

FOCUS FINANCIAL SETS SIGHTS ON WIREHOUSE BROKERS

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Focus Financial Partners is gearing up to recruit wirehouse brokers. Though the RIA holding company has so far targeted established fee-based advisories, Focus says that some high-end brokerage teams looking to set up de novo RIAs are a natural fit with its independent fiduciary business model.

"The key words are 'independent' and 'fiduciary,'" says **Richard Gill**, whom Focus hired away from San Francisco-based RIA custodian **Schwab Institutional** several months ago to work with transition-minded reps. "There are some brokers who act exactly as we would want them to act: they have deep relationships with clients who always come first to them, and the majority of their business is fee-based; they just happen to be brokerage employees."

And it seems that some of these brokerage employees are getting restless -- whether it's because they want to work with their clients in the absence of "agency risk," because they're sick of having bosses or because they're eager for the chance to take more off the table when it comes time to retire.

Dream teams

About 700 wirehouse brokers go independence every year, says **Dan Seivert**, CEO of Los Angeles-based investment banking and business-consulting firm **Echelon Partners**. Of these "breakaway" brokers, Seivert thinks that 45% join independent broker-dealers, 45% establish their own RIAs and 10% join existing investment advisories.

Focus is looking to help fiduciary-style brokerage teams set up their own RIAs, which would be partly owned by Focus and -- by virtue of the holding company's structure -- its other affiliates. The help in question boils down to Focus taking brokers through the entire conversion process -- and then eating the cost of the transition. Candidates for affiliation with Focus have to be pretty big, however. "We acquire a portion of the firm's cashflow, so there has to be enough to make it worthwhile to everyone," says Gill. Generally speaking, a firm needs at least \$350 million in assets under management to qualify as an acquisition prospect for Focus. Gill says that most of the teams Focus is in talks with now have books of business in the \$800-million-to-\$1-billion range.

But there may also be room for productive individual advisors at Focus' affiliates -- provided that they're culturally compatible with the firm, adds Gill. (Similarly, Focus will help its affiliates acquire RIAs that come in under its \$350-million-in-assets threshold.) Part of that will come from existing RIA clients at Schwab, because only about a fifth of the current base is tapping into the managed account options, says Jeff Carlin, vice president of managed accounts for Schwab.

Looking ahead

Focus -- which came out of the gate about 20 months ago with four wealth-management affiliates and a \$35-million private-equity infusion from **Summit Partners** -- acquires anywhere from 40% to 60% of its affiliates. Typically these are high-growth, fee-based investment advisories that take a strict fiduciary approach to wealth

management (or, as in several cases, third-party administration). Acquisition payments are a combination of cash and equity in the parent company, with additional earn-outs kicking in over time.

From a practice-management perspective, Focus' affiliates run their own businesses. Focus offers support around referrals, marketing, public relations, intra-firm networking, technology and human resources, but it doesn't force its partners to accept its help in these areas. It leaves its affiliates wholly to their own devices when it comes to investment products.

Though Focus likes to stress that it isn't an exit vehicle for senior partners -- it usually targets firms whose principals plan to stick around for a while -- Gill says that the company's ability to help finance buy-ins to individual partner firms by junior partners sets it apart from other players in the RIA space. "In 10 or 15 years you're going to see a problem develop [with] junior partners [not having] the resources to buy out the senior partners. [The junior partners] could finance [their acquisitions] with debt, but paying that off over 20 years is really going to compress profits for them."

Focus' solution is to "spot" junior partners as they buy out senior members of their firms over time, and do it under terms that aren't too onerous. That way, Focus covers the senior partners' exits, provides for next-generation leadership at the affiliate level and keeps the firm in the Focus fold.

Seven, eleven

In addition to Gill, Focus has also hired **Bettina Eckerle** as its general counsel. She joins Focus from Longmont, Colo.-based **DigitalGlobe**, an earth-imaging company.

Focus' founder and CEO **Ruediger Adolf** says the holding company "has reached a level where these additional roles" -- that is, Eckerle as head of legal affairs and Gill as broker-transition specialist -- "are necessary to support our rapid growth appropriately." These appointments bring Focus' professional staff to seven.

New York-based Focus recently made Hermitage, Pa.-based **JFS Wealth Advisors** its eleventh "partner firm." Its other affiliates are Richmond, Va.-based **Capital Advisory Group**, Providence, R.I.-based **StrategicPoint**, Cupertino, Calif.-based **Founders Financial Network**, New York-based **Geller Group**, San Diego-based **HoyleCohen**, Westport, Conn.-based **Resnick Investment Advisors**, St. Louis, Mo.-based **Buckingham Family of Financial Services**, Wakefield, Mass.-based **Sentinel Benefits Group** and Corte Madera, Calif.-based **Quantum Capital Management** and Irvine, Calif.-based **Benefit Funding Services Group**.

Altogether Focus' affiliates manage or supervise more than \$21 billion in assets for high-net-worth individuals and families as well as middle-market employers and institutions.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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