



Is My Portfolio For Sale?

Understanding Broker Transitions



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Recently, I met with two prospective clients who shared the same reason for looking for a new wealth manager. Both had received calls from their existing brokerage house advisors explaining that they were leaving their firms and were calling in hopes the clients would follow them to their new employer. One explained that this was the third time he had received such a call from his broker and that he had grown fed up with the process and the associated pains of moving. The other explained that he had stayed with his brokerage firm but had transitioned through three different broker teams as he was hesitant to leave a branded industry name. He was not willing to be shuffled to a fourth team this time around.

WHEN YOUR BROKER CALLS

Broker transition is a common practice, and it is not unusual for a successful brokerage team to work for several firms over the course of a career. As long as Wall Street has an insatiable appetite for growth, lucrative deals will continue to entice advisors to port their clients to new firms.

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Receiving a call from your broker about a change like this can be daunting for clients who may have grown comfortable with the status quo of their relationship. The team or advisor may have provided excellent service and counsel over the years, and the firm may have promoted a culture and offering that the client had come to appreciate. With everything up in the air, a client is tasked with a big decision: do I stay, or do I go?

UNDERSTANDING BROKER TRANSITIONING

HOW BROKERAGE FIRMS MEET THEIR GROWTH NEEDS

- Fast growth via acquisition
- Target brokers with large, profitable client books

WHAT MOTIVATES BROKERS TO MOVE TO A NEW FIRM?

Payout Grid Mechanics

- Higher production = higher payout
- May offer “bonus incentives” for pushing certain products
- Mechanics differ between firms

Forgivable Loans

- Recruitment tool tied to performance
- To have these large loans forgiven, brokers must meet lofty goals
- Bringing old clients helps hit goals

THE HECTIC TRANSITION PERIOD

- New firm contacts old clients, explains transition and merits of new firm, may offer fee breaks and deals to follow
- Old firm may use same techniques to stop clients from following
- Clients are forced to make a big decision quickly that they didn’t sign up for

When clients agree to follow their advisor to a new firm, they may be offered fee discounts for a time or promised a more robust product offering. But change comes with other considerations. Historical transaction and performance reporting may be lost, new technology may need to be adapted, existing portfolio positions may not be portable, and service quality may be affected. In addition, the new firm may have differing views of markets and recommendations that have the potential for portfolio turnover.



Advisors at brokerage firms earn commissions on product sales, and commissions may vary at different firms. Compensation dictates behavior, and deciding to move firms may influence the composition of a portfolio. Regardless of any fee discounts a client may receive, investment providers pay brokerage houses to sell their products. There are no free lunches on Wall Street.

Sales concessions paid to brokerage houses influence the products offered to clients. New investment opportunities are the topic of morning calls, and advisors contact clients who may have an appetite to buy them. Without proper diligence, it is not unusual for a brokerage investment account to appear more like a collection of investments rather than a thoughtfully constructed portfolio.

Brokerage firms work well for clients who have the wherewithal to select their own investments. Broker counsel is often helpful, particularly when clients understand that they are being offered securities to buy and not necessarily objective recommendations.

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UNDERSTANDING THE DIFFERENCE: BROKERAGES VS. RIAS

Portfolio construction involves not only asset allocation and security selection but also careful analysis of cost and how underlying investments interact. Each piece of a portfolio must serve a purpose and be constantly reviewed.

Registered investment advisors may be more suitable for clients looking for someone to build and manage portfolios on their behalf and for clients who prefer to pay a fee for the work rather than commissions for services and investments.

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When an investor receives a call from a broker explaining the transition, it may be a suitable time to reassess their financial needs. Choosing not only the right individual but also the right firm is one of the most important decisions an investor can make. Among the considerations are the provider's track record and process, personality fit, level of service they can provide, and how they are compensated for their services.

The playing field in wealth management has broadened and evolved over the years, and the distinctions between firms have become murky. When selecting a provider, be sure to understand the offering and decide if that offering is the best fit for your financial needs. Your money is important; make sure your provider puts your needs before their own.

Mr. Brown is a Manager Director and Portfolio Manager of equity and fixed income portfolios and is a member of Silvercrest's Management Committee and Investment Policy and Strategy Committee.



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