
Financial Planning
INVESTED IN ADVISERS / AUGUST 2017
Ali Mandalinci
Beth Sweeney
Peter Frisch
Stephen Spector
Co-founders
Steward Partners'
newest office
...it's how you arrive
THE $600M MOVE
It's not how you leave...
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THE $600 MILLION MOVE

A rare, inside look into how breakaway advisers navigate the herculean task of transitioning hundreds of clients to a new firm.

Advisers Stephen Spector, Ali Mandalinci, Beth Sweeney and Peter Frisch (l. to r.) broke away from Wells Fargo and UBS and stepped into a frenzy of activity in their first days at Steward Partners.

JOSH ANDRUS

BY ANDREW WELSCH

The day adviser Beth Sweeney switched firms, she bid a tearful goodbye to Wells Fargo colleagues she'd known for a decade or more. Though she didn't have to travel very far to switch firms — her new office was actually in the same building complex — she still had something of a long journey ahead of her. Sweeney's mission: call over 150 clients within 48 hours to explain why she had left to join the independent firm Steward Partners Global Advisory.

"These were not quick phone calls," Sweeney says. "Some of these clients have been with me for 15, 20 years."

Over the course of a few days, Sweeney and two other teams in Boston opened Steward Partners' 10th office. The advisers, who left Wells Fargo and UBS, oversaw more than $600 million in combined client assets, according to their new firm.

Their first hours were marked by a frenzy of activity. While advisers worked the phones, a transition team composed of more than a half-dozen transition specialists assembled hundreds of red packets in a large conference room down the hall. Each packet was mailed overnight and contained information for clients on the new firm and its affiliation with Raymond James.

Sweeney, meanwhile, hit her goal. "I was so fried," she says.

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"We could have been fully independent and had our own RIA and computers and office space, and you have to manage all that," says Steward Partners' Stephen Spector. "We didn't want that."

'IT'S A FRENZY'

Switching firms can be an anxious time for advisers, since they don't know if their clients will indeed follow them to their new firm. Meanwhile, former employers do everything they can to retain the accounts.

"They'll go after their clients pretty heavily," says recruiter Michael King, who was not involved in Sweeney's move. "It used to be that some brokers would call and bad-mouth their former colleague, saying, 'Well, they were not servicing your accounts that well.'"

Though those kinds of dirty tactics are not as prevalent as they have been in the past, partially because of human-resources concerns, the atmosphere is still fiercely competitive, King says.

When the advisers David Karp and Paul Pagnato left Merrill Lynch to go independent with HighTower Advisors in 2011, they resigned at 8 a.m. on a Friday and had a car waiting to whisk them away to their new office.

"TO OWN PART OF THIS PLACE — IT CHANGES YOUR ATTITUDE IN TERMS OF WHEN YOU WANT TO COME IN OR LEAVE FOR WORK," SAYS STEWARD PARTNERS ADVISER PETER FRISCH.

"Within 90 seconds of our resignation, we were on the phone with our clients," says Karp, whose $2.5 billion RIA is based in Reston, Virginia. "It's a frenzy. You want them to hear about it from you before your firm reaches out to them."

FLAVORS OF INDEPENDENCE

The desire of Sweeney and her colleagues to move to an independent firm is a testament to the enduring appeal of non-wirehouse business models.

The independent space has grown at a much faster rate than the wirehouse channel has in recent years. The five-year compound annual growth rate for wirehouses' assets is 4.9%, according to research firm Cerulli Associates. For the RIA and hybrid channels, that figure is 9.9% and 10.6%, respectively.

Moreover, the number of ways to go independent now runs the gamut from operating a solo RIA to network models to independent broker-dealers. The variety is somewhat limited by what regulators say firms can and can't do, says Alois Pirker, research director at Aite Group. "But the nexus can vary greatly."

Pirker expects more creativity in business models to come — something that is particularly appealing to wirehouse advisers who don't also want to be burdened with the minutiae of building a firm from scratch.

"We could have been fully independent and had our own RIA and computers and office space, and you have to manage all that," says adviser Stephen Spector, who moved to Steward Partners' new office with longtime teammate Peter Frisch. "We decided we didn't want that."

Their team opted for Steward Partners because the firm offered greater independence and operates as a partnership, they say. Sweeney and Ali Mandalinci, a former UBS adviser who joined the office several days after them, echo that sentiment.

Plus, new hires get equity in Steward Partners. The attraction of having an ownership stake has helped Steward recruit more than 60 advisers since ex-wirehouse managers founded the Washington, D.C.-based firm in 2013.

'LIKE A GRADUATION'

Despite the appeal of greater independence and potentially higher pay, Steward Partners' newest recruits didn't find it easy to leave their old firms.

"That was tough," Spector says.

In his 33-year career, he had never switched firms. Spector and his partner Frisch, who also hadn't moved during his 22 years in the business, had strong ties to their former colleagues.

"I'd call it bittersweet, like a graduation," Spector says. "You are moving on to bigger and better things, but there's always a little sadness."

Mandalinci had switched firms before; he started his career at Merrill Lynch when he was 22 years old, but left for Smith Barney after the wirehouse took away his biggest client because it deemed him too young, he says. After Smith Barney merged with Morgan Stanley, he moved to UBS.

"YOUR SENSE OF URGENCY IS 'NOW, NOW, NOW,' BECAUSE IT'S YOUR BUSINESS. BUT CLIENTS ... DON'T HAVE THE SAME SENSE OF URGENCY," SAYS RECRUITER DANNY SARCH.

Still, he says he dreaded resigning from the Swiss firm. "I enjoyed UBS. It was a good firm. Real good people work there," says Mandalinci, who made his move to Steward a few days after the other advisers.

OWNING IT

Mandalinci and the other Steward Partners recruits say the firm's culture, affiliation with Raymond James and partnership structure were particularly appealing.

As partners in the firm, new hires can partake in profit-sharing in their third year at the company.

In a sense, the structure reflects a different Wall Street era, when storied firms like Salomon Brothers were partnerships, not public companies. "I think to have the right priorities, you have to have skin in the game," Spector says.

Frisch also says that clients were quick to note that their new business cards now say "partner." He adds: "To own part of this place — it changes your attitude in terms of when you want to come in or leave for work."

Unlike HighTower and Focus Financial Partners — other high-profile independents — Steward Partners does not have private equity backing, something the firm's leaders say they have avoided intentionally.

"With private equity, you know what you are getting: a short time frame, typically three to five years, and a bunch of really smart people who will try to micromanage your business," says Michael McMahon, chairman of Steward Partners' board and founder of Pine Brook Partners, a private equity firm specializing in the energy sector.

McMahon is not affiliated with Raymond James, and the BD, based in St. Petersburg, Florida, does not have an ownership stake in Steward Partners.

With big capital injections from private equity, HighTower and Focus Financial have been able to lure wirehouse breakaways and snap up RIAs. Those firms have notched impressive growth and have also been subject to regular speculation about a potential sale or IPO.

By forgoing private equity, Steward Partners executives say they avoid that pressure and can focus on steady growth within the Northeast, their primary target area.

"We're never going to open an office empty," CEO Jim Gold says. In other words, each new branch has to be economically viable from the start. And executives say they put in considerable effort to ensure that.

"In Albany, we were probably going up there for two years before we opened [that office]," Gold says of the firm's upstate New York location.

53 RED PACKETS

When an adviser moves from one firm to another, there's something of a cloak-and-dagger atmosphere because confidentiality is critical. In a twist, Spector and Frisch's team and Sweeney's team worked at the same Wells Fargo office but had no idea they were planning on the same move.

That was no accident. "We never reveal who we are talking to,"says Greg Banasz, managing director at Steward Partners. "But we'll ask, 'Who would you never want to work with?'"

Departing advisers also need to maintain a level of secrecy because of the strictness of the industry's Broker Protocol and the litigation that may follow a move. (In January, for example, a FINRA arbitration panel awarded Wells Fargo more than $23 million after Robert W. Baird lured away a group of Wichita, Kansas-based advisers who collectively oversaw $1 billion.) Some brokers say privately that they don't even tell their spouse about their plans until nearly the last minute.

Not being able to get feedback from

clients about the intention to leave compounds the stress of a transition, says Karp, the ex-Merrill broker now affiliated with HighTower. "I lost sleep over it," he says.

Some firms have developed robust processes to reduce that stress and ensure clients can easily transfer accounts. Steward Partners has a team of specialists who begin prep work before recruits join. The specialists are on-site when new hires arrive; Raymond James also provides additional support. Steward Partners, which plans to add more offices, added two new staff members this year to help handle the work.

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When Beth Sweeney switched to Steward Partners, she ended up making phone calls to 150 of her Wells Fargo clients within the first 48 hours.

"A transition happens across all areas. It doesn't happen in a vacuum," says Valarie Margaritopoulos, head of field operations for Steward Partners; these changes have implications for administration, human resources and more, she says. In Boston, Margaritopoulos and her teammates assembled packets for clients in a conference room while simultaneously answering advisers' questions.

Combined, Steward Partners' new hires served more than 500 households before the move.

But that influx was far from the transition team's biggest challenge ever. Earlier this year, Steward Partners hired three Morgan Stanley teams to open a new office in Clearwater, Florida. Those recruits oversaw about $700 million and served more than 1,200 households. To accommodate the volume of packets, the transition team assembled some of them in other locations.

'NOW, NOW, NOW'

Typically, advisers switching firms take about 90% of their assets with them, say recruiters. But moving the clients with the adviser can take up to 90 days; a single client may have multiple accounts, securities-based loans and estate and trust planning needs.

"Your sense of urgency is 'now, now, now,' because it's your business," says Danny Sarch, a recruiter involved in one of the moves. "But clients do it in their own time. They have a vacation or a wedding coming up, and they don't have the same sense of urgency that the adviser does. That's why some clients move two or three or four months later."

Mandalinci, who serves a relatively small number of clients, says he was impressed with the transition team's process and diligence. Still, he admits he had a little anxiety.

"If it was up to me, I'd take 53 packets and make 53 visits to each client," Mandalinci says. "But that would take months."

He left UBS on May 4, going directly to his new office. By midafternoon, he had called 20 clients. Nineteen agreed to move with him, and one was a maybe, Mandalinci says.

"That's one of the hardest things about deciding to make a move," he says. "There is a period where I can't do my job because I'm transitioning clients. So, in 60 or 90 days I'm looking forward to a return to normalcy."

In the meantime, he and the rest of the Steward Partners crew were pushing forward.

By 3 p.m. on the first day, Mandalinci was halfway through the list of clients he had to call. Stacked by the front door were 53 packets for overnight shipping, one per client. The UPS driver was due any minute. **FP**

Andrew Welsch is senior editor of *Financial Planning*. Follow him on Twitter at @AndrewWelsch.