You Are How You Pay

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There are lots of reasons to leave a wirehouse and go independent: the Department of Labor fiduciary rule, compensation structures collapsing or a firm being in the news for a banking scandal. But for many advisors, it still comes down to the money, and with such large pay packages at wirehouses, it's hard to turn away from them. If owners want to attract wirehouse advisors to their RIA, they've got to pay them, panelists said during **ECHELON Partners'** Deals & Deal Makers Summit in New York on Wednesday.

"Right now the RIA space has everything except the cash," said Jeff Bischoff, president of Old Greenwich Consultants. "You are how you pay."

When structuring compensation for a new recruit, Bischoff said owners need to understand who they're going after and what you can offer. If you recruit someone on salary, they won't bring clients with them. Salespeople get paid on a grid, so if you're looking for someone who will bring over assets, you have to pay them that way.

Bischoff likens an advisor's compensation going from one wire to another to bogey-free golf. "They just show up, and they get it."

They get 205 percent of risk-free money. It's hard to compete with that, but to attract quality wirehouse advisors, he recommends structuring the compensation similarly, with some upfront money, a payout and a backend bonus.

"I wouldn't offer equity until they've proven themselves, and all the assets are transferred," said Bill Willis, president of Willis Consulting.

Should RIAs even go after wirehouse advisors, if they expect such large compensation packages?

"If I was an RIA owner, I would absolutely go to the wirehouses to find more assets," Bischoff said.

These firms have robust training programs that teach advisors how to sell and advance an investment thesis. It's not smart to search for talent in a trust company, for example; they may have great people, but they don't know how to sell and find assets, he said.

But there are other ways, besides money, to lure wirehouse advisors to your firm. Matt Sonnen, CEO of PFI Advisors and former executive at Luminous Capital, which sold to First Republic for more than $100 million in 2012, said owners should get potential recruits to think about the longer term.

They may not get the same upfront money as they would in a wirehouse, but they'll make more money, be more profitable and have access to more products over the long term. When the Luminous team left their wirehouse to start their own RIA, for example, they were able to set up $2 billion in proprietary limited partnerships—something they were restricted from doing at their old firm.

"You will have operating leverage for the first time in your career," Sonnen said.

Advisors move for three reasons, Willis said: "Money, love and money." If they don't feel loved and connected to their firm, that's often a reason to move. And if you can form that personal bond with them, you can win them over.

"That personal connection is an absolutely key component of the recruiting process."