ADVISOR CHANNELS

The Independent Opportunity

The barriers that kept wirehouse advisors in place are rapidly dropping by the wayside.

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In the past, many wirehouse advisors specializing in the ultra-high net-worth (UHNW) marketplace have felt that breaking away and going independent was too difficult and complicated and could have an adverse effect on their business. Now, with so many new tools and solutions available to advisors outside of the wirehouse world, these same elite advisors feel they could be making unintended sacrifices if they stay where they are.

So, what's changed? In the past, UHNW advisors were cautious about doing anything that could be perceived by their clients as risky, and that included leaving, in many cases, the firm at which that client hired the advisor. There was also a widely-held perception that the independent model couldn't provide an equivalent level of services, technological sophistication and infrastructure support offered by wirehouses. Tack on the strong reputational and brand loyalty that clients felt towards wirehouses pre-2008 and their lack of familiarity with the independent channel, and it wasn't surprising to see these advisors hold off on making a move.

Most of these old reasons that prevented elite advisors from leaving their wirehouses are no longer the impediments they once may have been, and the independent model is quickly growing in favor among these elite advisors.

Part of the reason for the shift in sentiment is the recognition that being independent doesn't mean less access to investment solutions and technology. Quite the contrary: it actually means quite the opposite.

UHNW advisors at wirehouses often report feeling pressured to skew their recommendations in favor of house-approved brands, or to cross-sell proprietary products and services, even when neither of those things are necessarily in the client's best interests. And, if the wirehouse is a public company, or is owned by one, advisors and their managers face yet another set of challenges, since they have to drive profits to satisfy shareholders.

One of advisors' main reluctance to exit the wirehouse world for a chance at independence is the worry that their book of business won't follow them. And, it's not an inconsequential concern. The reality, however, is that the financial advisor business is forged on relationships. The stronger the ties advisors have with their clients, the more likely those clients will be to follow the advisor. These days most clients identify more with their advisors than the institutions they are employed by.

And then there's the issue of technology, perhaps the greatest democratizing force of all. Until just a handful of years ago, wirehouses had the best technology money could buy. After all, they have the deepest pockets. But that's changed dramatically. Previously locked down by wirehouse legacy systems, independent advisors are now able to adopt the latest cutting-edge fintech platforms and services that help them better connect, service and engage with clients. Many of these technology platforms available to advisors also incorporate broker-dealers and custodial services. And these platforms empower advisors and clients alike, as advisors are able to devote more of their time to clients, while their clients have the benefit of being able to access all of their information in one place.

The final issue, and one of the most obvious, is income potential. At a wirehouse, UHNW advisors are at the mercy of their firm and whatever pay structure they have set. As an independent advisor, they can determine how much of their revenue they want to keep, depending on the fee and expense structure they establish at their own firm. As their businesses grow, advisor-owners can start to build enterprise value in their firm too, which can help lead to a higher long-term payout down the road if they choose to sell or transition the business.

The move to independence is akin to starting one's own business with an established client base. It's an entrepreneurial enterprise versus being an employee. Neither is bad, it just depends on which business model the elite advisor believes is best for their clients and for them. While the independent space offers UHNW advisors increased control and oversight of what they do, they are still subject to the many risks and responsibilities of being a business owner. This includes oversight of their business strategy, personnel and operations management, compliance and financial performance. It's important for elite advisors contemplating a change to take these items into consideration.

Financial advisors and clients don't have the same sense of attachment to traditional Wall Street firms as those brands continue to be bruised. Many of these advisors are more tech-savvy and aware of the benefits and flexibility of operating on their own with the ability to grow their businesses faster and to do what is best for their clients. They see the issues that have plagued the wirehouse space for some time, and are ready to grasp the many advantages of the independent space.

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