

# Look Before You Leap: Clearing Transition Hurdles

by Justin Bolmgren



**M**aking a professional transition—changing your advisory relationship or practice structure—is rarely an effortless process. Transitioning advisers have a tendency to get it over with quickly so they can get back to work, but that predisposition can cause them to overlook critical considerations.

Advisers who are focused on a single issue, such as payout or platform, may fail to investigate a firm's culture, capabilities and organizational competence, finding themselves forced to make another transition much sooner than anticipated.

Here are some things to consider when thinking about transitioning to a new practice structure:

## Fee Comparisons

As an independent broker-dealer and RIA, our firm regularly talks with advisers considering a move. Recently, our firm met with an adviser whose demographic and production seemed to be a good fit. Considering himself a heavy trader, he wanted to evaluate our trading capabilities, platforms and pricing. Of course, the outside platforms (Fidelity, Schwab, TD Ameritrade, etc.) are pretty competitive in terms of pricing. But in assessing his options, he completely ignored the associated fees. There's little to be gained in reducing trading costs from \$10 a trade to \$7 a trade if it means losing five basis points in overall production through tech fees and other platform haircuts. Advisers

can be so busy trading and meeting with clients that they lack the time or initiative to research and weigh all the ramifications of a move. This is not to imply an adviser must interview dozens of firms, but it's wise to research a few solid firms and prepare a paper or spreadsheet comparison of platforms, fees, tickets and miscellaneous charges, E&O, etc. to better navigate through the pros and cons of each firm.

## Culture

Remember back in the 1990s when the hot topic touted by consulting firms was corporate culture? We don't read much about that anymore, but the cultural differences between various firms in our industry are significant. Some advisers prefer the anonymity typical of larger firms. Others feel more comfortable in a smaller, more personal environment. It's a big differentiator on which most advisers do not place much importance until they make their first call into tech support or compliance and are asked for their rep code instead of their name. It's not a matter of formal or informal being better, but rather finding an appropriate environment for yourself.

## Back Office

Another important factor frequently overlooked is the back office personnel. The size, competence and attitude of a home office staff can be the difference between a successful transition and frustrating disappointment.

There is only one way to accurately evaluate a firm's back office capability and that's with an in-person visit.

Despite the number of instances where back office issues are the reason for a transition, few advisers personally inspect a prospective firm's home office. The trip should include interviews with various department heads eager to communicate their knowledge and skills and pride in their firm. Their attitude should be consistent with the emphasis and direction of the organization.

Given the critical role the home office typically plays during the transition process, an in-person assessment should be mandatory.

### Staff Experience

Responsive, reliable support is contingent upon staff experience and commitment. An adviser might wisely inquire as to how many support personnel have advisory experience—an invaluable asset in solving problems. Staff members who never worked as advisers may not comprehend the urgency often associated with a support request.

The ratio of staff to advisers is also a relevant statistic, provided that the head count is accurate and does not, for example, include temps hired to do filing or run errands.

### Organizational Evolution

At one time, larger firms generally had an edge in resources, but technology advances have leveled the playing field to where virtually everyone in the financial services business has comparable access. Nonetheless, transitioning advisers should always make certain the prospective organization has invested in adequate technology to meet their specific needs. Access to CRM, planning and portfolio management software and mobile connectivity are a few of the considerations.

Get an overview of the organization's evolution. Upgraded technology, paperless integration and mobile connectivity are all signs of a progressive company with a commitment to the future.

### Platform

It's a good idea to test drive the prospective platform. Some larger independents appear to be autonomous versions of a wirehouse, as they tend to be self-contained with captive software and technology. Clients grow accustomed to a specific advisory platform, performance reporting, billing and other services, so it can become more difficult for advisers to one day move clients because as captive advisers, they are unable to work with external advisory platforms aside from the firm's proprietary or vendor-specific self-clearing entity.

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This can be a positive or negative issue, depending on the adviser's practice orientation. Some may like a more rigid structure, and others may prefer a more entrepreneurial environment and open architecture.

### Ownership

A factor often overlooked is ownership. Consider the firm with some 100 reps doing approximately \$15 million in annual revenue that was purchased by a group of 15 owners. The CEO, a non-shareholder, found it almost impossible to get anything accomplished with so many diverse interests and opinions. On

the other hand, a sole owner controlling every minute detail can be just as counterproductive, unless the owner is an advisory superstar, of course. A possible red flag is the CEO who has bought and sold several firms in the past. That could indicate a turnover specialist who increases shareholder value quickly and then gets out, leaving the firm with weak leadership and direction.

### Growth Pattern

A major metric among independent firms is the number of reps, a statistic that can be padded. Margins are thin for independents, and most trading is still done on desktops. Ten reps doing \$100K each could create far more backroom pressure than a single \$1M producer. If a firm is aggressively recruiting bodies for the sake of looking like a bigger firm while the average annual desk payout is trending downward, that's probably not the place for a successful producer. Although there may be justifiable reasons for a firm trending down, it calls for close scrutiny. Similarly, a firm with rapid growth in revenue and workforce should be investigated to see if backroom growth is commensurate. This is especially true for an adviser accustomed to a high level of support.

There is no shortage of firms from which to choose. Once assured the key concerns about the transition are satisfied, advisers should ensure that all the other important puzzle pieces fit. Successful advisers are a hot commodity for virtually every firm, so it's the adviser's responsibility to do the research, ask the questions and get the right answers. In essence, look before you leap in order to make the right move the first time and avoid disappointments in your transition to a new firm. ○

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