California. We will probably do New York, more in the Pacific Northwest. Probably Nashville, maybe the Carolinas we'll see, that's not our highest invest use and the Northeast is not highest on our list but at some point we will be in the Northeast.

Mindy Diamond:

Well, New York seems to be an obvious omission. That's curious to me, is that by design?

Avy Stein:

Yes.

Mindy Diamond:

Interesting.



## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

Avy Stein:

Very competitive. Only want to go into New York in a significant way. We started an office in Houston two months ago. It'll be about a billion dollars with one small acquisition we're about to accomplish and the gentleman team we brought from Goldman Sachs it's going to be great. It'll be about a billion dollars in let's call it four or five months. You can't go into New York that way in my view, it's just too hard. We believe that it will have to be something more significant, a very large team, or a significant RIA.

Mindy Diamond:

Okay. All right. Tell us a little bit then about the target advisor.

Avy Stein:

Sure. The target advisor is growth mindset, growth-oriented, someone who really sees the value of being fully aligned with the clients. Someone who wants to be part of something, wants to be a great partner, someone who wants to serve his clients that can benefit from private investments, family office services, ecosystem. That doesn't mean that they all have to be 50 or 100 million dollar clients, there are many \$10 million clients that benefit from the ecosystem and benefit from private investment vehicles. For example, we have a '40 Act private equity secondaries business that's a \$200,000 minimum and it has quarterly liquidity.

Avy Stein:

It's broad-based exposure to private equity generally without J Curve is performing unbelievably at 23% last year and it's just a fabulous vehicle for people to get entree to the five private markets which we are committed to believing is for the office. So they don't have to be a huge client to be able to benefit from that, it's not all very large clients. But what it is is people who are committed to growing the business, being aligned with their clients, being accountable, and wanting to be part of something rather than just to have their own business.

Mindy Diamond:

And how about how much of revenue you'd ideally like them to be generating annually and assets to be managed?

Avy Stein:

Sure. We're willing for the right person to do things that are slightly different from this, but in general we're looking for people who come in with at least half a million dollars of revenue. But not only, we are willing to look beyond that if it's the right fit and somebody we can help to develop and obviously we're very excited when people come to us with five or \$10 million of revenue.



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Mindy Diamond:

I know from what I know of the firm that I don't see you opening in Nashville, Tennessee, one of the markets you mentioned for half a million dollars in revenue.

Avy Stein:

No, no, no. To open there it would have to be a billion.

Mindy Diamond:

Right, that's what I would think. Okay, got it. Let's zoom out a little bit and I want, help me to understand like you mentioned family office services. And if you're an advisor, if you're a part of the private wealth unit at Morgan Stanley or UBS or part of PBIG at Merrill, you believe you have access to family office services. And I think that the term means different things in the wirehouse world than it means in the RIA space. Tell me what that means to you specifically and how it differs from the access and advisors gets to family office services in the traditional space.

Avy Stein:

Sure. At Cresset, if you're a family office client, when you come in you are assigned not only an advisor but a financial planner, a wealth strategist, which is a former practicing attorney who's doing your estate planning. If you're interested, a tax specialist who will not only do tax planning for you but can do tax preparation for you. You're assigned someone from the concierge team who will help you with healthcare advocacy, cybersecurity protection, pretty much any household or large ticket purchase items that you might need. If you're interested you will meet with our family governance specialists.

Avy Stein:

There'll be family meetings for you, they'll do family planning, mission, vision, and values. If you want your kids to go to our camp where we teach them how to do business plans, what it's like to be children of a wealthy family, how to do philanthropy, you can do that too. We have a philanthropic consultant that you can also meet with who's on the team or who will be part of your team if that's of interest to you.

Avy Stein:

In addition to all that we'll organize your financial life fully. We'll set up everything for you. Think about it as an outsourced CFO kind of service so that we can do all your bill payments, we can make sure your financial statements are right. We don't do the bookkeeping but we can find and hire and supervise those things for you. So you're enveloped by everything that you might want or need. You can basically say, "Do it all for me," or, "I would like these services but not these services." And it's the client's choice.



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Avy Stein:

Well, that's not what happens in a large bulge bracket. You might have somebody fly in from time to time and you give some estate planning advice. Financial planning may or may not be part of what's happening. The concierge stuff is usually not what's happening and they probably, some might have, the outsourced CFO services would be a very separate charge and a separate arrangement. This is all part of what we do for our clients.

Mindy Diamond:

Yeah. And what you're saying is this part ties back to what we said at the beginning that you were that high-net worth client who had been a client of the bulge bracket world and found that what they offered wasn't exactly what you were looking for. Is that accurate?

Avy Stein:

Correct, correct. I mean, I think there are many models and different clients are going to want different things and just different advisers are going to want different things. So by no means am I casting aspersions on any of these things, but my experiences were, it was a little holy water kind of sprinkling from somebody who was very smart, but it wasn't part of the team, it wasn't part of the follow-through, it wasn't part of the day-to-day interaction. It wasn't putting everything in one place.

Mindy Diamond:

Got it. And it's so interesting because, first of all, you're 100% right that a conversation like this talking about the benefits or the value proposition of Cresset is not to say that an advisor who practices at Merrill Lynch or Morgan Stanley is bad or isn't servicing their clients well. But it is to say that the industry landscape has expanded, that advisor mindset has shifted and that clients want something different. And where and when an advisor and/or a client wants something different, it is refreshing to know that the waterfall of possibilities has expanded and models like Cresset exists, which didn't exist years ago.

Avy Stein:

Right. Now, absolutely, there's no one model. That's for sure.

Mindy Diamond:

Yeah. But I want to go back for a second to the notion of brand name, because I cannot tell you how many times I talk to an advisor in the bulge bracket space that runs a spectacular business that who wouldn't be intrigued by what you're talking about. The notion of perhaps a more nimble or more refreshing culture, the notion of equity as part of the equation, the notion of growth being supported





## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

through these digital marketing efforts, the notion of access to private investments and et cetera, et cetera.

Mindy Diamond:

But a lot of these folks have grown up drinking the Kool-Aid, and I don't mean that in a bad way, but really believing that everything they have is more than good enough and believing that they're filling the blank, their high-net worth client, their international client, their institutional client, I can go on and on. Their female client, whatever it is, will have a problem separating from a brand name. They believe that it is the name of Wells Fargo or Merrill Lynch or Goldman Sachs or Rockefeller or whatever it is that is a big contributor to their success. And then along comes a firm name Cresset, which no one's heard of or virtually no one's heard of, that has a very interesting value proposition but certainly begs the question, how do I reconcile giving up a recognizable brand name and a firm that's mature, that's been around for a long time not just three or four years, how do I make that shift?

Avy Stein:

Sure. I think there's a couple of things in that question that are very interesting. One is, just look at the numbers 12% over the last decade are making that shift in terms of the share of market that's owned by the independent space versus the bulge bracket space. I view what UBS is doing right now, trying to treat private bankers like they have a book of business to transfer as just a sign of how difficult it is for these firms to grow because that from an economic perspective is very difficult to understand.

Avy Stein:

I think a lot's going on and it's already happening the shift away from these types of names, bulge bracket types of names to independent names. And I think there are a number of reasons for it that we've already talked about. But I'm just going to give you one very quick example of how it goes. We have a very large client who called one day and said, "I am very excited when somebody who I have money with," and this gentleman has money with a few different people, "Tells me they're going to a private firm. And when they tell me they're going from one bulge bracket to another I ask them what percentage I am of their revenue and how much of the check I'm getting."

Avy Stein:

Because he said, sophisticated clients understand what's going on. And when someone says... Someone who's built a business and is an entrepreneur says, "I understand you are going to a place where you're going to be known, where are you going to be an entrepreneur, where you are fully aligned with me and where you are going to offer me something different than what I can get where I am today. I understand that. If you tell me you're going to the same kind of place, just moving, changing jerseys, that's more difficult." I think that has a lot to do with it as well and I think it's going to continue. And fidelity and



## EPISODE TRANSCRIPT

# Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients

With Avy Stein, Founder and Co-Chairman of Cresset

Schwab, and Pershing, and newer custodians that are coming on, they're pushing this agenda and they're pushing it very, very hard.

Avy Stein:

Disruption in banking is also going to change things. When you start thinking about all of the... Just look at the margins of the bulge brackets. They make teams kind of margins including spread revenue on income. Well, if that starts to come away now what happens? There's going to be a lot of pressure, and I do think a much larger share of this business is going to end up in the independent space and I think that the consumer recognizes other brands. And again, I grew up in the grocery business, we owned a couple of hundred grocery stores. I did not even grow up in it but as a private equity investor I grew up in it.

Avy Stein:

And I remember when I started we had 6% of our revenue came from owned brands, in other words, our own brand that wasn't a national brand like Kellogg's or something like that. When we sold the business, 63% of our revenues came from our own brand. What changed? What changed was the media? What changed was the consumer's ability to get information on things that didn't rely on a national media with a huge budget strategy. It's the same thing going on in this business. People know Morgan Stanley because they spend tons of money advertising on television, but they also know Cresset if they open their computer and we can compete there.

Mindy Diamond:

It's actually a really interesting analogy because my last question was going to be, what about the wealth management industry in general, where do you think it's heading? And I think what you just shared, the notion that clients have become more savvy because they're getting information in different ways that it's much less about the brand name and it's much more about the capabilities and the model and I think I agree with that totally. But one as a last question, what other trends do you see developing that our listeners should be aware of?

Avy Stein:

I think the disruption is going to continue as there's 250 SPACs focused just on technology companies today, many of them on fintech technology companies. There are several venture capital firms that are focused totally on fintech. Look at something like Fin VC, they are investing in many, many, many new technologies. They're going to make things like subscription processes, reporting, trading, all of those things integrate and do better. Legacy systems in big places are going to have a more difficult time moving over to those things but independent firms that are more nimble are going to have a huge opportunity, so I think the trend is going to be more digital.



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset

Avy Stein:

We always say one of our four key pillars is going from digital competence which is where we are today to digital leadership where we want to be, because that is definitely where the puck is going. And as you look at an entrepreneur who's a business owner... And money in motion is always easier than trying to get somebody to change investment advisors. And if you look at those young entrepreneurs today there's so much money in motion, everything that's happening I could argue it's going to increase. Those folks, their first stop is the internet, always. Their first stop is looking for something different. They're not interested in old brands, they're interested in new and emerging brands.

Mindy Diamond:

Avy, thank you. Such wonderful insights and I can't wait... I mean, as you said, Cresset is only in its second inning. We can't wait to hear more as it develops and matures into its fifth and sixth and seventh inning and I hope you'll join us again.

Avy Stein:

Thank you, Mindy, and thank you for having me. And we are here for you and for anybody who wants to talk to us. We really believe in the great people that exist in the industry.

Mindy Diamond:

Thank you. The world's greatest businesses were built by founders looking to find a better way, that is to fill a gap and continuously create value for the constituents they serve. As such, firms like Cresset are winning in the race for top advisor talent. More to come from this firm and others like it so stay tuned. I thank you for listening and I encourage you to visit our website [diamond-consultants.com](http://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 to stay informed about what's going on in the wealth management space without expending the energy that full-on exploration requires.

Mindy Diamond:

Feel free to email or call me if you have specific questions. I can be reached by cell at (973) 476-8578, or by email at [mdiamond@diamond-consultants.com](mailto:mdiamond@diamond-consultants.com). Please note that all requests are handled with complete discretion and confidentiality. And again, if you enjoyed this episode feel free to share it with a colleague who might benefit from its content. And if you're listening on the Apple Podcast app, I'll be grateful if you gave it a star rating and review. That will let other advisors know if it's a show worth their time to listen to. This is Mindy Diamond on Independence.



# EPISODE TRANSCRIPT

## **Disrupting the Landscape: How a \$12B+ Multi-Family Office is Making Waves Amongst Advisors and Their Clients**

With Avy Stein, Founder and Co-Chairman of Cresset