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Why the Independent Model Will Continue to Thrive

April 24, 2012| By Bruce A. Weininger, CPA, CFP®, Principal

Not too long ago, a senior wealth management executive from a large bank in Chicago was quoted telling *InvestmentNews* that "the trusted advisor is being replaced by an institution." We love reading things like this because it tells us that the big firms continue to view the investment landscape as they want it to be, rather than the way it actually is. In fact, study after study shows the independent channel continuing to take market share from wirehouses and big banks. One of the reasons for this is that, as a group, large national financial service firms do a poor job retaining their best talent, which forces them into an institutionally sterile approach to client relationships that relies more on brand than on substance or talent.

While this model of "institution first" may dovetail perfectly with the idea that clients should view institutions as trusted advisors, it works poorly in practice. When a large institution loses clients' trust, it undermines its whole brand. More importantly, when management places the institution ahead of its people, it encourages advisor turnover, the single biggest impediment to a successful advisory practice. Large financial firms further bring turnover upon themselves by trying to grow their businesses by purchasing successful advisors' books of business. If someone is going to pay advisors well into seven figures to move their book of business every five or so years, who can blame them for cashing the check?

We view it as a key competitive advantage to build a firm culture that makes advisors (and other employees) want to make our firm their last career stop. Part of our success in lowering advisor turnover has been during the interview process—specifically, trying to find people who are looking for their "last stop."

Perhaps the biggest challenge larger firms face is their failure to recognize the need to align advisors' interests and incentives with those of the client. This has been lost in the drive to institutionalize client relationships.

The first misalignment is compensation-driven and comes from the perverse 80/20 rule that is prevalent at many large firms. Too often we've heard from candidates that their current employer wants advisors to spend 80% of their time looking for new business and only 20% servicing existing business. While incentivizing advisors to focus on attracting new business seems to make sense, this type of incentive plan fails to recognize that the best source of referrals could (and should) be existing clients. By incentivizing advisors to underserve existing clients, the large firms are sabotaging their best source of referrals.

A second misalignment is that at most large firms, advisors are not personally investing in the same investments as their clients. There is no better way to build trust than to look clients or prospects in the eye and tell them that the advisor's assets are invested side by side with theirs.

Finally, the large wirehouses and big banks should stop viewing deep financial planning skills as a cost center. Hiring advisors who have deep retirement, estate planning, tax planning, college funding and insurance skills, or truly committing to having experts in these areas readily available to advisors, is a prerequisite for building relationships that are deeper than "How did I do last quarter?" Too many large firms have hired these types of resources, only to cut them the first time they reported a bad quarter or two of earnings.

We couldn't be happier that many of the larger investment firms and banks continue to focus their efforts on brand building and institutionalizing client relationships rather than on client service and the advisor-client relationship. As long as that mindset continues, the independent advisor model should continue to thrive.