



How to Recruit Top-Level Advisors

By Allan Starkie, Ph.D.

The wealth management industry has gone through profound change in the past decade. Those firms unable to adapt to growing client sophistication and greater expectations of transparency have suffered, and in an almost Darwinian reaction a new breed has arisen. The independent advisory firms were nimble enough to adapt to new trends. By embracing open architecture early, they earned the perception that they were product-neutral. Independent advisory firms approached their clients on the premise that they could add considerable value at the front end of the process, and armed with financial planning tools and impressive terms such as Monte Carlo simulation they began to grow at a rate that eclipsed their wealth management peers. Naturally, their rapid growth resulted in the need to recruit talent that would fit the culture of these very individual and sometimes eccentric companies.

My firm has focused on recruiting senior management and client-facing individuals for a host of the top advisory firms since the early days of their rise in prominence. The one thing that has become clear is that each of these firms is unique. It therefore is imperative that the candidates be screened very differently than if they were being presented to an international money center or a regional bank. The advisory niche is large and diverse and within each firm are a host of different jobs requiring quite different skill sets and personality types. For the purpose of this article I would like to focus more on the prima facie generalizations that can be made regarding candidate suitability, based on four categories of advisory firms.

Let us try to define these categories in terms of product, platform, and personnel, because in order to assess the type of person we want to recruit, we need to understand the product offering and the platform type.

Product

Product is a small part of the equation in recruiting because the majority of advisory firms offer a similar set of services. Primarily their staple offering is a means of selecting outside money managers. The degree of sophistication of their respective research platforms varies as does the quality of the managers selected. But the philosophy is the same, namely, that the advisor is product-neutral and “on the same side of the table as the client.”

The ability to create proper strategic asset allocation, check cash-flow sensitivity, and technological means of aggregating monthly reports from the host of managers also varies in quality, but all purport to offer these services.

What is important is the one product that an advisory firm is unable to offer, namely credit. By this I mean balance sheet lending. Some advisory firms do not involve themselves at all in credit, while others establish third-party credit relationships with banks. But for those wealth management professionals that have created books of business by leading with credit, the advisory space is not the place for them.

Platform

The real differentiator is delivery platform, which determines firm structure and culture. There are four platform types in the advisory community (if we eliminate the growing number of break-away brokers and focus on purveyors of holistic advisory services).

The first are traditional financial planning firms that developed ancillary capabilities and evolved into wealth managers. These are venerable old firms with stable and loyal clientele. They excel at offering intellectual capital, and they were some of the earliest firms to identify the special needs of the ultra-wealthy. In fact the term “wealth management” was coined by Harold Evensky of Evensky and Katz, the leading firm in this field, with the very title of the book he authored more than 10 years ago.¹

Second are the pure-play wealth advisors. These are firms established to provide advisory services to ultra-high-net-worth (HNW) households. The prototype of this model was Lydian Wealth (now Convergent), which states its mission as “managing the financial intricacies that considerable wealth requires.”

Third are the captive advisors. These are former independent advisory firms that were bought (generally by regional banks) to act as in-house boutiques for ultra-HNW clients. A good example is SunTrust’s purchase of the former AMA, or Citi National’s purchase of the former Lydian.

The fourth are multifamily offices (MFO) morphing into asset management companies. Following the example of Rockefeller and Co. or Bessemer Trust, many smaller MFOs provide advisory services to individual ultra-HNW clients. In a sense they offer traditional family office services to clients who do not possess family offices.

Cultural Differences

Substantial cultural differences among these four categories profoundly influence the recruiting of candidates who can succeed. Traditional financial



planning firms typically are run by somewhat aging management. They often regard the selection of managers as a necessary evil rather than their *raison d'être*. They tend to have a more conservative corporate culture and a slower growth trajectory. Alpha-type business developers do not function well in these environments. Proof of academic prowess generally is more valued at these firms than at any of the others in the peer group. CFP charterholders are particularly important, as are trust and estate attorneys and CFA charterholders.

The pure-play wealth advisors are the spiciest. For the most part they originate with a person or group that left a larger, traditional institution. Very often the founders are the firm's primary rainmakers, and in most cases they have brought strong client relationships with them. These firms tend to take on the personalities of their founders to a much greater extent than the more institutionalized larger firms.

Personnel

Successfully recruiting candidates for pure-play advisory firms depends on how well the recruit fits the cult of the founder and his inner circle. The firm's founding group generally forms the inner circle, and each new recruit becomes more distanced from the nucleus. Until the firm has reached critical mass (which I define typically as \$3 billion in assets under management), compatibility between any new recruit and the culture is essential to the success of the hire. Many of these firms recognize this peculiarity, and we see a significantly greater use of formal personality screening in the advisory community than in any other industry peer group.

When these firms are purchased by a regional bank, the cult of personality changes as the firm tries to adjust to its parent's culture. So when recruiting for captive advisory firms, it's important to select candidates who are able to

negotiate the labyrinth created by an entrepreneurial culture sequestered in a bosom of conventionality.

The founder's significance, however, is most profound in the multifamily office space. Here the founder is the leader and often the owner of a large portion of the asset base. Often management is cowed by the patriarch's power and personality, and strong personality types sometimes fail to flourish. Selecting the proper candidate mix requires correctly gauging the MFO's stage of development. An MFO in early stages of evolution is more controlled by the patriarch than one that has completed its transition to a systematized asset management firm.

Ownership Model

One additional area of differentiation revolves around the client ownership model.

In the other three peer groups of wealth management client ownership models are more rigid than at independent advisory firms. Wirehouses and international money centers all use what we define as the "private banking model," in which the business developer also is the primary relationship manager for the client. Regional banks and trust companies (with some exceptions such as Wachovia and National City) almost always use a business development model, in which the client is turned over from the sales professional to a generalist relationship manager.

This peer group regimentation of client ownership does not apply to the advisory segment. Each firm has created idiosyncrasies in client experience. Some segment it into opener, closer, and tender; others allow divergent ownership models to coexist. In dealing with client-facing candidates it is very important to assess the mode of client ownership within the firm for which you are recruiting. Mismatching of the candidate's sales/client service acumen with the prevailing client ownership model is one of the many possible pit-

falls in recruiting for all four categories of advisory firms.

Compensation and Equity

Compensation and equity are major factors in recruiting and retaining top professionals. Unlike other peer groups within wealth management, the advisory space has no real set norms for compensation. We have seen CEO compensation range between \$400,000 and \$1.4 million in firms of similar size and asset base.

My firm annually analyzes compensation trends based on 16 firms that together represent all four peer groups in wealth management. If we use a HNW sales professional's total cash compensation, based on a production of \$1 million of *new* fee revenues, the average generated in 2008 was \$475,000 in total compensation. When we compare this to similar production within 10 of the top advisory firms we see an astonishingly broad range. Two of the 10 do not even compensate relationship managers for business development, because that is reserved for the partners, and of the remaining eight the range is between \$250,000 and \$800,000.

Part of the reason for these large variances is the frequent use of equity/partnership in the firm as a means of reducing cash compensation. For those firms that utilize equity as a prime recruiting tool, it becomes imperative that they are able to articulate a clear timeline and methodology for cashing out this equity. Despite the growing yet unproven trend to "roll-up" advisory firms, in most cases the possibility of an initial public offering or a lucrative sale to a regional bank is limited. As the likelihood of a liquidity event decreases, the use of equity loses its appeal, and those firms either need to alter their cash compensation structures or risk attrition of their best producers.

Conclusion

The lack of rules and clear structure actually makes the advisory firm an


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exciting place in which to recruit. Very often one is able to structure very personalized packages for recruits, both in compensation and job description. It allows for a great deal of flexibility, which can be appealing to those candidates who thrive outside the traditional comfort zone. Advisory firms are the only members of the wealth management community that have not been greatly damaged by the subprime crisis. That advantage combined with the growing trend toward product-neutral advice should continue to fuel the

growth of this sector, and the need for a huge influx of top professionals to join their ranks. 

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Endnote

- ¹ Harold Evensky, *Wealth Management: The Financial Advisor's Guide to Investing and Managing Client Assets* (New York: McGraw Hill, 1997).