Top Talent Shortage Slows RIA Growth

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SANTA MONICA, Calif. -- Finding the right firm to acquire is hard enough, but attracting top talent is becoming increasingly problematic for growth-minded registered investment advisors.

The advisory industry is losing about 3,000 to 4,000 financial advisors annually who aren't being replaced, Mark Tibergien, chief executive of Pershing Advisor Solutions, said on Thursday during a keynote discussion at the Deals and Deal Makers Summit here.

The resulting shortage is an "acute problem" for the industry, pushing compensation costs up and profits down, he said.

The problem may get even worse for RIAs hoping to lure experienced advisors to their firms, said Corey Kupfer, director of entrepreneur services at MarketCounsel, an Englewood, N.J.-based consulting and compliance firm.

Large platform service providers and aggregators are about to step up their own efforts to lock up wealth managers looking for a new home.

BACKSTOP PLANS

More providers will begin to offer advisors considering selling their practices "succession backstop plans" to lock them up and keep them off the market, Kupfer told the deal makers at a session on human capital.

If the advisors are looking for a succession plan or want to eventually sell their firm, these companies will agree to be buyers if needed, while also allowing the advisors to pursue a better deal if they are able.
In addition to standard inducements such as equity participation, profit sharing and stock options, larger firms are also increasingly offering "phantom equity" to advisors bringing over substantial books of business, Kupfer said.

Phantom equity allows advisors to be contractually treated as if they owned equity with a right to participate in net profits, though without ownership rights such as voting at board meetings, said Kupfer, who is also an attorney for MarketCounsel president and chief executive Brian Hamburger's law firm.

'NO MAGIC TRICK'

At least one recruiter for a well-funded RIA said in an interview that he isn't concerned.

"There is no magic trick for bringing on talent," said the recruiter, who asked not to be identified.

"It's all about financing and deal structure," he said. "If we really want someone to join us, we have the money and we can make it happen."

RIAs without deep pockets should consider recruiting individuals in other professions with "transferable skills," said in an interview Frank Pare, president of Oakland, Calif.-based PF Wealth Management Group. "This business is really about people skills," he said.

"Someone who works at Nordstrom's may have those skills. A social worker may have a level of empathy that is appropriate," Pare said.

"We have to scout out people in those professions who are looking for mid-career opportunities," he said.

'TUCK-INS' SHINE

The success of "tuck-ins," or incorporating a solo practitioner or a small team into an existing RIA, has been a bright spot for talent recruitment, **Dan Seivert**, founder and chief executive of **ECHELON Partners**, the Manhattan Beach, Calif.-based investment bank, said during a session.

"Tuck-ins are a trend that is getting good results," he said. "It appeals to experienced advisors who don't want to run their own business or have a time-to-market issue if they are breaking away."

The strategy has worked well for Los Angeles-based Miracle Mile Advisors, which has done at least four tuck-ins since its launch in 2007.

"It's not an acquisition strategy. It's about finding talent and finding partners," managing director Brock Moseley said during an interview.

The advisors, who have come from wirehouses and banks are happy to be given a voice in how the firm is run instead of being "cogs in a wheel," he said.

"They come in as equals, they receive a significant percentage of the business they bring and there is a path to equity," Moseley said. "It's about like-minded, experienced advisors who want to grow together."

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