Recruiters Panel: What's Your Move?

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One of the cold, hard realities in wealth management of recent years remains true to this day: There is a supply-and-demand problem.

The biggest firms are falling short of filling the pipeline with a steady supply of young financial advisors who can replace an aging advisor population within the employee advisory channel, according to our annual grouping of the wealth management industry's top recruiters.

However, our panel is bracing for a new wave of advisors on the move – to borrow a phrase from the name of *On Wall Street's* popular series featuring the biggest producers and teams and the firms that hire them. Recruiters expect that advisors will be sizing up their options, especially when those whose seven-year contracts signed after the financial crisis in 2008 expire this year.

Call it the industry's seven-year-itch visible on the horizon are more big teams, especially with advisors moving among the wirehouses. Merrill Lynch lost the largest team of 2014, managing $4.5 billion in assets, to Morgan Stanley, which then bested itself in the New Year, landing a $6.5 billion team, again from Merrill.

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Our recruiters also don't expect all their business in the coming months to be generated by the largest brands. Once-smaller firms such as Raymond James are emerging as "super regionals," as some on the panel call them. Many advisors are finding the regional broker-dealers attractive for a variety of reasons, including both their financial incentives and culture, according to the panel.

Culture especially is becoming a catalyst for growth, say the headhunters in this wide-ranging discussion, who see opportunity for many, including themselves, in the year ahead.

What are some of the main factors affecting recruitment in the employee advisory channel?

ELIZABETH MCCOURT: It's been all over the news, the advisor population is aging up and out, and there is nobody to walk in and replace it, so that is a big problem in the industry. And the way the compensation plans are being changed, they are squeezing out the lower-end advisors. So where is there a spot for them?

STEVE ROSEN: There is more demand than supply, while simultaneously the traditional channel is leaking advisors and that is a big leak. And that leak is going to the RIA and independent space. The reason why it's happening, why it feels so sudden (which it's not because it's been happening for years), is there is finally a real infrastructure. Firms are popping up, and existing firms are developing new platforms to cater to the segment of advisors that want to change. Change of platform, change of culture whatever that change may be.

MINDY DIAMOND: It's a perfect storm. You've got incentive packages being offered by the wirehouses at high watermarks. And those firms are willing to be as creative and aggressive as they have ever been for top advisors. You've got an ever-expanding landscape which makes it more likely that the advisors looking would be able to find his or her version of utopia.

DANNY SARCH: I think that in a lot of ways this is a golden age for advisors. It's also a golden age for headhunters, who I agree reduce supply and increase demand. And that the only people it's not the golden age for is the people that are defending the status quo. It really just is: There are more choices for a thoughtful advisor who says I want to fix "X".

Do advisors still find greater opportunities with the biggest brands?

RICK PETERSON: Back in the '80s we had three times as many wirehouses. Now we have four. But also, all of a sudden, we have these "super regionals" emerging, and they are getting bigger and better. Their deals are competitive – extremely competitive.

SARCH: Calling a wirehouse a wirehouse or calling Raymond James or Edward Jones a regional, it's absurd, when they are in every state in the country.

DIAMOND: I think that the regional firms, not so long ago, were neither here nor there. These were the firms that didn't pay the deals quite as large as the wirehouses, the firms where the platform was not as good, where technology was a little substandard. Now they are places for advisors who want more flexibility and control than they have at the wirehouses but who don't want to go independent. It is an absolute best of both worlds. Firms like Raymond James are the best examples. Every day we are reading about them recruiting not just million-dollar producers, but they also can run on a $900 million team. They are not only recruiting some of the biggest advisors [but] some of the best advisors who value culture and business ownership more than they value the biggest deal.

What is the wirehouse response to the rising threat of the 'super regionals?'

MICKEY WASSERMAN: Deferred comp. They have to figure out a way to retain their brokers and their advisors. And they are going to be coming out with more and more programs that include deferred comp, more growth rewards and more long-term rewards. Retention packages are up very soon, and the deferred comp is the new retention package.

MICHAEL KING: The wirehouses are going to push more and more deferred comp, golden handcuffs. The other thing they can do is give some sort of retention packages so folks can stay. I don't think that's going to happen. It's going to be a big issue if they do, because where do you cut it off and how do you do it? A lot of folks are raising that issue: "If I get a retention package, then I stay. Otherwise I am leaving.

BILL WILLIS: In a sense, the new retention program is there for you. Unfortunately, you are funding it yourself now through deferred comp. That's kind of what is going on. One thing I would like to add that is also fueling this fire that hasn't been brought up is the smaller firms. Financing through banks is now available to do deals. And that has allowed smaller players to play with the big boys, straight up. I think that financing probably has only been around for the last 36 months or so. But it's a couple of banks who are very aggressively going after RIA firms, the small independents, and helping them fund their bill.

PETERSON: Deferred comp, all it really does is make the price tag for a recruiting firm a little bit higher. They have to match the deferred to get the broker to make a switch. It doesn't really necessarily keep brokers in their seats. As we have seen with the retention plans over the past, they have been in business for almost seven years. It hasn't stopped movement. Brokers have still moved regardless of the fact that they have money left on their retention package. It just means that the recruiting firm matched it or somehow made it a non-issue. And as we have all I am sure discussed in this room, the retention packages in 2015 all disappear. It will be a boon for recruiting for all of us because of that. .

ROSEN: The short-term band-aid is deferred compensation. But what that does is just buy time. If someone wants to go, they are going to go. Holding up 5% of someone's pay is not going to keep an advisor who is not happy in their seat. Long term, for sure it's not. Some firms might develop some type of independent channel, like Wells Fargo, as an example. But I think the majority aren't going to do that. They are going to hyper focus more on what they do well and make the advisors that are either on the fence or are happy, happier.

DIAMOND: Deferred comp will actually wind up having the opposite effect, particularly at the upper end, because it sends a message once again that we are taking just a little bit more control away from you. In other words, we are not leaving the decision to you. We are making the decision for you that you will have to defer to us. And to everyone else's point, because in any recruiting scenario, unvested deferred comp will be matched, it's not really much of a retention tool. It actually in a lot of ways sends the message that will force them out quicker.

Morgan Stanley for now is the only firm among the biggest names that plans to pursue deferred comp this year. Was it a smart move on the firm's account or a miscalculation?

WILLIS: Those of us that recruit against Morgan Stanley are going to fair well, to be honest with you. But I applaud their courage for trying it. Being first is always admirable. And candidly if they are right and only a few people leave in the next couple of years, they will indeed begin to tie people up.

SARCH: I will point out that pioneers are most often the ones with the arrows in their back as time goes on.

Do you see a bright or grim future for the wirehouses?

RICH SCHWARZKOPF: The wirehouses, the four of them left, will always have a place. Obviously, they are not going away. They almost all are owned by banks, but it's a dying part of the business. It's diminishing. The demographics, you can't fight them. It's there. The millennials will not be going to wirehouses. They will be going to RIAs. They will be going to robo-advisors, the new catchy phrase. You don't need to talk to a broker now. They have sophisticated programs that are much smarter than most brokers I have ever met.

WILLIS: First of all, I think people will always be willing to pay for advice, good advice, and they are ready to pay when they have a lot of money. [They are a] little less likely to pay when the amount of money they have in their account is lower. So I think there is certainly a future for the wirehouses in the industry.

How do you train advisors to connect with millennial clients?

WILLIS: In terms of the millennials, the problem there in my opinion is, we don't have too many millennials as advisors, and they are who these people want to connect with. They have different ways of communicating. All of us who have children understand how that is.

ROSEN: One of the things that has been done, which will help, is teaming. Almost all teams have someone younger on the team or someone junior who is eventually going to be senior. These people can relate to younger people.

Which firms are making progress training millennials?

WASSERMAN: There is no doubt that Merrill Lynch has the best training program for the millennials that's out there. It's a well-thought-out, strong department. It's one that other firms are, in fact, following. Now there are fewer millennials coming in so firms have to assert themselves in colleges and universities and go international to find younger people. I think Ponce de Leon had a better chance of finding youth than any of these firms do. But there are answers out there, and training is the big key. You need a firm that is big enough that can put the young ones in a bank environment or a team environment. You need steady training with a format. It needs to be long term. You have to learn product a lot more, as opposed to learning sales. And a combination of that will make for a successful millennial coming out.

MCCOURT: One of the smarter programs is the Wells Fargo apprenticeship model. They hired 100 advisors in 2014. It's with a salary, the apprentice is paired with an advisor and a dedicated performance coach. I think that is really the only way that these younger millennials or advisors are going to have any chances of surviving, pairing with a team, getting some dedicated coaching and really figuring out how to succeed. Because the million-dollar-client will not walk in and hand their money to a 22-year-old. They want to have some guns behind them.

SARCH: I question whether the firms will have the wherewithal to keep on a wonderful program like that through a market downturn and when the person struggles two years and they haven't made a given quota. And as far as we see, they just haven't.

WILLIS: I think that Merrill and Wells have the unfair advantage over the other two, Morgan and UBS, being that they have bank branches where they can put these young people. And the success rate at the branch level is significantly higher. I don't have the numbers but just [know] from what I have experienced. In fact, one of my sons is involved in one of these programs. It's a lot easier to get started, clients are flowing your way. You can learn your craft in your 20s and then perhaps move onto another type of assignment within the firm.

Most of you view Raymond James as a successful and popular recruiter. What is its secret sauce?

PETERSON: I think the successful firms in recruiting are the ones that have great storytellers. I think Raymond James is interesting in that not only do they have a good story, and usually a good story in the managers, but they have the best storytellers back in the branch. These guys talk about what a great place it is to work. They do that unsolicited, unpaid. They just love the firm. So when brokers are betting on a new firm, before they join it, they just call some friends of theirs who have joined Raymond James, and they say they love the place. It's like unpaid assistance, and it has more weight, frankly, than the manager saying it or the firm's literature saying it. It's from an unsolicited source. It's a friend who is saying, "It's great over here."

DIAMOND: It's so interesting because I think that it's probably one of the least sexy firms. It's not a sexy name, and there is no flash in the can about it. But the notion is that it's real, that it's grounded. It's a "feel good," a culture play. And while the word "culture" as a differentiator is sort of one of these words that doesn't mean a lot, it's still probably the thing that advisors value the most.

SARCH: They are the only ones I believe that put it in writing and said for every person they hire that the advisor owns the book. So when you own the book, it means nobody calls the accounts to solicit them other than to service them as their responsibility. Nobody will call the account when you leave. So anybody here, if they were representing somebody out of Raymond James, could call theoretically any of our client firms or the big firms and say, "Isn't this guy worth more?" In other words, "Isn't it worth it to pay this big, Raymond James producer a premium because nobody in his existing office will call his book?" I think most people will say, "Yes, that makes sense. I would do that." And yet the Raymond James advisors still don't leave. It comes down to the way they are treated: an advisor comes first. The other firms say in their sales meetings, "Yeah, you own the client." But soon as you leave they are going to give your client names out to 50 of your friends and call them.

ROSEN: Raymond James put themselves where their story is: that they can compete with the wirehouses on capabilities and resources, yet maintain their small town culture. They have done a very good job of that. The second reason for their success is they have five channels. So, they are not just able to go after employees. They are able to recruit people from wirehouses, RIAs, independents and mix and match all of those.

KING: I think that Raymond James is never going to become avant-garde, but it's a feel good situation. It's about having it your way. They have all these channels. They can do what they want. There is flexibility. All that works for people and it gets them very excited about being there.

MCCOURT: The reason why we are all having this conversation is because Raymond James has done a brilliant job of internal marketing as well as external marketing. Other firms do have good stories, but some of them choose not to put it out there. They are a little softer and quieter about their message. So I think Raymond James has made the deliberate choice to get it out. And they are moving people, which is one of the reasons why we are seeing them all over the news.

What drives out high producers these days?

DIAMOND: There are a lot of little things, a lot of minor frustrations. But for any of us professional deal makers, there is usually one catalyst that drives advisors over the edge, and it is a moratorium put on the kind of business that they do, a very meaningful piece of the business that they do.?

PETERSON: I think that the catalyst for the bigger teams leaving is more potential micromanagement of the business than they have done in the past few years. It was subtle at the beginning. It may have started out as some bank involvement. It's now become more. It's the micromanagement.

What are you expecting to happen to the sizes of deals this year?

ROSEN: I think they are going to go up a little bit, but there is not a whole lot to go.

PETERSON: I think deals are going to go up, even on the top line, up front. And the reason is going to be competitive pressure.

SARCH: I agree that the competitive environment is going to drive the deals somewhat, which is when a firm starts losing. If we pick any of the firms that we talked about and they start losing people, they will say, "What we have to do is fight back." But we are still talking about the wirehouse world and the mega-deals. From my understanding, of all the wirehouse people who moved in 2014, less than half went to another wirehouse for the first time. So that means a significant portion, if we can all agree that the wirehouses are making the mega-deals, or more than half the people that moved, went for other reasons. So will that make the wirehouses more desperate in terms of deals? Or will it make them innovate and try to understand why people are choosing places other than their firms?

DIAMOND: The number of deals we did in 2014, the number of advisors we moved was lower, but the size of the deal, the caliber and quality of the advisors that moved were bigger than we have ever seen. So the average advisor moving, the average team moving, is bigger than they have ever been.

How are the biggest brands, the wirehouses, doing? Start with Merrill Lynch:

KING: If you talk to the brokers there, the Bank of America impact is very strong and very negative, that is a big issue.

WILLIS: I think they have gone through a lot of changes no question since 2008, but things are getting a lot better and the bank itself is extremely dynamic. It's interesting. All the four majors say that lending is the future of the business and the most important part of the business. I would say that Bank of America Merrill Lynch is the best lender of the four.

WASSERMAN: Everybody takes pot shots at them and the perception is not correct. I know several advisors that have moved into Merrill Lynch over the past couple of years and absolutely love it over there.

And Morgan Stanley?

ROSEN: Morgan Stanley merged with Smith Barney. I have never seen any transaction in the world in any industry where two dominant firms merged, two different cultures, two different technologies, two different platforms and there were no eggs cracked. It's just another day at the office. There was a lot of dust and construction. That's been settled and I think the remaining product that is left will speak for itself. I think they are the clear dominant player moving forward in that space.

MCCOURT: With the merger from a few years ago with the compensation changes, I think a lot of people are very unhappy. Even the ones that have moved in the past five years have called and said, you know, this new change has really been -- this is going to affect me more than a 25 year advisor.

DIAMOND: I think that one thing that differentiates Morgan from the other wirehouses is one, they are the only non-bank owned wirehouse. So culturally if you are rallying against Bank of America ownership of Merrill Lynch or UBS or Wells Fargo, you may like them more. Secondly, wealth management at Morgan Stanley represents almost 50 percent of bottom line revenue, so it's exceedingly relevant. And the payoff to the advisors is that they are investing and innovating in a way a lot of the other firms aren't. And it tends to have a little bit more of an entrepreneurial culture. The advisors are very important and they know it.

And UBS?

KING: I would say that UBS has done a terrific job of marketing themselves. There were a lot of questions as to whether they would survive, whether they would be sold and I don't think you have that many brokers that really want to leave.

PETERSON: I think UBS is one of the best firms in the country in terms of ability to recruit. Their managers are great recruiters. I mean if they are in the game against two or three other firms in bidding for a broker, it's going to be UBS or somebody else. They are always right at the very end.

Don't forget most of the UBS managers came up through the tranches. They were part of Paine Webber in many cases. And Paine Webber wasn't given anything. They had to go out and recruit and grow. The same way Prudential which is now Wells Fargo did. That is the only way they could grow. They didn't have training programs or anything. They just stole all the time. The guys who have survived at UBS I think are some of the best recruiting managers in the country.

SARCH: They have taken advantage of their size being roughly half of the other wirehouses. So they feel they are big enough to be relevant, in terms of the size of the institution, but small enough to be more responsive to make individual decisions that can get done more quickly than the other big firms.

WASSERMAN: I want to line the firms up, in terms of aggressive management recruiting. Yes, UBS is number one. Morgan Stanley and Merrill Lynch tied for number two, and dead last is Wells Fargo.

What about Wells Fargo?

WILLIS: Looking back historically at 2008 they are the ones that didn't get money at all. They did a great job of managing their name and managing assets. They have all of the products and services. They are a little bit like Raymond James, they have a little bit more of that regional flavor, which I think is a plus. Not hardcore "big blue" New York, if you know what I am saying. They are rather St. Louis. They are infused with a bunch of regional firms and many people really like that culture. People we have put in the Private Client Group tell us this. These are people that have been at other wirehouses, this is the easiest place to do business among the big four. That is important to a lot of people. It is not super exciting. They don't want to be that way. They are a conservative firm. They have done a very good job managing their brand. And that appeals to lots of clients as well as advisors.

DIAMOND: Whether or not an advisor as has an interest in going independent today, the notion that you can become independent without having to change brand names is very appealing. The notion of being able to go get paid a sizable deal today, become part of a private client group, work there for nine or ten years and then be an independent is also appealing.

ROSEN: Wells Fargo is known for not having a distinct strategy. They are everything to everyone. They do everything okay. They don't do anything great. They are like a good diner. You can always catch a good meal but you never go there on a date. That's basically where they have been and who I see them as today.

Lastly, how is morale?

DIAMOND: I think in terms of advisor morale it's a sellers market. The advisor holds all the cards. And a good market with a tail wind at their back just makes them happy and I think that they know it. So even though there may be many things they are frustrated at about where they are, they know they have a lot of options and that keeps the morale high. I think that one thing that is very interesting about management for morale is that we have talked a lot or read a lot about advisors making the migration to independence. Up until this year we saw almost no wirehouse managers, unless they were forced out, moving toward the independent space. This year for the first time and I believe an absolute prediction for 2015 is that managers are beginning to get on the bandwagon.

WILLIS: I think advisors are pretty happy right now. Managers, however, have been marginalized.