Industry Update on Merrill's Project Thunder: Too Little Too Late?

A conversation 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 Merrill's Project Thunder. Is it too little too late? A conversation with my partner Lewis Diamond. I'm Mindy Diamond, and this is Mindy Diamond on Independent.

Mindy Diamond:

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Mindy Diamond:

In late August of this year, Merrill Lynch rolled out Project Thunder, a two month campaign that appeared to be aimed at staving off increasing advisor attrition and addressing the frustrations of those still at the firm. While this topic is specific to Merrill, it's certainly not meant to be an indictment against the firm. Rather, it's an example of the growing pains experienced at any of the larger bank owned firms as they struggle to balance growth and revenue while managing thousands of advisors and creating layers of guidance designed to serve many.

Mindy Diamond:

As such, legacy folks and those advisors looking to serve the unique needs of clients often find themselves caught between a rock and a hard place. In an effort to demonstrate that Merrill leadership is listening to their advisors, they introduced changes that include functional updates to the Merrill One Advisory Platform. A reduction in turnaround time for clients looking to join parent Bank of America's donor advised funds, the addition of mortgage lending specialists to alleviate bottlenecks, and other procedural updates. Plus the firm also offered brokers greater leeway in sending [inaudible 00:02:32] cards to clients and prospects, which likely was one of the most commented on aspects of all.

Mindy Diamond:

But does the campaign address what's really bugging advisors most? Will these measure yours work to halt the tide of attrition? Or to put it another way, is it too little too late? Louis and I are going to explore those questions and more in this episode, so let's get to it.

Mindy Diamond:

Louis, thanks once again for joining me.

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Louis Diamond:

Yes, of course. Excited for this one, it's a very important conversation.

Mindy Diamond:

So with the announcement of Project Thunder, Andy Sieg acknowledged the attrition the firm has suffered over the last few years, reportedly topping 5% in the second quarter before leveling off just under 4% in Q3. Let's talk about the attrition and where Merrill advisors are going.

Louis Diamond:

Yeah, absolutely. So I think the proof is in the pudding as far as what the data shows. I mean, anecdotally, we are seeing more Merrill advisors leave the firm than at any point in recent memory, and it's also the sizing caliber of these teams. It's oftentimes the lifers and the culture carriers, the folks that people are really surprised when they do move. So I think that's even more important than the number of advisors, it's what the advisor's leaving and where those advisors are going. We've talked about this many times in this podcast and the articles we write, it's really fractured.

Louis Diamond:

Instead of sharing the specific firms that we're seeing advisors go to, I'll break down where we're seeing types of advisors go based upon the type of firm and what it represents. So to me, there's three camps of advisors who leave and kind of what they're thinking about leaving, and it's very much colored by their experience at Merrill. In one bucket, you have advisors who say, "I'll never work at a bank or any firm that has any sort of bank influence." Being so beaten down by what's happened at Merrill, that they're coloring all banks with the same wand.

Louis Diamond:

Another persona of an advisor is someone who likes the all under one roof, the very comprehensive nature that Merrill offers, but they want to get back to kind of the Merrill of old, meaning a firm that is more of a wealth manager than a bank, but still has all the capabilities under one roof. That would be companies like a Morgan Stanley or even a Rockefeller where their wealth management is the core business, but they can serve clients in many different ways.

Louis Diamond:

And then finally, you have the very entrepreneurial advisors who just want to go independent. They want much more control than they've had and instead of going to another firm and being worried about some of the same issues cropping back up, they say, "Let's take full control over our business and let's never have issues with cross selling or bank pressures ever again."

Louis Diamond:

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So let's talk a bit about what's driving advisors away from the firm and what are the advisors issues. I'll take ... We have, I think six or seven different reasons here, I'll take the first three and then I'll pass it back over to you for the next couple. So first one, and this is one we hear very often, is related to compensation. It was the 2019 announcement that Merrill would begin withholding the first 3% of an advisor's monthly revenue and this was meant to keep up with some of the increasing costs of maintaining the platform. No advisor likes change in compensation and this one was one that was aimed at every advisor, regardless of whether they're growing, whether they're small, whether they're large, they're working with international clients or domestic, so that's definitely one that continues to resonate with advisors.

Louis Diamond:

Second one also related to compensation was the introduction of the growth grid in 2018, and that was the reduction or the potential increase in grid for advisors if they add three new households and add customer assets by 2.5% percent. The reason advisors didn't like this was because this was a true carrot and stick approach. This said, "Advisors, we kind of know what's best for your business and regardless of whether you run a very boutique ultra high net worth focused practice, where adding three households is a lot, or maybe you're in coast mode and aren't looking to add clients," they're saying, "We're going to change your compensation if you Don add new households." So it was a way for the bank to tell advisors how to run their practice, which really frustrated many.

Louis Diamond:

The third one I'll hit on is the continued push to cross sell Bank of America products. Advisors don't like selling anything. It runs counter to the notion that advisors know what's best for their clients, and most Merrill advisors, they like having the banking capabilities. It enables them to serve clients on both sides of the balance sheet and be a client's one stop shop for financial advice. But when it becomes more pushed and it becomes an expectation that they refer business over to the bank and that CAs have to open up checking accounts and they have to sell LMAs, that becomes something that is at odds with the way many advisors think they should run their business. So I'll turn it over to you to pin on the next couple.

Mindy Diamond:

Yeah, and I'm thinking as I'm listening to you talk about those, and those are conversations we have with advisors every day, it really comes down to this battle for control that advisors increasingly feel that they are losing. But let me share some of the other frustrations. The next is ever increasing bureaucracy, which is really serving to undermine efficiencies. Even if you stick with a theme of loss of control, the notion that advisors are being asked to attend meetings or adhere to certain mandates that don't necessarily serve them best or they don't necessarily feel is in the best interest of clients, can be frustrating. And plus they worry that these additional bureaucracies, which often impact the support staff more than anyone, will frustrate them. And they are the people that support staff is really who's tasked for delivering an exquisite or an exceptional client experience. So frustrating.

Mindy Diamond:

The next one is the notion that the bank owns the clients. So listen, to be sure, in any W2 model with the exception of Raymond James, as a notable exception, the firm owns the client. But in many cases, even though when push comes to shove or contractually, the firm owns the client, in many cases, it doesn't feel that way. Firms give the advisors, the agency, or the latitude to really serve clients the way they want to. It does not feel that way at Merrill Lynch. Merrill makes it clear that the bank owns the client and therefore, the bank owns the advisor.

Mindy Diamond:

Number six I'd say is what we are calling, or a lot of the media is calling the bank of vacation of Merrill, and I think this is one that advisors have the hardest time with. The Merrill of old was the very best firm there was and lifers will tell you that, and they long for the culture that Merrill once was, an entrepreneurial family like culture. The bank of vacation is all about the ethos that Bank of America has really superimposed upon the firm, and one that manages the lowest common denominator. I would say this is probably one of the biggest driving forces of advisor movements, particularly amongst lifer advisors and top of the food chain folks.

Mindy Diamond:

So let's switch to number seven, which is a pretty important one, the push to make senior advisors sign CTP.

Louis Diamond:

Yeah, absolutely. So CTP or Merrill's Retire in Place Program can be a really compelling option that rewards advisors for their life's work, and it's an efficient way to transfer the business to the next generation. While it's really a positive for most senior advisors, it can be contra to a next generation's best interest because they're then locked in for a minimum of five years, now sometimes up to seven years, from what we're hearing, based upon the new CTP agreement. And an advisor who signs on has to be incredibly sure that not only is Merrill the right legacy for them, but that they're comfortable with any and all changes that come down the pike. Because once an advisor signs on to CTP, especially the retiring advisor, it's near impossible to unwind from.

Louis Diamond:

So one of the frustrations we're seeing are that the firm is pushing more advisors to sign onto the program and by making the program in many ways more, let's say one sided, in favor of the retiring advisor and going against the next generation, who oftentimes is far less leverage in a situation like this, it's pushing a lot of advisors to be locked up and many ways not really knowing what they sign up for and not really understanding that regardless of what happens, they're kind of stuck for the next number of years.

Mindy Diamond:

I think what's most interesting about it is that Project Thunder was revealed or launched as an olive branch almost, as paying testament to the amount of attrition and as a way of saying, "We hear you and we want to make things better for you." But I think what a lot of advisors are feeling, or at least tell us, is that it feels like a disconnect. That Merrill is of responding by making certain things better, but not necessarily the right things or not necessarily the biggest things that impact them the most. And forcing advisors or strongly encouraging as many advisors as possible to sign on to CTP is probably Merrill's strongest retention tool and therein lies the problem.

Mindy Diamond:

So I want to pivot for a second to some of the questions or the things that we're hearing from Merrill advisors, so I'm going to turn to you Louis and ask the first couple. The first one, we hear from a lot of Merrill lifers, advisors who have been with the firm for say 30 or 40 years, they want desperately not to leave the firm. These people have a bat phone to the top, they've been Merrill loyalists, they bleed blue, they love their part of the thundering herd, they love the bull, and they don't want to leave. They yearn for the culture of yesteryear. So what of these folks, is there any risk to staying put or what is the risk of staying put?

Louis Diamond:

Yeah, so I mean, of course there's risk to staying put, but that has to be balanced against the hassle, the pain, and the risk of leaving. So I would say for advisors who still believe that Merrill is the best firm for their clients and they're comfortable with the direction that the bank is taking the firm, that there's less risk. That the risk of staying and signing on to CTP or just kind of blindly putting your hands up and saying, "You know what? If I were 10 years older, maybe I would move, but now it's good enough."

Louis Diamond:

The big risk I think is for the next generation. It's binding that team to the firm for many years to come, and also for the clients. Usually advisors insulate their clients from a lot of the bureaucracy and a lot of the things that we've talked about as far as concerns, they don't really face the client as much. It's much more on the advisor side. But if an advisor soon begins to see that the firm is pushing them to act not in the best interest of clients, whether it's from cross selling or it's restrictions on portfolio management and more of a standardization or commoditization of their process, then that's a risk. So I think the big risk is for those who aren't happy and know it's not the right place, but by default just stay because it's easy. For those who really do think it's the right firm, then I think it's great that they have CTP and that they can stay.

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Mindy Diamond:

Yeah, I'd like to add one other thing to that. So first of all, let me just say, I agree with you completely. Even though we move people for a living, we are never cavalier about suggesting that it's easy to move, or doesn't have risk implicit in it, or isn't disruptive, because it is all of those things. But one very significant Merrill advisor a while ago said something to me that really stuck with me, and this is an advisor that is certainly a lifer, a top of the food chain Merrill advisor who would probably be the last advisor you would think would leave, and at this moment has no intention of doing so.

Mindy Diamond:

But he actually said to me, when I asked him, he said, "I am keenly cognizant of the fact that I am one stupid mistake on the part of Bank of America away from them blowing up my business, and I've never monetized my business, meaning I've never moved and been paid a transition check to do so. And if the bank blows up the business and I lose the opportunity to monetize, therein lies a risk." So let me ask you the next question, Louis. Merrill has a world class platform, no doubt, world class human capital, world class technology, so when advisors watch many of their colleagues move to other firms, they wonder how could the deliverables or service models at other firms possibly compare.

Louis Diamond:

Yeah, so I mean, I would acknowledge that Merrill from a platform and tech and just quality of leadership standpoint is best in class. So most often when an advisor leaves Merrill, it's not because they think the firm is deficient in any of those ways, they're leaving for more control, they're leaving because they want more agency over their professional life. And in many ways they're leaving because how they want to serve clients and what is most fulfilling to them is just at odds with being an employee of a firm.

Louis Diamond:

So I'll give you a couple of ways that they can reconcile leaving the world class platform at Merrill. I think one of the first ways is that platform in many ways is a commodity. Most advisors run relatively plain vanilla businesses and financial planning software and access to managers and alternatives can really be done anywhere. It's not that you have to be at Merrill to do it all. If you look at something like banking and lending, while many really enjoy having everything under one roof, many in other channels of the industry, they access those things differently. So it's in many ways, it's the unbundling of the advice from the banking, from access, that enables an advisor to shop the street and be able to have far more control over who they work with.

Louis Diamond:

So advisors that are independent, for instance, are able to work on multiple custodian platforms, have access to even more alternative investments than they would at Merrill, because they can now access private deals and smaller opportunities. And because now they're not captive to one platform, they're able to access things differently. It's still sometimes a re-education for the advisor and the client because sometimes not everything is under one roof, but the result is more choice which benefits ...

Louis Diamond:

And then I'd say the last way that someone can reconcile moving away from the world class platform in Merrill is because even if maybe there's a small step back as far as the technology, let's say with some of the regional firms, they believe they're really going to make up for that loss in technology functionality for much more control and ability to serve clients the best of their ability. So there's never such thing as perfection in a move, nothing is ever going to hit on every single one of someone's high net. But if in whole, the overall experience, the culture, and the ability for one to grow their business faster, serve their clients better, and to enjoy their career, enjoy their day job, then in whole, that may make up for what could be a bit of a loss in technology functionality.

Mindy Diamond:

Yeah, and I think that what that speaks to is the fact that a lifer or a top advisor who really wants to stay put, has a lot of good reason to stay put, shouldn't feel pressured to run out the door. Keep a watchful eye, keep an eye on what you think is coming down the pike, and be open minded about what's possible, but the message is you're not stuck because should you decide that you need to leave or want to leave, there is no question that there are many options and opportunities that could certainly allow you to replicate what you have at Merrill.

Mindy Diamond:

Okay, question three, advisors are growing, Louis, at record rates, especially this year, why would they mess with success?

Louis Diamond:

Yeah, I mean, look, most won't mess with success. There's a reason why the attrition numbers are 5% or 6% and it's not 50%, and in large part, it's because of inertia. Because advisors are crushing, it becomes much harder to justify the disruption and the risk of making a move. But the advisors who kind of see the handwriting on the wall and they reach a point where these frustrations just become too unbearable, they also recognize that there's an opportunity at another firm or another platform that might be better than what they have at Merrill.

Louis Diamond:

So for instance, someone may say, "I'm going to take one step back in order to take three steps forward. Sure, it might disrupt growth, but I'm doing this for the next 15, 20 years, I'm not doing this as a short term move." That's one type of person who may decide to move now. Another one is they just ... When it reaches a point where you say, "I just can't serve my clients to the best of my ability, I'm not enjoying my time. I'm here and I'm not as efficient as I could be. They reach the point where regardless of what's going on in the business, you're unhappy enough to go through the pain and the hassle of a move.

Louis Diamond:

And lastly, I would say there's always an excuse for why now is not the right time. And that's not just about changing firms, it can be with any amount of change. There's always a vacation, a new client, a new prospect, a hot opportunity. So sometimes you just have to rip the bandaid off and move forward with confidence because suddenly the push has become too great and you're pulled to something that's better than what the current state is.

Mindy Diamond:

Yeah and I think what ... As you're talking, I'm thinking about what you know is my favorite book in the whole world, the Stephen Covy book The Seven Habits of Highly Effective People, and one of my favorite habits he talks about is making time to work on the business, not in it. And that's what we're talking about is that while the in the business is doing incredibly well and hitting on all cylinders, it's sexy and intoxicating to stay put and continue to ride the wave. But if you've taken your eye off the ball and sort of missing certain and signals, that's not good either. So the bottom line is we encourage all leaders of businesses to sort of pay attention to what's going on and just make sure that they're staying from a position of strength and choice as opposed to by default.

Mindy Diamond:

All right, one more question. Do you think that Project Thunder is the beginning of greater acknowledgement By bank of America that there are changes that need to be made to stave off further attrition? Or do you think it was just an olive branch, a one and done?

Louis Diamond:

Yeah, so I actually do think that it's a step in the right direction. For many advisors who are, I would say somewhat happy, they were looking for a reason to stay. And for the first time in a while, the bank was humble enough to recognize the attrition and the root cause of what some of that attrition was. So certainly, any of these changes that they rolled out are a positive. I don't think anyone's taking issue with what the changes represent and perhaps it is just the beginning, maybe there will be other major changes.

Louis Diamond:

If you look at the 2022 advisor compensation that was released on October 26th, they didn't really make any major changes like many had expected, they kept some of the pandemic changes in there as far as the number of new households to be brought in related to the growth grid, they made it so that advisors got full revenue credit for inherited accounts. So I think they are kind of moving in the right direction.

That said though, for many, it is, I think, too little too late, and even though they make these changes, it's still doesn't get at the core fundamental reasons that a lot of advisors are feeling like Bank of America is not the right long term partner. What do you think?

Mindy Diamond:

Well said. I think that's right, and I think that the acknowledgement that this was a step in the right direction is certainly great, and so I think what I see is that an advisor that's already in the shoot, that has already committed to move to another firm, or is far into the exploration process, Project Thunder and a lack of major changes to the comp grid, probably not enough to keep that advisor in their seat. But certainly the advisor who's the lifer, who really doesn't want to move, they are probably well advised to take a wait and see approach.

Mindy Diamond:

And look, we've said it before, Merrill is a world class firm with a strong platform, tech stack, and brand respected more than most in the industry. The truth in the matter is, and I think you'll agree with me, Louis, it wouldn't take much to get these advisors to stay put. While they'd love a retention package, they don't expect one. While they'd love the opportunity to monetize their business for 3X by staying in place, they don't expect to do that. While they'd love to have every one of their frustrations addressed, they don't really expect that to happen.

Mindy Diamond:

It wouldn't take a lot, they just want to know that they're being heard and that they're being taken seriously and being respected for owning their business, at least made to feel as though they own their business and being given some of the freedom and controls that they used to have. The truth is this is all true of any large firm, so at the end of the day, that's really not asking for much.

Mindy Diamond:

Louis, I want to thank you again for joining me. This was a fun one to do.

Louis Diamond:

Yeah, it was. Thanks again.

Mindy Diamond:

And I thank you for listening. 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 expending the energy that full on exploration requires.

Mindy Diamond:

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