

How the mastermind of the Luminous Capital breakaway is parlaying his cloak-and-dagger skills into 'Pure Financial Independence'

Tuesday 1.19.16 by Lisa Shidler

Brooke's Note: If, as some suggest, seawater can replace oil as a fuel then our energy future is bright. The same can be said for finding the talent and the assets to fuel the growth of the RIA business — if the 50,000 wirehouse brokers and their \$5 trillion of assets can be converted to RIA material. No business formation could be more to the point than Matt Sonnen's startup, which has no other mission other than to extract wirehouse teams. Moreover, he is going after the best and brightest brokers who have built mini-empires within the wirehouses. Sonnen has almost an M&A firm-revenue model of contingency fee. But a potentially larger stroke of genius is the selection of his key partner — his wife, Larissa.

In 2008, David Hou and Mark Sear famously synchronized their watches to pull off their precise breakaway from Merrill Lynch Private Investment Group in Los Angeles to create Luminous Capital. See: Merrill Lynch stars take a leap of faith to a new office — and independence..

But all good jailbreaks need a getaway driver. In the case of Luminous, Hou and Sear tapped Matt Sonnen. He'd left Merrill Lynch in 2005 to try his hand at selling insurance. Turned out insurance wasn't for him, so Sonnen was receptive when Hou asked if he could oversee the formation of the new firm outside the confines of Merrill Lynch. See: Hou-Sear team can't always beat RIAs so it joins them.

No longer attached to Mother Merrill, Sonnen was the perfect outside man to secure office space, meet with custodians, sign on a technology vendor and otherwise create a landing pad for the departing brokers.

"I was employee zero at Luminous," says Sonnen. "I built the firm in the shadows outside of Merrill. I was trying to figure out how the whole independent space works. We didn't know anything. It was a crash course and I learned it all on the fly. The other partners told me that once I got the office, phones and everything ready, to let them know and they'd pull the trigger." See: Hou-Sear team makes house calls in five states.

Billion-dollar teams

Now Sonnen is deploying his skills on his own behalf. In September, he co-founded PFI (Pure Financial Independence) Advisors, an El Segundo, Calif.-based firm with a mission to bridge \$1 billion-plus teams to independence.

The challenges inherent in pulling off this latest caper are obvious: He's competing against his alma mater, Focus; wirehouses that offer enticing signing bonuses to advisors; and firms like Dynasty Financial Partners and HighTower Advisors that brim with breakout experts. See: Lehman Bros.' binding ties and culture spur another \$1B team — that stayed at their posts as Lehman burned — to flee Stifel-owned Barclays for RIA.

Perhaps the biggest stumbling block, however, is the dearth of \$1 billion teams. But Sonnen says sticking to a \$1 billion minimum is feasible because firms of that size only need an initial troubleshooter, as opposed to the long-term help that roll-ups and outsourcers like Dynasty provide do with great effectiveness — but at a cost.

“The reason we drew the line at \$1 billion is we believe you only need transition services at \$1 billion. You really don't need long-term help. I think I learned that firsthand at Luminous. When you're a \$2 billion RIA, you're going to get the best pricing and the best custodians. You can call someone up and they'll meet with you the next day.”

One-and-done niche

Luminous's principals can also be seen as examples of those who were all too eager to find a new corporate home after being exposed to the rough and tumble world of full independence. Luminous Capital sold to First Republic in December 2012. See: First Republic pays a staggering sum for Luminous Capital, sources say, and shifts the breakaway and M&A games in the bargain.

Sonnen joined New York-based Focus Financial Partners LLC in the spring of 2013 as vice president working with recruiting.

Sonnen is offering to complete the entire transition team for the advisors at a one-time fee. He declined to list the fee other than to allow it is less than \$1 million and is paid, contingency-style, when the transition is complete. No doubt that this revenue model demands patience and capital. See: How a young, new HighTower recruit built his business to \$1 billion in assets with just 30 clients. See: RIABiz introduces a section dedicated to breakaway brokers.

New playing field

Luminous was a chance to plan a breakaway of nearly, at that time, unprecedented size — a few billion of AUM — and sophistication. Luminous earned fans as unlikely as Bob McCann. See: 13 things to know about Bob McCann recruiting his old Merrill Lynch team to UBS .

Sonnen and his wife Larissa Sonnen are co-founders of the FPI, and set up the firm using their own personal savings. Larissa Sonnen was most recently a manager of operations at Schwarzkopf Professional, where she managed customer service and accounts receivables. She also worked at Winco Advisors and as a financial consultant at AXA Advisors. Right

now, Anna Maria Garcia, is also an analyst at the firm. Most recently, she worked with Matt Sonnen at Focus.

The expansion of the breakaway RIA field makes such market segmentation feasible.

“The breakaway RIA space was easier in 2008 because independence was still new, and there weren’t as many options to choose from when building an RIA,” says Sonnen. “Today, there are four major custodians, at least eight reporting providers, over 10 CRM systems, etc. — it can be overwhelming.” See: \$10-billion Philly-area RIA dips a toe in Bay Area waters causing ripples among local firms.

COO muscle

Sonnen appears to be offering operational services for breakaways, says John Furey, of Advisor Growth Strategies LLC, who competes with Sonnen but doesn’t see much overlap in their respective business models.

“If you select Black Diamond for performance reporting, PFI will go in after the transition and build client reports for the advisor. We don’t do that,” Furey says. “He’s really positioning his role as the COO. He has a more operational focus.”

Sonnen distinguishes his pricing model from a firm like Dynasty, which typically charges an annual fee, or Focus Financial, which requires advisors to sell part of their firm.

PFI doesn’t handle client’s legal services, instead referring them to firms like MarketCounsel Inc.. See: Why a \$3 billion UHNW team in Newport Beach bolted Merrill Lynch and what breakaway bugs are reading into it.

“If you want to transition and get yourself out of wirehouse start your own RIA, you need help,” says Tim Welsh, president of Nexus Strategy, who helped Sonnen set up his website and other business aspects.

“Right now, your options are limited to the Dynasty’s of the world that ask for an annual fee or firms like Focus that ask you to give up equity or you go to a consultant. This is a consultant option where there is only a one-time fee and you don’t have to give up equity but you are getting a lot of operational assistance.”

Specifically, PFI will set up office space, input transition paperwork and initially keep track of client assets. PFI will also plug fee rates into the billing system to ensure the advisors get paid.

“While everyone is high-fiving and saying they’ve gotten 95% of clients, many of them don’t know how to get paid. We go in the corner and take the fee rates and load them into the billing system,” Sonnen says.

Dynastic scale

Shirl Penney, founder of New York-based Dynasty Financial, says his firm's position as a transition agent of large breakaways is secure.

"While I don't know Matt personally I would simply say a comparison to Dynasty is apples to oranges to anyone we have seen in the space today. No one has transitioned more large scale advisory firms to truly independent RIAs than Dynasty." See: What Merrill Lynch was able to strip away from breakaway RIA Cardan Capital and why the advisors made the 'tactical' decision to let go.

Penney notes that Dynasty has 47 employees with three corporate offices and has invested millions in leading proprietary technology like Dynasty Desktop. His firm features a 15-person service team, a technology team, marketing and a public relations division and a finance team as well as merger and acquisition support.

"Our lending program to help advisors launch, grow, and help with succession is a huge asset to our firms and perhaps most importantly our community of 35 top independent RIAs that collaborate and meet at annual and regional sponsored Dynasty Summits are some of the premier events in industry," he says.

"We have partnerships with some of the top resource partners in the industry and our relationships and scale have allowed us to build a different service experience for Dynasty clients both inside of Dynasty and with our resource partners." See: The inner orchestration of Dynasty, Addepar and Pershing/BNY Mellon it took to harmonize a \$1.4 billion Merrill Lynch family office team.

Penney says his firm's transition fees are a one-time-fee that typically starts around \$80,000 and varies depending on a number of factors including the number of advisors breaking away and the number of locations.

A Focus Financial spokesperson declined to comment for this story.

Enough good as a feast?

Sonnen doesn't dispute the scope of a firm like Dynasty but does question whether \$1 billion-plus efforts need ongoing assistance. He argues that once an RIA is set up, the advisors can run the firm themselves without hand-holding.

"We're giving advisors what they need. With Dynasty's offer, they've got an investment platform, but I think a \$2 billion firm can make one call and absolutely get on a platform. At Luminous, I was able to pick up the phone and say, 'I represent a \$2 billion firm' and a custodian would show up at our office the next day. We'll give you what you need and not try to convince you that need more."

Still, Luminous did eventually return to the paternal embrace of First Republic, reducing the need for principals to handle the day to day annoyances of running a small company. See: First Republic pays a staggering sum for Luminous Capital, sources say, and shifts the breakaway and M&A games in the bargain.

Another competitor, David DeVoe, managing partner of DeVoe & Co., welcomes Sonnen to the club.

“It is great to see another organization emerge that can help wirehouse advisors who see the power of the independent model breakaway. There is a lot of complexity on the path to independence and Matt’s organization seems well positioned to help these budding entrepreneurs with the myriad of decisions to be made,” DeVoe writes in an email. “Matt’s timing for the launch of the business is spot-on, as vintage of the 2008-2009 retirement packages are expiring.” See: What the deletion of no-drama Greg Fleming bodes for Morgan Stanley, wirehouses and CEO James Gorman.