



The RIA and the Brown Paper Bag

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The Wealth RIA community has truly become the new “thundering herd” of the Financial Services business over the last decade, and with no signs of slowing down. Collective AUM continues to grow at an exponential rate, more and more employees and next-gen staffers are finding their way to the space, and the business model has proven out. With that said, why is it that some firms go on to grow upwards of \$1 Billion AUM, \$2 Billion AUM, \$5 Billion AUM and beyond while other firms stagnate and plateau with several hundred Million AUM? (A success in its own right to be sure but still a lifestyle business or large practice). Now, we all know that every firm is a bit different ranging from structure and ownership, to business model, offering suites, and client segments. However, as firms grow and scale, so do the complexities of their business. Layer on top of these complexities is the possibility that the people who are with you in the early days of a firm’s founding may not be the appropriate people or possess the requisite skillsets to help you scale your business or take on more strategic roles as the firm continues to grow.

Over the past five years, one of the biggest Executive Search trends that we have seen in the RIA community is the growth of the C-Suite. Chief Executive Officers, Chief Operating Officers, Chief Investment Officers, Chief Compliance Officers, Chief Marketing Officers, Chief Technology Officers and so on. Call them what you will in your own firm’s title parlance, but these are key roles that firms have put front-and-center in their strategic hiring plans. Founder/ owners are seeking to recruit from the outside, particularly if there are no internal candidates, or a person (including a Partner) who has the skillset leaves, retires, or throttles back.

The other key roles that we are conducting searches on, and getting ongoing inquiries, include Client-facing talent; titles include Portfolio Manager; Wealth Planner/Financial Planner; Client Associate; and a myriad of other titles. Essentially these are experienced financial advisors who can take on clients from the perspective of managing the relationship, quarterly or annual reviews, additional deposits, changes in circumstances, market condition or portfolio explanations, portfolio modifications, et al. Depending on the RIA’s platform and needs, candidates tend to skew toward CFA investment specialists or CFP planners, sometimes a combination.

There is also increased demand for entry-level hires, new entries into our business who can be trained to go in one of several directions within the firm. We will discuss both of these in another piece, but the focus here will be on the C-suite, specifically “running the business”. Most successful RIAs have a Founder or multiple partners who are typically good at Portfolio Management, or Sales; sometimes both but as the firm grows the owners will skew towards one or the other, as much because there are only so many hours in the day, along with doing what they are naturally good at and enjoy. Occasionally, and rarely, a Founder or partner will be good at the back office, i.e. “running the business”. In a great White Paper authored by Matt Sonnen of PFI Advisors, “Exploring the Benefits of Professional Management for RIAs: A Deeper Look into COO’s”

https://www.prweb.com/releases/pfi_advisors_releases_industry_report_exploring_the_benefits_of_professional_management_for_rias_a_deeper_look_into_chief_operating_officers/prweb15873898.htm), Matt provides case studies of several multi-billion dollar RIA's that have scaled through the help of a professional COO.

Here's our take

What's in a name (or title): We were at an industry conference recently, and Brett Bodeski, CEO of Savant Capital Management said, in essence, "...be careful what you call the person, the bigger the title the more you have to pay". We aren't advocates of squeezing on comp, you have to be in realistic range of remunerations vs skillset and experience, but there is another point to be made here. ***Don't go out to an expensive lunch if all you need is a sandwich in a brown paper bag.***

Do you need a real **CEO**? The answer is "yes" if you are throttling back or looking to focus on clients or another aspect of your life or business. The CEO will oversee and have input on EVERYTHING: Investment Process, Client Facing staff, Finance, Compliance, IT, Ops, HR, Marketing, organic growth, acquisitions; EVERYTHING. This is a huge hiring decision, no mulligans allowed. Compensation must be customized to include base, bonus, and equity; Custodial salary studies are helpful but don't tell the whole story; they can be high when you include Owner/Founders (which most of them do), and low otherwise. The reality is what your market will bear, the resume you seek, and frankly how screwed up (or not) your organization is.

Maybe you aren't ready to cede control, but need a **COO**. In this nomenclature, you can continue to manage or co-manage the Investment side or the Client-facing side, with your COO directly running all the non-revenue aspects of the business. Obviously you will pay less than you would have to pay for a CEO, and your new COO can be auditioning for the CEO role, if appropriate.

Head of Operations: it can make total sense to recruit a less seasoned individual to come in to a senior role without the COO title. This person will typically oversee IT, back-office operations, service, and sometimes Financial Planning. If IT is included, a person who is a whiz with technology can add huge value to your organization, and potentially eliminate the need for a full-time IT head, particularly if you are into outsourcing. Digital Marketing and websites can be funneled into this role; typically Finance isn't, but you can customize the role to best manage against what is lacking in your company and your vision for what it is you need to grow and prosper.

We at DAK Search have a sibling company, Gladstone, which is quite active in buying, selling, and merging RIAs. But the fact is, if you have built or are building a sustainable company with true Succession formulated—why sell the Golden Goose? Recruit the person who can nurture and sustain what you have taken years to build. It is easier, however to perpetuate when you are bigger—more resources, better purchasing power, more brand equity in your market(s). Your 'C' Suite executive will get you there, but you must invest in this, financially (it's a significant hire with significant cost) and emotionally (be prepared to let go of some or most control). We aren't advocating getting bigger just to get bigger, at the expense of quality and client satisfaction, but Billion\$ firms are more and more commonplace, and \$5Billion has a nice ring. With that said, growth isn't only about AUM; bigger firms have diverse talent sets, increased intellectual capital, purchasing power, and better ability to "weather the storm" in volatile markets.

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