An RIABiz advertising exec derives hard meanings from soft comments made by big shots at MarketCounsel Summit


Shirl Penney (2nd from r., flanked by Rich Gill, Marty Bicknell and John Furey): Breakaways should expect to 'pay a 25% settlement fee moving forward.'

Post-TD Tom Bradley, post-refinanced Elliot Weissbluth, post-divorce David Bach and Ric Edelman, post-protocol Shirl Penney and post-windfall Marty Bicknell were among execs who tipped their hands and hearts about where they are headed.

Brooke's Note: The most overused theme for an RIA speech is "the future of wealth management." Typically, such talks are neither about wealth management nor the future, unless platitudes about digital wealth count. But RIABiz marketing exec Graham Thomas's listening skills, powers of observation and follow-up interviews at last week's Summit yield a useful glimpse into how a swath of how the more successful and ambitious characters in the RIA business are taking their companies into the bright future of wealth management. These execs are coming off of adverse events in the past year, or years, and making halftime adjustments. Notable is the backdrop of the Fontainebleau Miami Beach where this MarketCounsel Summit played out, with plans to shift ground to Las Vegas next year. Each was a favorite hangout of the Rat Pack -- Frank Sinatra, Sammy Davis Jr., Dean Martin et al. They were rivals and allies, happy to compete but happier to be susceptible to each other's charms. The camaraderie negated any eruptions in South Florida, but there was plenty of lava beneath the surface that Graham ably mines.

Ric Edelman and David Bach divorced in 2015. Actually, it was more like an annulment. The romance of the two superstars of financial advice barely flamed before flickering out.

But RIAs with enquiring minds traveled to the MarketCounsel Summit at the iconic Fontainebleau Miami Beach last week wondering if having the founder and executive chairman of Edelman Financial Services and co-founder of AE Wealth Management, which manages $2.8 billion of TAMP assets, in one place might yield some dirt.

Each of the electric speakers laid out bold and clashing visions -- one outsource and one insource -- for growing their national RIA footprints.

David Bach, New York Times best-selling author and, briefly, vice chairman at Edelman Financial Services LLC, castigated advisors for their general lack of marketing know-how, encouraging them to "become a celebrity in your marketplace," thereby making it easier to get referrals, raise money and to acquire other firms.

"We aim to help 1,000 RIA's reach $100 million in AUM, and we will do it in the neglected segments," Bach said. "Smaller accounts equal a big opportunity, and we are already up 440%, 2.8 billion in AUM with 220 offices. Now that we are starting to scale, we do no marketing and yet are profitable." (AE Wealth's ADV dated November lists AUM of just north of $2 billion.)

Edelman, whose firm boasts $21 billion of AUM and a staff of 165 advisors is "looking at acquisitions for the first time" based in part on regulatory pressure that'll create a pack of willing sellers. Edelman, echoing most of the speakers, "will not stay fragmented, there will be massive consolidation managed by serious corporate executives. PE firms – professional organizations -- are already here."

The SEC favors consolidation due to the amount of money being managed by mom and pop advisories -- which is great since firms can "get out of the nonsense of HR, tech, etc. and focus on parts of the business that are much more fulfilling and fun," the Fairfax, Va.-based radio host explains.

Edelman also implored the audience to seize career planning as an advice sideline and to "anticipate what [clients] might want to do – and maintain current lifestyle while doing so."

David Bach: If we were a robo we would be worth $5 trillion! Yet Bach made clear that he is going a different direction regarding AE Wealth's strategy when I spoke to him after his talk. "We are not going to buy and rebrand, we don't buy – we don't rebrand, but just put it on marketing steroids."

Bach declined to discuss his firm's comp structure but did share that "we charge like a TAMP. But this is a peer-to-peer network catapult – this is what I am doing, packaging it up so other people can do it – and believe me we beta test until we roll out to the network."

When I caught up with Marion Asnes, president of the Idea Refinery LLC, in the hallway later, she commented, "I know a lot of advisors in my neighborhood who did extremely well with his 'Smart Women Finish Rich' seminars."

'Awash in capital'

Part of the event's agenda package was an all-star panel of Marty Bicknell of Mariner Holdings, Shirl Penney from Dynasty Financial Partners LLC, and Rich Gill from John Copeland's Wealth Partners Capital Group and moderated by John Furey of Advisor Growth Strategies LLC. .

Gill started out by stating that "our industry is suddenly very fashionable and awash in capital – to sell to a bank, credit, family offices, PE, buyers there are significant challenges – not the availability of capital, but the appropriate partner/structure.” Bicknell agreed, and pointed out that while the last three out of five years there has been lots of succession and M&A, percentage-wise it has not been that much. "We think it's akin to a snowball being released down the mountain, and will be really significant in next three years.”

Penney implored advisors to “educate yourself now -- best time to raise [money] is when you don’t need it – be well prepared with good advisors, and that will give you leverage at the table.”

The panel got specific when Furey asked about deal-killers. Penney focused on the “integrity of revenue,” adding that “more deals get done after pull-back when owners are more realistic.”

This led Bicknell to point out that “over 80% of firms don’t grow above low single digits, and I am talking about growth uncorrelated to the market. The market at your back is not growth, I’m talking new client revenue, to get higher-end of valuations you have to prove you can grow. Truly professionalizing your organization [is one thing] but if I can’t see a bench, the next generation of leaders, I worry about my risk and that affects valuation. Strong team around strong leader pushes higher, along with the client experience, and training staff is equally important.”

New price of independence

After the panel I asked Penney about the trend of current valuations pushing higher for existing independent RIA’s, and lower for captives, since the legal costs will be greater on the acquirer. While acknowledging that could be true, he pointed out that this was the norm previously, and once some legal precedent is set we should probably expect breakaways to “pay a 25% settlement fee moving forward.” He added that since the legal buyout just got higher, most breakaways might need one to three years to buy their independence.

Penney explained that in the pre-protocol era, in the event of a judge imposing a temporary restraining order the rule-of-thumb cost of having it lifted in a settlement ranged from 20-25% of annual revenues. "Who knows where they will be now, but will become clear over next few months as advisors continue to move," he says. "It may well be they end up in same range."

Explaining why it can take three years to pay off, he said: "So if an RIA is running 65% gross margins on average with us and they used to make 40-45% at wire house the extra increase in earnings allows them to buy their independence over the first couple of years. It's a reason smaller breakaways will likely join larger RIAs who have scale and resources."

'Culture' turn-ons and turnoffs

As those captains of RIA industry were leaving the stage, another equally impressive group entered – including Matt Brinker of United Capital Financial Advisers, John Hyland of Private Advisor Group, and Reza Zamani of Steel Peak Wealth Mgmt, moderated by former Banyan Partners LLC founder and CEO Peter Raimondi (winner of the conference's “most entertaining moderator” award).

Elliot Weissbluth (r.): It’s not that we are cheap and they are dumb, just make sure you understand what is driving that spread

While the focus of this panel was "The True Cost of Capital Infusion,” much of the discussion centered around the human element.

Raimondi briefly shared his experience at Banyan where they looked at 20 deals, signed an LOI on 11, walked away from four and eventually closed on seven, sharing nuggets of wisdom like, “It's not that we don’t want you, its that we aren’t the right place for you.”

Brinker talked about the United Capital formula for practicing due diligence by objectifying the nebulous concept of "culture."

“We take subjective analysis of culture and make it scientific [using] seven key characteristics ... [and] measure from one to 10 from cultural perspective – critical success factors – and we have shown there is correlation."

On the topic of deal "turnoffs," Brinker shared telling insight into the culture at United Capital. "The number one thing is a lack of humility," he said. "It's hard to do business with people who know all the answers."

In the spirit of practicing what they preach, Brinker continued, "we also ask constantly, 'what if we are wrong?'"

This led Raimondi to ask the panel where these acquirers were flexible in bending their stated criteria.

“The devil's in the details, certainly we can change just a little bit in certain areas, but compliance is black and white -- there is no gray," said Hyland. "Overall we hold to culture and policies, with small variation.”

When Raimondi pressed for specifics on where exactly those gray area existed, Hyland clarified: "If they manage assets a bit differently and it’s a great strategy, we can move with that.”

Weissbluth speaks

Hamburger's interview with Hightower Advisors CEO Elliot Weissbluth was much-anticipated given the Chicago aggregator's recent tussle with receiving hundreds of millions in capital from Thomas H. Lee Partners.

What took aback many observers was that the new deal specified that Weissbluth himself was not permitted to cash out a dime.

Though Weissbluth's on-stage interrogator, Brian Hamburger, CEO of MarketCounsel never asked him to explain how Thomas H. Lee Partners became the buyer of HighTower, Weissbluth did describe what he seeks in a "partner," and why banks are best avoided.

“Key thing, what does the other side intend to do with your business, which might create issues for you culturally or economically," he said. "For example, you might have a higher bid, say a bank wants to buy your RIA, but there are different ways they will drive incremental revenue through products, mortgages, etc. Maybe we have a competitive bid without secondary issues. It’s not that we are cheap and they are dumb, just make sure you understand what is driving that spread.”

'Just a big RIA'

John Hyland (l.): If they manage assets a bit differently and it's a great strategy, we can move with that.

I also sat down with Rush Benton, senior director of strategic wealth at CAPTRUST, a tiny $250-billion RIA with specialization in the retirement plan sector.

"We didn't just do this overnight, it took us 30 years to build and I can help them not make the same mistakes we did," he said. "Also, you have to be in the business – mostly every day. A holding company or a roll-up is thinking more about the next deal. We are just a big RIA."

From a technical aspect, Benton told me they recently switched from Advent APX to Black Diamond. "It's a terrific system – much more flexible, client friendly portfolio accounting system. Thirty-two percent of our clients have logged in and have used it – in the first month. These aren't just millennials!" See: SS&C solves its Axys problem -- for now -- by acquiring Modestspark.

When I asked Benton in which direction CAPTRUST Advisors LLC was headed, he mentioned its previous 10-year plan, which started in 2006.

"[CAPTRUST CEO J. Fielding Miller] brought us all in, and in ’06 we were about $15 million in revenue, and the goal he laid out was to get to $100 million. Some thought that was pretty lofty, but we didn’t do $100 million – we sprinted through the finish line and are now at $130 million. So we are really looking forward to the next 10 years.”

Hamburger first touched on the biggest news going into the conference -- Morgan Stanley, UBS -- and who knows which wirehouse next -- ditching the Broker Protocol. Previously, the Wall Street firms "were committed to a vision of a sparkling castle on the hill with the best tech and products, and now that’s out the window – instead we are going to build a moat and lock the prison gates. You tell someone they cannot do something, well that immediately becomes priority No. 1.

He continued: "Our phones are ringing off the hook from advisors saying ‘I can no longer look my client in the eye and say I am doing the right thing.’" Now, however, taking action to remedy that condition by going independent will be that much more difficult. We have worked on transactions before, but we are far more connected now through LinkedIn, cell phones.”

In a room full of RIAs, many of whom are acquirers, the idea that a move away from incentive based constraints to legal-based constraints was certainly unwelcome.

Former Morgan Stanley brokerage chief Greg Fleming spoke and RIAs hoped to get insider thoughts on how the wirehouse brain works -- but to no avail as he delivered a speech that left the room lukewarm.

Learning from terrorist orgs

The professionalization of the M&A business came to the fore at this conference -- eventually. But first up was a session starring CIA director John Brennan (he served from 2013-2017). It certainly was a novel one, discussing continuity in operations within terrorist organizations. Brennan stated that while his agency was charged to “destroy and kill" such organizations, "I was forced to admire their qualities – endure, continue operations.” Qualities such as “constantly focusing on threats and contingency plans, which tends to focus the mind.”

Brian Hamburger and company lend a hand to do good works in Miami.

Brennan then issued a warning to the room: “I’m surprised at the limited understanding in C-suite on the extent of dependence on technology, that they relegate to others, and are not able to make enterprise decisions, and thus allocate resources.”

He also warned about the need for “dispersal of data and capabilities – make sure they are able to disperse, in a way there are setbacks, understand the need of facilities and people and still operate. Electric grids, etc.”

Finally, most applicable to FA’s, Brennan discussed strategic patience, “not driven by quarterly reports – understandable from a financial standpoint but stay focused on longer term goals. There have been many flashes in the pan in terror – startups but no support/funding – success breeds that. They gain longevity if they demonstrate they are able to carry out their goals results in more funding.”

Seen, heard and tweeted

Many other worthy discussions and panels are omitted here, including a great panel on social media with the industry's greatest tweeter Josh Brown pointing out “I got the job on CNBC’s Power Lunch because of my followers, I didn’t get the followers because of CNBC.” – a perfect example to advisors of the potential power of social media.

Former TD Ameritrade Institutional head and retail chief Tom Bradley was happy and relaxed in his garden leave period following his departure from TD Ameritrade. He had brought his wife along and was characteristically frank in summarizing his leisured state.

“I prepared for this Wednesday's panel by arriving last Friday,” and openly dispelled any notion that his next destination is already chosen.

While many attendees will miss the ocean view from of the Fontainebleau as the conference moves to Las Vegas in 2018, Hamburger, conference "bridezilla" Marc Cohen and the team at MarketCounsel should be recognized for putting together an impressive event that straddles a CEO summit and RIA event and which seems to relish being impervious to easy categorization.

Part of it is no pay-to-play speakers, part of it is the attention to detail Cohen and Hamburger put into the event (including Cohen asking what kind of food the chef always wanted to cook but has never been asked to), the timing and of course the content. But also the fact that they don’t take themselves too seriously – which gives the event a casualness and comradery that is unmatched in the RIA conference industry.