Focus Financial Pivots to Breakaway with Fidelity

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Focus Financial Partners LLC has lured breakaway specialist Mark Dupont from Boston-based Fidelity Investments as it shifts its growth strategy from acquiring existing RIAs to luring breakaway brokers.

Until now, Focus has mostly grown by aggregating RIAs. Of the 45 deals over five years, the firm has nabbed about 85% of its advisors from RIAs, and just 15% from wirehouses or other captive environments.

The firm intends to change those percentages, says Rudy Adolf, founder and CEO of Focus Financial Partners, LLC.

"This is an area we wanted to invest in and we wanted to add additional resources," Adolf says. "The thing we've figured out better than anyone else is how to invest in entrepreneurs."

Aiming to lure 10 breakaways a year

At Fidelity Institutional Wealth Services, Dupont was implementation manager and oversaw more than 50 transitions of breakaway deals in the past two-and-a-half years where he helped move more than $7 billion in assets. At Focus he'll work to lure about 10 breakaway brokers a year to the firm.

Recruiting breakaways is not a strategy that firms can easily leap into, says Elliott Weissbluth, chief executive officer of HighTower Advisors in Chicago. HighTower has more than 21 teams and around $18 billion in assets. See HighTower wins a Merrill Lynch team in lightning fashion.

HighTower's business model is centered squarely on lifting out high net worth teams and their clients from a wirehouse to the independent space.

"The process is often contested, stressful and sometimes litigious," Weissbluth said. "I don't see why a business that is rolling up already independent RIAs would pursue this strategy. To shift gears, I don't understand the rationale behind it."

Focus executives said they realize there's much more time, energy and even hand-holding involved in recruiting a wirehouse firm, but they're also adamant that they're not trying to duplicate HighTower's model.

"HighTower is recruiting captive firms," says Rich Gill, vice president and head of Focus Connections, adding that Focus may eventually make 50% of its acquisitions in the wirehouse space. "They bring them on and they become a branch officer. We're interested in folks who want to run their own independent business and they want to run a business. They're not going to be in a Focus office. They'll have their own office."

Focus' new emphasis on breakaways appears a sign that acquisitions among RIA firms is still sluggish following the downturn. Focus made its first big acquisition since 2009 on Dec. 31, 2010, of Pettinga Financial Advisors Inc. It had one other acquisition in 2010 and four sub-acquisitions. See: After one-year hiatus, Focus Financial buys a large RIA and hits a milestone.

Founded in 2006 with four partner firms and $3.5 billion in assets, Focus now has 20 partner firms and affiliates. With nearly 700 employees, the firm manages $40 billion in assets and is the largest aggregator. See: This generation of advisor aggregators puts the roll-up ghosts to bed, for now.

A natural shift

Dan Inveen of FA Insight in Tacoma, Wash., says that other firms who were serial buyers began making the shift from RIA acquisitions to breakaway recruitment in 2009, and it makes sense that Focus would follow.

As opportunities slowed on the RIA acquisition-side, buyers began setting their eyes straight on the wirehouses, he says.

"These serial acquirers had to figure out how to take advantage of the exodus of the wirehouse brokers," he says. "It helps keep growth going and it provides for the lack of opportunity in the independent RIA acquisitions."

He also thinks HighTower's massive success in this arena is causing firms like Focus to consider similar strategies.

"HighTower has gotten everyone's attention with the success they're having in that market," he says. "There's a feeding frenzy going on."

Harder work

Recruiting RIAs is much simpler for a number of reasons, says **Dan Seivert**, CEO and managing partner of Manhattan Beach, Calif.-based **ECHELON Partners.** RIAs are already independent and self-sufficient. Recruiting wirehouse teams can lead to legal challenges and these advisors are often dependent on certain products.

"It's a fair amount of work," Seivert says. "But most of the RIAs got started in the wirehouse channel and have made the transition."

Focus executives agree with recent industry studies that show the flight from wirehouses has slowed, but they say that the type of advisors they're trying to recruit are still miserable and are most likely to leave.

They're interested in teams with at least $300 million in assets and ideally as much as $1 billion in assets. They want advisors who are willing to set up shop and operate on a model of at least 75% fee-based.

"If you're looking at all of the advisors in the wirehouses – tens of thousands – we may be interested in just 50," Gill says. "These advisors are the best of the best and we're talking about people who have built very successful businesses in someone else's framework."

Efforts will pay off

Even though Adolf concedes it is harder to recruit wirehouse advisors, he says these advisors often have bigger books of business and will ultimately be even more profitable than RIAs. See: RIABiz goes to New York in search of RIA life in the land of investment banking giants.

"It definitely takes more nurturing and more coaching," he says. "For a period of time, we'll help them set up technologies and operations' processes. You're usually starting with an empty plate and you've got a lot of flexibility in doing it."

But he says that the wirehouse firms are not only large revenue teams but also can boast the highest margins. In fact, he says the highest margin firm at Focus came from a wirehouse. He declined to give the name of those advisors.

For his part, Dupont intends to give extra hand-holding to these nervous advisors who are leaving captive environments – whether they're coming from banks or wirehouses.

"I think it'll help me really foster and work with these advisors," he says. "You just don't go from a wirehouse to an independent environment where everything is flipped in a seamless manner. It takes a lot of time."

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