Industry Update on Partnerships: 10 Questions to Help Identify if You're Still Right for Each Other

With Louis Diamond

Mindy Diamond:

Welcome to the latest episode of our podcast series for financial advisors. Today's episode is an industry update on partnerships. 10 questions to help identify if you're still right for each other. It's a conversation with my partner Louis Diamond, I'm Mindy Diamond, and this is Mindy Diamond on Independence. This podcast is available on our website 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 Podcast users, I'd 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 a change or are simply looking to learn more about the industry landscape, please feel free to share this episode or the series widely.

Mindy Diamond:

When it comes to building a strong business, there is nothing better than a great partnership. Like a happy marriage, it provides the perfect environment for synergy with added capacity and expertise, a path for succession, and enhances the overall success for the advisors. And clients are the beneficiaries of all of the above.

Mindy Diamond:

Yet like with any business, the shared mindset the advisors started out with years ago may not be the same today. It's most often that these differences come to light when partners are considering their future. For example, one advisor may think the status quo is serving them well, while the other is intrigued by another firm or model that may offer them greater freedom and flexibility. It's a common inflection point that leaves the partners wondering if this relationship is still right for them.

Mindy Diamond:

So how do you determine if the differences are irreconcilable or if there is a happy medium that leave you both feeling content and able to continue to grow and serve clients happily ever after? What happens if you no longer share the same vision or can't come to a consensus. Louis joins me to discuss the Genesis of partnerships, and 10 questions you should ask to determine if you just hit a rocky patch, or if breaking up may be the best path.

Mindy Diamond:

So Louis, thank you for joining me.

Louis Diamond:

As always, it's great to be here again.

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Mindy Diamond:

Let's start off. Can you share Louis some thoughts on the value of a partnership?

Louis Diamond:

Yeah certainly. Well, I think there's many and one of the biggest is you have camaraderie. You have someone to bounce ideas off of. You have someone where you can each leverage your own unique abilities. So I might be good at investments, while my partner might be more of a planning expert. So teams provide ultimate leverage for advisors so that you can focus on just what you like, and also what you're good at.

Louis Diamond:

Also from a client standpoint, there's immense value in partnerships because there's backups in case someone wants to go on vacation, something tragic happens, or eventually for a succession plan. Clients also get the best of you, get the best of different skillsets.

Louis Diamond:

And I think the last main benefit of a partnership is it's someone to have on your side. It's a friendship, it's a confidant. It's someone who's in the trenches with you and understands exactly what you're going through in a different way than the spouse or a boyfriend or girlfriend might be.

Mindy Diamond:

In the last number of years, the big firms in particular have really encouraged arranged marriages, because it's good for the firm. Why do you think that is? Why is it better for the firm to have these arranged marriages or to have advisors work in teams as opposed to as individual silos?

Louis Diamond:

Yeah. I think from two different angles. One is the empirical. The other one is a little bit cynical. I'll give you both angles. So on the empirical kind of quantitative side, the firms show and just industry research shows that teams grow faster than individual advisors. It's because they can leverage their strengths, they can spread themselves out in the areas that they're best at, and they can have different areas of specialty. Teams also have more resources. So you might have more administrative support. They might have more of a chief operating officer model. So the goal is to keep the rainmakers focused on that or just on what their biggest value add is of the team. I think that's the first part is just teams are good for everyone. It's good for the firms because teams grow faster. Good for the client because they're able to get better service and interface with advisors differently. And it's good for advisors because they're making more money and able to serve clients better.

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Louis Diamond:

I think though on the somewhat cynical side is the firms also found that teams are harder to move. It creates more barriers for advisors to leave the firm, because you need multiple people on the same page to leave. If one person leaves, the other one doesn't. The person staying behind has a better chance at retaining assets than just a random assigned advisor. So I think that's the other piece of it is the firms believe it creates higher switching costs for advisors. So they're encouraging it at all levels of the firm.

Mindy Diamond:

Yeah no, I think that's absolutely right. And I think the reason that it's harder for multiple stakeholders to move is because you've got even partners that have always been on the same page, if they are of different ages or different stages of life, it's just natural that they may have different risk tolerances. So the more stakeholders you have to please, the less likely they to all agree on the next solution.

Mindy Diamond:

So let's talk about that for a minute. In counseling advisors who've hit this proverbial fork in the road, we've outlined 10 questions that can help them decide how best to move forward. So let's get to them. I'll start and then we'll move forward. The first one. Do we like each other, and how compatible are we? So obviously, that's the first question. One, we talk about arranged marriages. Not every partnership was formed because two people came together and said, "I've been watching you. I like the way you work. You seem to work similar to me. We seem to have a similar ethos. So let's join together." Some partnerships were formed by default. So the less the partnership that was formed was rooted in organic we like each other and/or really on the same page, the less likely that partnership is to continue with great compatibility down the road.

Mindy Diamond:

The other thing is things change. People have changes either in their personal life or people have changes in their professional life the way they begin to see things. And like in a marriage, unless you grow together, you're sometimes likely to grow apart.

Louis Diamond:

I think the other thing I would add on that is a lot of times teams are now in the second, third, fourth generation. So you may have two partners that were best friends. One's since retired seven or eight years ago, the other one's kind of on the way out. And now it's the new guard who's come in. So while they're teammates, like you said, different aspects of the career people are valuing. And these teams just evolve with time. Even if it wasn't an arranged marriage.

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Louis Diamond:

Then I'll take the second one. Do we share similar goals and values? This might be the most important one. Because even if partners are best friends, which we've seen often, and they're great golfing together, their families are close. If they're on completely different pages as far as where they see the business going, how they want to serve clients, what their ideal vision of their business life is, it's going to be really hard to keep a partnership. That's why when we're working with teams or partners, we take each individual partner through our defining your best business life self-assessment. We've talked about this assessment before, and it's a really good upfront way just to gauge how aligned partners are. It doesn't mean that you have to be a carbon copy of one another. It's actually probably better if your answers are somewhat different.

Louis Diamond:

But if let's say one advisor says, "Right now, I'm looking to coast. It's a lifestyle practice. I make plenty of money, and I just want simple." And the other one says, "I want to grow at 15, 20% per year. I want to make Barron's list every year. And I want to start doing M&A." Then that's going to be a tough partnership to save because someone's going to feel like they're missing out. What do you think Mindy?

Mindy Diamond:

Yeah. Well, it's funny. Where my mind went was something a little different. So yes, the goals for the future have to be the same. But I think it also comes down to risk tolerance. And a lot of times when one partner begins to feel a level of frustration and the impact of those frustrations are great enough where that partner says, "I just can't work here anymore. It's not working for me here anymore." And he or she goes to his partner and says, "What do you think?" And that partner says, "Yeah, but what you see as DEFCON 3 I see as a minor annoyance. And by the way, I'm coaching my kid's soccer games. And I've got a lot of personal stuff on my plate. So it's not the right time for me to move." So you and I are actually working on a couple of scenarios that fall into that category right this second. Where you've got two partners where one is just, "I am out of here no matter what." And the other is not.

Mindy Diamond:

And we'll talk about it a little later. But the reality is how do you resolve that? You resolve that either where the one who isn't all that motivated to move stays put, and the other goes. You resolve that where if there is a stronger voice in the partnership, he or she convinces the others to move along. It may mean that one sacrifices where they would go. So in other words, maybe the more strong minded one says, "I would ordinarily go independent. But if you have no interest in independence because that feels like a bridge too far for you, maybe instead we'll go to another major firm, or we'll go to a regional firm, or something of the sort." So let's move on to the next question. Louis I'll ask you, the next one would be are we synergistic professionally? Are we the yin to the other's yang?

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Louis Diamond:

Yeah, that's a good one. So I think that this does closely relate to the first one, which is compatibility. But the way I would read this is are your strengths compatible with one another? We've seen some teams that have two outstanding rainmakers. They just keep bringing in assets and the business keeps growing. But if there's not a partner who's good operationally or is good on the mining of the business, the planning, the investments, the leadership of the team, it may not be the best partnership because the car's just going too fast and it doesn't have any brakes to stop. So I think that's this one. It's do we balance each other out? Are your strengths my weaknesses and vice versa? Are we able to be bigger and better together? Or are we just at odds because we're just competitive with one another and it just doesn't work? What do you think?

Mindy Diamond:

I think I was thinking about it a little differently. I agree with you 100% Louis that there needs to be a yin to the other's yang. But I think also when a team is thinking about exploring options elsewhere, one of the most important places where it's critical to be not just the same, but complimentary, have complimentary skill sets is when a team is looking to go independent. Because while it's great that everybody is a strong rainmaker, there has to be somebody on the team that perhaps is more operationally, and another person on the team that's perhaps more investment or analytically sound. So a lot of times, the how synergistic a team is professionally will have a strong determination on where they wind up going.

Mindy Diamond:

So Louis, let me ask you the next one. The next one is, does one plus one equal three? And the way we think about that is are we better together? Are we better able to serve clients, better able to manage our team, and better able to grow together?

Louis Diamond:

Yeah, that's a great one. So this is where it comes back to some of the teams we're seeing in the major firms these days are almost fake teams. They look like teams for official purposes. But really, they've just come together in order to get a higher payout. And they just do it to get a little bit more resources and to look a bit bigger than they were before. That's great. That serves a purpose. Everyone wins presumably. But you're not necessarily in a one plus one equals three scenario. In a situation like that where we truly are much better together, it's a magnification of each other's strengths. It's not just that we're both smart, we both like each other, but that we're able to provide better service to clients. Because as I focus on working the country club for new business, you're in the office doing detailed financial plans. And if I'm selling something, you're able to then go back and deliver on it.

Louis Diamond:

So those are the best teams. The ones where each one focuses on their strengths. And together, we can grow faster. And it's not just disparate advisors coming together for purposes of getting a better payout. What are your thoughts?

Mindy Diamond:

Yeah. Well I guess I have a question for you. So one of the trends I think we're seeing is the formation of these mega teams. I know of a team in New York where a senior advisor who had been with the firm for near on 40 years went through the firm's retire in place program. And she sold her business to the next gen, which is a younger team who was coming in to forum a mega team. Probably 40 advisors, probably close to 30 or 40 million in revenue, many billions under management. And while I think obviously on the surface numbers like that are pretty impressive, what do you think about that? Does that necessarily mean that one plus one equals three?

Louis Diamond:

It could and it could not. Some of these mega teams in major firms, they become almost independent firms within a larger organization. And we've written about this, how the risk of these mega teams is that they just do everything on their own. They have a COO, they have business managers, they have portfolio managers, research teams, etc. And they just need the firm less and less. So that to me is a pretty good team, but it's also where a team structure can break down. I would have to know more about this particular team. I would probably think there's some gamesmanship in it. That they maybe share one or two clients where they have essential portfolio that some advisors using. And everyone benefits because the lead advisors collect overrides or get a higher payout. And then the smaller advisors on the team are able to leverage more resources and also get a higher payout.

Louis Diamond:

So I would probably think there's an aspect where bigger isn't always better. And when you have that many heads, it's really hard to function as a cohesive unit. So maybe it's a little bit of both.

Mindy Diamond:

Yeah. I think it's worth mentioning. We've talked about it multiple times, but it's worth mentioning here. In that scenario where you've got a senior advisor looking to retire out through their firm's retire in place program, and you've got a next generation advisor or team that's going to take over the book of business. While it's amazing, an amazing opportunity for this younger generation to now be the head of a 40 person mega billion dollar, mega team, ensemble team. The reality is we've talked a lot that there is a downside to being the heir apparent or the next gen inheritor. So the upside obviously is you're now the head of a mega team, and that's great. The downside is that you are tied up for the life of that agreement, oftentimes seven to nine years. And during that lock-up period, it's really difficult if not impossible for you to make a change. And the value of your business really goes down because you are way too expensive to recruit during that period of time.

Mindy Diamond:

So it's not that's a bad opportunity. If you've been faced, if you're lucky enough to have a senior advisor who's offering you the opportunity to be there next gen or the heir apparent, that's fabulous. But make sure that you read the fine print in the contract and make sure that you understand what you're giving up, and that you can live with any and all changes that come down the pipe during the life of the agreement.

Louis Diamond:

Definitely. All right. Let me ask you number five then. If we are different ages, are we on the same page about our succession plans? And would the older advisor fully trust the younger partner with their clients if they were hit by a bus or decided to retire?

Mindy Diamond:

So partly it goes back to the answer to the last question, the notion that is the younger generation really fully aware of the limitations that will be placed on them during the life of the agreement? Because typically, those retire in place programs are a fabulous way for senior advisor to monetize his or her life's work without having to make a move. But it does limit the younger generation.

Mindy Diamond:

But the up part of it is that often time, the senior advisor looks for or expects a mini me. When they're looking to identify their successor, they are presuming that they will find one person that can be the exact replica of what was then the leader of the business.

Mindy Diamond:

And here's what we find more often than not. That the next generation is oftentimes not found, it doesn't have to be found in one person. It can be found in multiple constituents. So Louis, you and I are working on something now where you've got the senior leader of a mega team. It's an independent business. They manage close to 4 billion in assets. And the next generation is an ensemble of probably eight to 10 advisors. Some are more natural leaders than others, and others are more in the weeds.

Mindy Diamond:

As the senior leader thinks about retiring, he wants out in the next five years or so, as he thinks about retiring, he recognizes that there isn't one person in his next generation that is going to replace him.

That the replacement for him is going to come in the form of probably three to four leaders and five or six others that are the worker bees in the weeds. Do you agree with that?

Louis Diamond:

Yes, I definitely do. And that's the benefit of a second or third generation in a firm is that the foundation has been laid. And what got the business here, it doesn't mean it has to get the business there. And businesses can grow differently. And a next generation of a firm needs to have different strengths and have different capabilities. So even though a lot of these independent businesses or just practices in general are cults of personality, it's formed around one or two very well-known advisors, but it doesn't mean that the next generation has to follow the same playbook.

Louis Diamond:

I'll also though add to the earlier part of your question about the different ages and being on the same page for a succession plan. Age oftentimes is a predictor of how willing a team is going to be to make a change. An advisor who's 2, 3, 4, 5 years away from retirement has far less to gain from going to a new firm or going independent. They have more to lose. They're taking the ultimate risk of transition. And it's relatively easy to stay and just keep their head down. Even if they're not well-served because there are imperfections everywhere, it's easy enough to say I'm just going to take my firm's retirement plan because it's easier than moving. It's the next generation though who has 15, 20, some cases 30 years left to work that says, "I'm not really comfortable with the next eight years that this firm has coming. And it's worth it for me to leave."

Louis Diamond:

So sometimes the answer to that question is who has ultimate control of book? Because it doesn't always mean that the older advisor is the more dominant personality or has the larger business. Sometimes it could be a young hotshot who has a larger business, and they have more influence and control over the other advisor. And we do see it sometimes where advisors who are well aligned, but just can't reconcile. One wants to stay and go through their sunset program. Other one wants to leave. We interviewed Robert Harris on a previous episode, and this is exactly what happened. Sometimes in that there's this really strong differences, and one decides to leave, even though they're ultimately giving up a major piece of business, and are really going to be giving up a couple million dollars of revenue. But to them, it was that much more important, in Robert's case, to have his independence. And he saw what was possible outside of UBS, and it was worth it for him to shrink to grow.

Mindy Diamond:

Yeah, it's funny. My mind went to the same place. We've worked with an awful lot of teams where it is the younger generation. Even though it was the senior member of the team's business. He or she was the genesis of the business. He or she has the lion's share of the business. He or she is the face of the business. In a lot of cases these days, it is the younger generation that's really driving the desire to move where the younger generation says, "Yeah, this may be good enough for now. But I can see the handwriting on the wall. I see what's coming down the pike. And I'm not necessarily willing to put up with it."

Mindy Diamond:

So opposite of Robert Harris who left his partner, what happens? Can you give us an example Louis in a situation where the younger generation says, "I don't think this is best for the business and for us. I'm willing to take on the lion's share of the work and even the lion's share of the economic hit, the short-term economic hit." Or said another way, I'm willing to give you senior partner the lion's share of the positive economics in the short-term in order to make this work. Can you share an example of that where it's worked successfully?

Louis Diamond:

Yeah, definitely. So we've seen it where we have advisor clients that really want to go independent. So it's the younger generation has the conviction, they have the vision. And the older generation is open to it. They don't think their firm is the right place to leave their legacy. And they actually see the benefits of being independent, but they just can't get comfortable with the financial risk. Because ultimately if they move and the transition doesn't go well, then they're taking a hit. And ultimately too, depending upon what version of independent you go, advisors access capital in different way.

Louis Diamond:

So one particular example was one where the advisors used, in this case, it was Merrill Lynch's CTP as the valuation or as the guidelines for structuring a succession plan. And the younger advisor who is more bullish and going independent guaranteed the payments when they left. So luckily the transition was a whopping success. But even let's say only 70% of the book came over. The older advisor was going to get the same amount of money with the same terms as if they stayed at Merrill. And the real benefit was it was the same money, but they're able to do it at long-term capital gains because it was sale of equity as an independent business owner. So actually on after tax basis, there's still extra work that had to be taken on. But the older advisor came out probably 30 or 40% better. And he got to leave his business in a position where he felt more excited for his clients, and where he knew his partner who he really liked and trusted was going to be able to thrive and service the clients very well for many generations to come.

Mindy Diamond:

Well, I think you hit the nail on the head. You said where the senior partner was able to leave the business in a place where the younger generation who he really liked would thrive better. That's the key. If this partnership is an arranged marriage and it's not rooted in real mutual respect and admiration, and even love for each other in the case of a family business, then it's every man for himself or every woman for himself scenario, where the senior member says, "I'm going to do what's best for me. And as long as it's not harming the clients, I'm okay with it."

Mindy Diamond:

But in these multi-generational teams where the senior member, and I don't mean junior necessarily in terms of size of the business, but junior in terms of years. Where they have real respect for each other, they like each other. And the senior member says, "Yeah, I could take CTP or UBS' alpha. Morgan Stanley's FAP," all of the retire in place programs. "But I recognize and understand if I put myself in the shoes of my younger generation partner, I'm really stymieing him. I'm thwarting him. I'm tying him up, and I don't want to do that. So I'm willing to be open-minded to see if there's a way for everyone to be happy. For the clients to win, for me to win, to make sure that I monetize my life's work, and to make sure that my younger generation is also satisfied with his or her quality of life going forward as well." So let's move on to the next one. Do our visions for client service and business growth compliment one another?

Louis Diamond:

Yeah, that's another good one. So this one is true. It could be different generations, but also advisors even who were in the same training class might have completely different strategies for how they attract and retain clients. It could also be one advisor believes strongly in brokerage, the other one believes more strongly in advisory business. Or one thinks that we should have a very comprehensive practice where we're doing everything for clients. We're coordinating tax returns, we're helping our clients facilitate travel. We're helping them with their estate planning. We're doing their investments. And another one says, "Hey, we're only paid for investment work. So why are we helping others with these other services?"

Louis Diamond:

So this again just comes back to being on the same page and a shared vision. And the same thing with business. Some businesses, their growth strategy is to grow through acquisition of retiring advisors or through acquiring a subscale independent practice, or through recruiting an advisor. While another partner on the team may say, "Let's just focus on organic growth. I don't want to focus on M&A. It's risky and it's a lot of work." So that's another good one, a good litmus test to see if partners are on the same page. What do you think Mindy?

Mindy Diamond:

Yeah, it's funny you say that. Years ago, I represented a team in Colorado. They were two partners, both with UBS. One was in Fort Collins, Colorado, the other in Denver, Colorado. And they decided that they wanted to go independent, and they wound up actually going independent with the help of Focus

Financial Partners. But one of the partners began to see the impact on the bottom line of doing M&A, of going out and recruiting other advisors, of acquiring other practices. And the other advisor said, "Yeah, that's cool. I can see it. That's great. But I think I want to say I'm 62 years old, and I've worked really hard. And all I really want to do is just serve existing clients, grow organically one client at a time, but not much more than that."

Mindy Diamond:

And here's the thing. It put a strain on the partnership for a little while. But the reality was it was a strong partnership. And strong partnerships survive because just like in a marriage, disagreement can be really healthy. It's unrealistic to think that a marriage of any length of time where there's never disagreement.

Mindy Diamond:

So the opportunity to talk about, for both partners to put their ideas on the table, and to reconcile them, to come to an agreement was actually really healthy. It made them better. It strengthened the partnership. And in that particular instance, what they said was, "Let's do this. Let's go independent because it's what we both want. Let's focus on organic growth right now because the most important thing this minute is moving our book of business and servicing our clients well. And we can always look at M&A down the road."

Mindy Diamond:

So here's what happened. Not six months after moving did an acquisition opportunity come up. And it was one of those too good to be true opportunities. And the partner who had originally been recalcitrant about M&A hesitated for not a nanosecond and said, "You know what? We really need to do this." So a lot of times it's just about talking it through, making sure that everybody feels heard and validated, and then moving forward.

Louis Diamond:

I agree.

Mindy Diamond:

All right, let's talk about the next one. As we think about the legacy of our business, and we're talking about a partnership. So as we think about the legacy of our business, do we have the same vision for the future? I love that one.

Louis Diamond:

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Yeah. And I'll take a crack at it first and then love to get your thoughts. I think you have a different perspective than I do. So I think this can come in two or three different forms. One might be do we have similar opinions about where we're going to leave the business? So if it's a retiring advisor, it's do I believe that fill in the blank firm is the right legacy for the business and for my clients? And the same question to the younger advisor. Do I believe that staying here for the next 7, 8, 9, 10 years is the right legacy for our business? That right there can indicate a split of the business, or it might mean that partners are aligned because both actually believe that where they are is the best place service clients and grow the business.

Louis Diamond:

I think another way this can manifest itself is in the independent space where you have different partners. It doesn't matter about age, just different partners, different stakeholders who have a different belief of what the future of the business should look like. Multiples right now for independent businesses have never been higher. So we are seeing more acquisitions and sales than ever before. But by the same token, some partners in these acquisitions would much prefer to just stay independent. Maybe they say, "Let's just keep growing this thing. Let's look at selling in 10 years." Or, "I don't want to sell completely, let's sell a minority of the business." So to me, that's two different ways, two different examples of types of advisors who may not be in the same page because they have a different vision for what the future holds.

Mindy Diamond:

You might be surprised, but my answer actually I think exactly the same. The only thing I would say is that the law of good enough comes in here. That for some advisors, what's good enough is good enough. And for others, good enough is not good enough. They want something that's spectacular and better enough. And that distinction is often what drives a team to either decide to move, or to stay put, or to make change, or to keep things the status quo. So it's things that we've talked a lot about do they have shared risk tolerance? And do they have shared dreams for the future? And do they see the business the same way? And are their skills complimentary, etc. But it's also really about their tolerance for how spectacular they want the business to be, how much they want to do.

Mindy Diamond:

So I'm reminded of the podcast interview I did not long ago with Gerry Goldberg of GYL Advisors. Mega business, 8 billion under management. And he actually said that while they were doing incredibly well with Wells Fargo FiNet, incredibly well and growing, that had they allowed what he said inertia or the status quo to carry them forward, they would have missed the opportunity of a lifetime. And if it was good enough, not everybody would have had the courage or the desire to mess with good enough to go forward for something much bigger.

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Mindy Diamond:

So I want to move to the next one because I think it's important. Are we on the same page with respect to making a move? What do you think about that one Louis?

Louis Diamond:

Yeah, this is a good one. And this is clearly in our wheelhouse. And probably every team we represent, this is a critical question. So here, if partners are not aligned with their risk tolerances or their level of unhappiness to make a move, that immediately can fray a partnership. It doesn't mean that both partners have to be equally involved in the due diligence process, or that one might not be more eager to leave than the other. But it does mean that if one partner is experiencing enough frustration and pain to undertake the effort of due diligence and ultimately making the leap to a new firm or business model, that the other partner should be somewhere behind. They may not have similar level of frustrations. Their reasons for looking around may be different. And they may be looking for different things than a new firm. But this does happen where we mentioned Robert Harris. That's a perfect example, where he really wanted to leave. He saw what was happening. And his partner was a lifer, and was loyal, and would never move. So it's a really good one. It's one of the first questions we ask of a team is, "Okay, we understand your frustrations. But are you guys truly on the same page? And are you both, or are all of you willing to go through the work and the sacrifice of making a change?"

Mindy Diamond:

And, how will you reconcile the differences? That's the second part of our question when we ask it is okay, it's highly unlikely, even in the best of circumstances that everybody sees everything exactly the same way. So in our view, there's a couple of outcomes or probably three or four different outcomes where there are differences. One is that the team just decided to stay put because they can't all agree. They want to stay together. And it's just easier to stay put means they don't have to really put themselves through the hassle of reconciling the differences.

Mindy Diamond:

Number two would be they split. And as you say, in the case of Robert Harris, and we've had many others where a team says, "You want to go your way. I want to go mine. We can't live with each other's vision for the future. So we split and hopefully we split amicably." And there's almost always the notion of shrink to grow in the case of Robert, there's stuff you're going to wind up leaving behind because you're splitting up a partnership and you're okay with that because you believe you're going to grow faster elsewhere.

Mindy Diamond:

Number three, and we'll get into this a little more when we talk about the next question about where you go if you're going to move. But number three is that one partner or partners come to the ultimate compromise where they say, "Okay, you want full on independence. I want to go to Morgan Stanley. So we wind up at Raymond James." And I say Raymond James because that seems to be most often the sort of common middle ground. And why is that? Because Raymond James is one, an option that offers advisors the ability to associate in a number of different ways. They can associate as an employee, but they can eventually slide into independence. And even as an employee, it's an option where it's written into the contract that the advisor owns the book of business. So Raymond James can often be a good middle ground. And I'm thinking of many teams where that's been the case.

Mindy Diamond:

And then four is that one party or several of the parties do the ultimate sacrifice and say, "Okay, you want independence. I want to go to Morgan Stanley. But because you're really the lifeblood of this team. You're younger. You're going to be the one doing most of the work. If you're really willing, if you're that sure that this is what's best for the business, you've got a longer runway than me. And you're willing to do the lion's share of the work. Well, then I'm willing to follow you to independence and let's do that."

Mindy Diamond:

So I guess my question is Louis, and we've had several examples. In that last scenario where one partner really compromises and says, "Okay, I'll follow you. Let's go independent. You're going to do the lion's share of the work." How often does that work out well?

Louis Diamond:

So it could definitely work out well, but there could be some resentment that builds if truly one person's doing all the work and let's say equity is split evenly, that wouldn't be a good scenario. At the end of the day, each advisor has to have some baseline level of conviction that where they're moving to is that much better for clients. Because when they're calling their clients and trying to pitch their clients on joining them at their new firm, they need to have that excitement. They need to have tangible reasons why this is worth the hassle to the client.

Louis Diamond:

So I think it could work well if one takes the lead and says, "Hey, I'll be the CEO. I still need you. You still have to move your book, but I'm willing to go out and interview all the tech vendors. I'm willing to put in the work and interview custodians." That could work, but it can't just be someone getting dragged along. It's fine if someone takes the lead, but there has to be equal participation for any key client facing professionals.

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Mindy Diamond:

Yeah. I think I agree with that. Because I think it comes down to what's the reason why the one partner or several partners was reluctant or recalcitrant. If it's just, "I don't want to do the work, but I believe in the vision." That's different. Okay. So I'm willing to let you do more of the work because you've got a long runway and that works as long as you're okay with that. But if it's, "I'm reluctant because I don't really believe it's ultimately better for clients," that's probably a recipe for disaster.

Mindy Diamond:

Okay. The next one. And we covered it, but is there anything else you'd add Louis to if we move, are we on the same page about where we would go or the type of firm or model we see ourselves at?

Louis Diamond:

Yeah. This definitely happens. Sometimes it's a generational thing. Someone closer to retirement is going to prioritize upfront capital, and more safety, and something more familiar. Where someone with a longer runway wants to go where they have the most upside, where they have the most freedom and control, which may mean independence some.

Louis Diamond:

So this is a good one. I think that the first step is determining if you're both on the same page or all of you are on the same page with regards to your level of frustration. Whether you think it's possible to make a move at all. If you can cross that bridge, then it's a little bit easier to figure out where to go to. And to your point earlier, regional firms like a Raymond James type organization is oftentimes a good compromise position. Because the first-generation can get a recruitment deal, monetize the business, and have the comfort that they're in a more familiar environment. And then 8, 9, 10 years from now, the next generation has the ability to take the business independent without having to repaper or transition again.

Louis Diamond:

So I think it's all part of the exploration process. And it's okay if two partners aren't on the exact same page. It's actually pretty rare where partners are exactly aligned. But as long as each side feels like they're getting enough of their needs met, then I think it should work.

Mindy Diamond:

Yeah. I think that's the key is it's unlikely that everyone will be on the same page, but it's the mechanism by which you have to reconcile differences and as long as everybody feels good about it. All right, let's look at number 10, the last one. Do we share similar values about money and it's important to us? How important is transition money if we were to move? And put another way, which do we value more, the short term or the long term? I love this one, and I know you have plenty to say about that.

Louis Diamond:

Yeah, this a good one. And I feel like this can be moved up the list too. Because when someone's reconciled that okay, we're going to move. We're in enough pain, it's worth it to move. Immediately, it jumps to what is it that you're looking for? And one of the first gating questions we ask is how important is upfront capital. Each advisor is completely within their own right to value different things in a transition, especially financially. At the end of the day, advisors are in business as a profession. They're in it to make enough money for their families, to build their own legacy, to set up their kids, etc. So there's nothing wrong with an advisor who wants to monetize. On the other end, there's nothing wrong with an advisor who says, "I don't want any upfront money. I just want to build my own business and build long-term enterprise value."

Louis Diamond:

So this is a tough one, because it's oftentimes difficult to have those two sides of the coin come together in a common scenario. This again is probably where you begin to look at middle grounds. So one partner says, "I want to monetize for big bucks." The other one says, "I don't want any transition money. I just want to be independent." Maybe an independent broker dealer firm like LPL or Commonwealth, that can make sense because one partner gets some capital, the other one gets independence.

Louis Diamond:

Or it could mean to use your example earlier with Focus Financial Partners, it's, let's sell a majority of our business to a well capitalized buyer. They'll help us go independent with a soft landing spot, have their own brand, have autonomy. But then the other partner who was looking to monetize can take as much cash out of the deal as they want in a tax efficient way.

Louis Diamond:

So this is critically important. It's actually sometimes an easier conversation to have than some of the philosophical differences, because it's a pretty cut and dry answer. People have their own opinions, and it's sometimes hard to get folks to move on the financial end of things.

Mindy Diamond:

Yeah. I think it also comes down to how the industry landscape has evolved. A decade ago, the choices for a top team were pretty binary. You either stayed where you were, or you moved to another major firm. So if you were at Merrill, it was thinking about a move to Morgan Stanley, or UBS, or PaineWebber, or Smith Barney, or Wells Fargo, or something of the sort. But today, there are so many valid options.

And the amount of upfront money somebody can get is all over the map. So can you actually answer that for us? So this is not an episode about transition money, but how would you say depending upon the different models that somebody chooses, how does the amount of transition money differ?

Louis Diamond:

Yeah, I would agree it is all over the map. So wirehouses historically have some of the stronger transition deals. That's still the case. But right now, we're seeing some boutique type organizations like Rockefeller and First Republic be very competitive, sometimes better than what a wirehouse pays. And there's regional firms like RBC that are up there. So it really is all over the map. This is where some of our consulting work comes in. Where if we understand the inputs of how important upfront capital is, we can work backwards. And we're only going to look at options that meet the financial needs of a team, but we'll do it in a way where we're finding business models or firms where culturally, philosophically, support-wise, infrastructure-wise, they're going to recognize an uptick in the ways that matter most to them.

Louis Diamond:

So I think it really is all over the board. There isn't one cut and dry answer that says if you want a big deal, you have to go to X, Y, Z firm. Or if you don't want any deal, this is the only way that you should go.

Louis Diamond:

Another thing I would add, which is a little bit of a different path is we've seen it before, where you have partners that believe different things financially. But once they learn about the value of building an independent business, they see what valuations are, they see the concept of operating leverage and how each incremental dollar revenue they add goes to the bottom line. And they see the immense wealth creation event. They're sometimes able to see the light and move off of, "Hey, I want a deal now." Because they then become that much more excited about the future.

Mindy Diamond:

Yeah. I also wonder about the value of equity. So not every firm offers equity. And for years, equity or stock and restricted stock was a form of currency in transition packages. And nobody wanted it after the financial crisis. But today, it can be a really highly valued currency. Where can someone get equity? And how does that factor into the amount of transition money somebody gets, cash upfront?

Louis Diamond:

Yeah, that's a good point. There's certain we call them quasi independent firms. Companies like Steward Partners would be one, William Blair if you qualify based upon production. Rockefeller for a period of time was offering equity to certain teams. Then there's others. Snowden Lane Partners, where a deal is part equity and part cash. And that's a way as a middle ground for one partner to get the cash out of the deal, the other one to feel like they have upside. And they're able to get equity in a fast growing independent firm that's going to have much more value down the line than it does today.

Mindy Diamond:

Yeah. And that's really one of the things that's changed so much in the last number of years. Not only are deals all over the map and the models are all over the map, but the notion of different levers in a deal. And depending upon what's important to an advisor, that deal can be structured in all different ways. That's exciting actually.

Mindy Diamond:

So after answering all of the previous 10 questions, it really comes down to this one threshold question. Do you and your partners agree about how you will reconcile the differences between you? Louis, what would you say to that?

Louis Diamond:

Probably just three or four different options. So I think one is just stay put. It's just give up. Like hey, we can't really reconcile these issues or concerns. So let's just stay. Let's work on the marriage before we undertake a major stressor in the relationship. That's one option.

Louis Diamond:

I think second is you pick a middle ground option like some of the ones we talked about, which would be let's go to a firm with multiple affiliation models. We'll start off as a W-2 and then have the ability to migrate to independence in the future as an example. Third, which would be unfortunate is let's go our separate ways. We've definitely seen this where, "Hey, I'm going to go to Morgan Stanley. You're going to go to start your own RIA. And we'll leave as friends, and we just couldn't reconcile the differences."

Mindy Diamond:

Okay. So we have discussed a ton of valuable information in this episode. And to ensure you each have the questions we discussed, we've created a worksheet that you can download from the episode page on our website. And I hope you'll do so. Louis, I want to thank you so much for joining me. It's always fun to work with you together.

Louis Diamond:

Absolutely. This was fun.

Mindy Diamond:

Industry Update on Partnerships: 10 Questions to Help Identify if You're Still Right for Each Other

With Louis Diamond

Certainly it's rare that differences arise suddenly. The fact of the matter is very few individuals change their goals or behavior overnight. And most often, such differences arise out of a lack of communication, both at the onset of the partnership, and throughout the tenure of the relationship. Just like a marriage, the early years of partnership reflect the initial values and ideals you shared as a courting couple. Over time, people evolve and life changes. Yet those changes often come with some clues. That's why it's critical to check in with yourself and your partners from time to time, and ensure the direction you're moving in is the same one.

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 to stay informed about what's going on in the wealth management space without expanding the energy that full-on exploration requires. Feel free to email or call me if you have specific questions.

Mindy Diamond:

I can be reached by cell at (973) 476-8578, or by email at 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'd be grateful if you gave it a star rating and a review. That will let other advisors know if it's a show worth your time to listen to. This is Mindy Diamond on Independence.