HighTower Throws Open its Door to Non-Partner Firms Who Want Service

Originally Published By Brook Southall, RIAbiz

Brooke's Note: This year's MarketCounsel Summit is delivering the rarest of commodities — hard industry news. Wednesday's speaker, Joe Duran, announced two huge hires. MarketCounsel announced it is selling off its software company, MailBanc. Dynasty Financial Partners announced the hire of a big-time lawyer. And today came the whopper from Elliot Weissbluth that his aggregator business, HighTower, is now a platform business — which you can rent rather than buy into. The buzz hummed in the wake of the session in which he announced it, helping me to get good input for this article. The only bad news was that Elliot, wearing a yellow watch, bolted the scene at a literal sprint to catch a flight to make his 10-year-old's birthday, so I couldn't ask him pressing questions running through my mind or those of others — for instance, how an exclusive club like HighTower becomes all-inclusive without suffering a nosebleed from the rapid drop in altitude.

The nation's most voracious aggregator of wirehouse teams is now set to pitch a tent capacious enough to encompass a world of advisors looking to share an emerging national brand and avail themselves of its technology, buying power and expertise. "HighTower is now able to provide every breakaway broker and independent advisor with the customized set of services that best serves their needs," CEO Elliot Weissbluth said in a release.

Taking a page directly from the book of Dynasty Financial Partners, HighTower Advisors LLC will offer a whole range of products and services that can be accessed through a single phone number. There will be two tiers, HighTower Network and HighTower Alliance. Under the "Alliance" option, advisors will get to use the HighTower brand name in addition to its services. Both offerings allow advisors to keep their earnings. Fees for the service were not disclosed. See: Dynasty is on the ground floor of a roll-up-like venture grabbing RIAs inside the largest accounting firms.

A New Dynasty?

Weissbluth announced the news to some of the more sophisticated people in the RIA business and their reaction was mostly positive, if a bit stunned. Knowing that he was dropping a bomb of sorts on Dynasty CEO Shirl Penney, whose firm has had a virtual monopoly on this "platform of platforms" business model. Weissbluth went so far as to give Penney a warning phone call the day before and to speak highly of Dynasty during the panel as a solution at least on a par with his own. He gave Penney, also seated on the panel here at the MarketCounsel Summit in Las Vegas, a fist bump as he sat down. (Penney dislikes the label "platform of platforms" because Dynasty itself has built a number of proprietary services and technologies itself). See: Dynasty Financial wins the account of Lori Van Dusen's new RIA through Focus Financial.

For his part, Penney says that he is fine with the development. "We're glad he's doing it. More people will look at the market [of mega-platforms.]" He added that imitation is the sincerest form of flattery.

Second cities

In the audience was David DeVoe, principal of DeVoe & Company. He says HighTower is wise to make the move to leverage its brand and its investment in a platform. "They're able to leverage a lot of these building blocks."

DeVoe adds that it's also a good reading of the marketplace. "You can't ignore the growth trajectory that Dynasty has had. The value proposition is resounding in the marketplace." He also points out that Dynasty is very well-positioned to handle both existing RIAs and breakaway brokers.

In his presentation, Weissbluth added that having firms join but retain their independence comes down to a simple matter of geography. "We've had a lot of advisors approach us and say: 'I want to be in Iowa,' and we say, 'We don't have anything for you.'" HighTower offices tend to cluster in certain cities, including New York, Chicago and San Francisco. It will open offices in second-tier cities such as Las Vegas — as announced last week — or in Palm Desert, Calif., as reported last year.

But what if…

Despite Weissbluth's effective presentation, HighTower's plan to become a platform provider sparked as many questions as it answered.

Dan Seivert, CEO of **ECHELON Partners** an investment bank in Manhattan Beach, Calif., asked the sweeping question: "How are they going to manage that?"

He wonders if it's a way for HighTower to create a farm team of partners much the way Focus Financial Partners LLC has used its Focus Connections program. See: Focus Financial looks more like a consolidator-of-consolidators as its partner firms go on buying sprees.

One way that HighTower is going to manage having different relationship tier is by having different payouts, equity ownership and support. As partners, HighTower's advisors are supremely coddled first by being paid up front for their practice with cash and equity and their only duty is to make investment decisions and interact with clients. The payout is based on profits.

In the second tier, the HighTower Network, advisors get 80% of top-line revenues and use of the HighTower brand. But they are responsible for doing their own accounting, finding and paying for their own facilities, handling their own HR efforts, marketing, doing PR and media and handling their own practice management.

In the third tier, HighTower Alliance, advisors get 90% of revenues and have no use of the HighTower brand. But in addition to all the duties of first and second-tier players, they are responsible for RIA operations, general operations, compliance and legal, information technology and transition support.

Still, there are a host of issues that HighTower has to navigate that Dynasty does not face because the New York-based platform provider does not have partner firms as a layer of business model complexity. For instance: how will HighTower operate with advisors having such different models under the same HighTower brand?

One observer posed the logistical brain-twister: What happens if a HighTower partner and a HighTower-branded advisor on the platform end up competing for the same client?

Other questions raised: How do you keep partner advisors from seeking the higher payouts of the non-captive advisors? Why is HighTower bothering to go into a new business line when its acquisitions strategy has been so rip-roaringly successful? See: What happened when HighTower assembled its RIAs at Trump Tower.

Revenue wanted

Another person on hand for the speech speculates that the new plan may be an indication of where the company is on its growth path. Here's the thinking of that person: HighTower has annual revenue of $43.9 million and 178 employees, according to ranking information in Inc. magazine. That means the company really needs additional revenue sources to give a return on investment of the $150 million of private equity that has poured into it. Those revenue and payroll figures suggest the firm earns only a few million dollars annually, which would not be enough to represent the 30% returns sought by private equity investors.

What does seem clear is that HighTower could have substantially higher earnings in a couple of years — earnings that will be especially welcome if HighTower has spent a good amount of the initial $150 million to acquire its existing base of teams.

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