

HOW TO *IDENTIFY* & *INVEST IN* HIGH-UPSIDE INDIVIDUALS

AN aRIA CASE STUDY

BY MATT COOPER, PRESIDENT, BEACON POINTE WEALTH ADVISORS

OVERVIEW:

Staffing, developing and investing in people is perhaps the most challenging aspect of any small business – a challenge that is exacerbated considerably if that small business is a Registered Investment Advisor (RIA). The impact of poor decisions is magnified, and the detrimental impact on margins, income and workload can be significant. This case study will examine how Beacon Pointe Advisors identified and overcame the hurdles we faced, on our way to building a \$5.6 billion AUM advisory business (AUM as of 12/31/2012).

Learning how to hire well, i.e. the best talent for the positions you have available, will help RIAs to: improve revenue growth, add clients, reduce risk and increase overall business value. Hiring poorly can sap growth, value and morale, draining a firm's energy in the process.

KEY TAKEAWAYS:

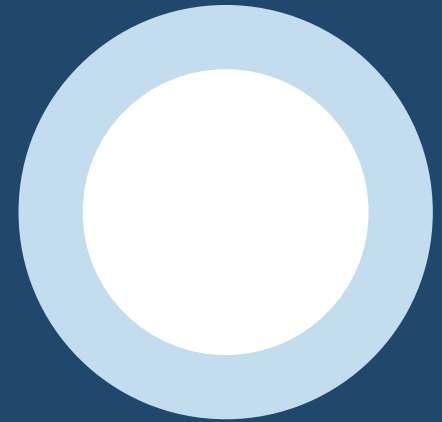
- 1 Hire for growth potential – do not pay for past performance, only future results.
- 2 Identifying growth milestones is vital as it will indicate when you can not only hire, but retain, top talent.
- 3 In today's world, reduce risk by leveraging other people's investments in proven and great people.

INTRODUCTION & EXECUTIVE SUMMARY:

Who to hire for a specific role and, as importantly, when to hire, can be daunting. How do you pick? What should you pay? What if you are wrong, how much are you putting at risk? The difficult decision of staffing a small, growing RIA can be very tough. Those who get it wrong may not reach the heights they originally aspired to – they may stagnate or even worse, decline in value. This case study will demonstrate how one of the nation's most successful RIAs, Beacon

KEY STRATEGY

HIRE FOR GROWTH
POTENTIAL



REDUCE RISKS



Hire for growth potential – do not pay for past performance, only future results. Reduce risk by leveraging other people's investments in proven and great people.

Pointe Advisors, has applied simple principles to achieve scale, and in the process has avoided making the lethal mistakes that can doom a firm to mediocrity.

FIRM OVERVIEW:

Beacon Pointe Advisors has grown from our founding in 2002 from \$0 AUM and a few people on day one to a multi-billion firm of over 40 people today. With over \$5.6 billion in client assets, we work with private wealth clients as well as endowments and foundations. We have developed a team dedicated to investment manager research, another dedicated to financial and strategic planning and a third dedicated just to our marketing, branding and online strategies. The investment in the right people to staff and run these dedicated teams has been critical to our rapid growth and success. But hiring was never easy. Some lessons must be learned the hard way. By sharing those lessons, we hope that our fellow RIAs can avoid the same mistakes.

CHALLENGE:

SITUATION ANALYSIS:

Founded as an investment advisory firm, we initially focused almost entirely on the client's investments, with financial planning a secondary concern. Our clients and prospects were beginning to place a higher emphasis on planning, and our competitors were providing more comprehensive planning. It was the summer of 2006, and Beacon Pointe faced a decision: Do we invest in a high level planner that can build a planning department at Beacon Pointe Advisors? This created what we decided to view as an investment opportunity - to invest hundreds of thousands of dollars in people. Hopefully the right people. This was a big decision for a firm of our size at the time and it would require the proper execution, something we had previously struggled with.

Two years prior, we had failed in our attempt to expand our business development and advisor base. We invested in what we believed to be three high caliber advisors that could both develop new business and service it once the prospects became clients. We provided six figure base salaries and an additional incentive compensation structure for assets and revenues brought to the firm. Because their comp was also directly

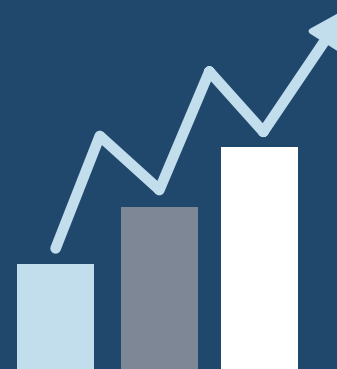
Beacon Pointe Advisors Growth

2002

\$0

2013

\$5,670,000,000

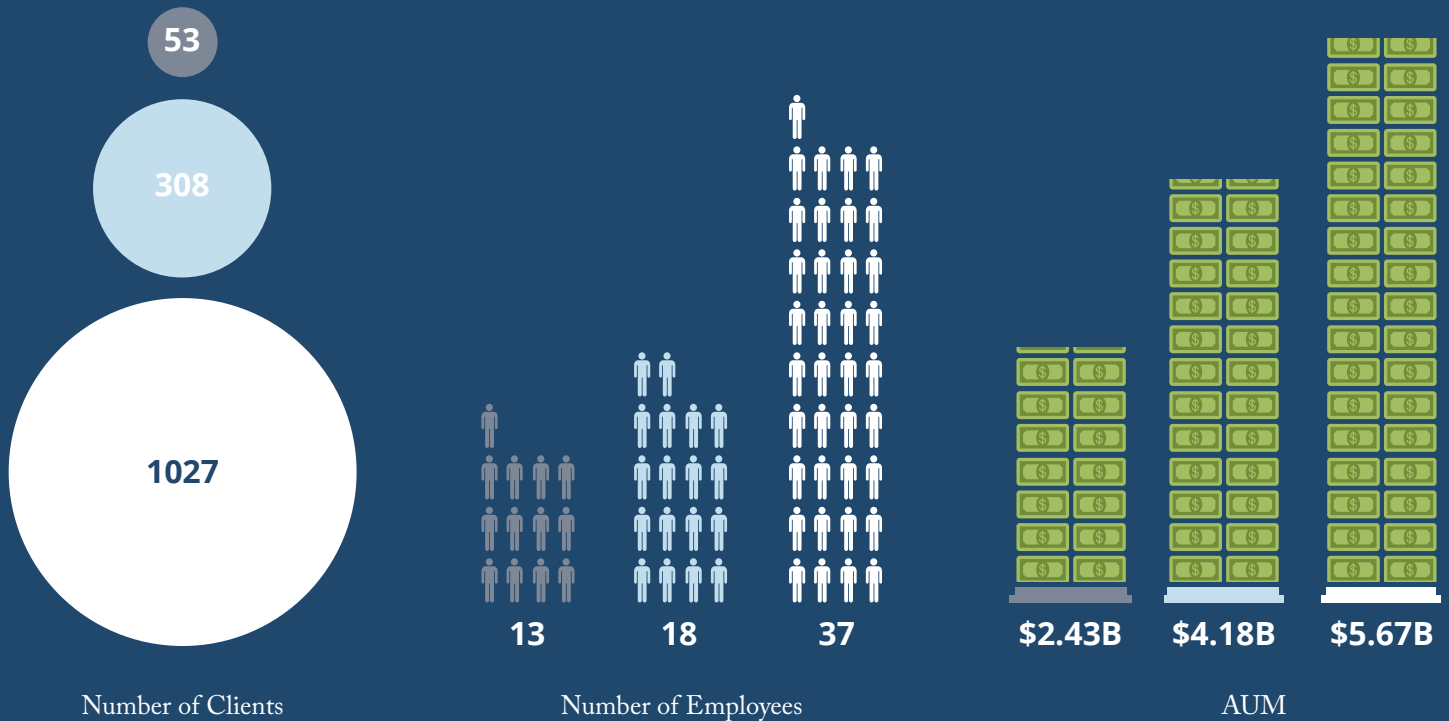


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BEACON POINTE ADVISORS

GROWTH 2002-2012



... tied to revenue, it helped lessen the blow, but all three struggled to bring in assets. A review showed that our base salary was too high - a disincentive - and suppressed any urgency to raise assets. We let all three advisors go and rebuilt our advisor team with a 100% incentive compensation plan that has been very successful. Currently we pay our advisors a level percentage of the revenues they bring in and a bonus for both clients and assets retained during the year. Beacon Pointe has more than doubled since making the change to an incentive based compensation structure.

IMMEDIATE OPTIONS:

The investment decision facing us regarding a financial planner was different than that we encountered when hiring an advisor. This person would not be clearly tied to revenues, but rather supporting those advisors on the incentive compensation plan. Our planning role was a direct cost/investment in the business. The return would not be known for months and yet our investment would need to be substantial.

Other firms provide financial planning, but our analysis showed that financial planning in every case was a time intensive practice and that the nominal fees being charged for planning did not provide much real business value nor did they compensate for the opportunity cost of the time spent not focused on bringing in assets. Planning was not scalable.

We would need a dedicated planner who could support our advisors, and this person would be a highly paid professional. Over time we could end up with an ineffective 20 person dedicated planning team if we failed to hire correctly for this critical first planning role. This person would be the architect of our overall planning platform. If we hired the wrong person, we stand to lose more than just the compensation and benefits we pay them, but time and the momentum and the desire to build a great platform. The damage to our culture by having to reverse on a very large decision would be costly.

We had a few options, which included hiring a CERTIFIED FINANCIAL PLANNER™ (CFP®) currently working at another firm, train an existing advisor within our team and have them take the CFP® exam, outsource planning to a 3rd party.

SOLUTIONS & LESSONS LEARNED:

THE MISTAKE:

We decided to go after an experienced professional, one currently working within another firm. We spent months advertising and interviewing. I pause every time I think of the opportunity cost of searching and interviewing many candidates, when myself and my partners could have spent that time growing the business. We made offers to two very qualified professionals. Both candidates were accomplished CFPs, currently working with well regarded firms. We offered each six figure base salaries and incentive compensation plans based on new assets and number of clients served. Neither offer was accepted.

Our primary mistake was we made this process about the compensation and compensation structure versus the opportunity to

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PRIMARY MISTAKE



Being focused on compensation for new hires instead of being centered on offering the opportunity to develop a best in class planning platform.

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But both candidates were focused on compensation and although our offer was very generous, each wanted more than we were willing to offer. They had years of professional experience and felt they were the best the market had to offer. Neither saw or appreciated the opportunity to build a great platform for a rapidly growing, successful and arguably market leading RIA. We had it all wrong! We weren't following our number one rule, hire the best person and let them grow into the role. Don't pay up for the story about years of experience. Find someone who loved the work regardless of the compensation plan and would grow it and within it.

RESULTS:

THE SOLUTION:

We knew a woman working at a large insurance company and running their advanced markets estate planning team. She was an estate planning attorney, not a CFP. She supported all the producers of the insurance company, but was not a producer herself. She was an author of many of the company's marketing pieces and white papers and she was a teacher to both producers and clients. She was an all star in her current role. She loved creating. Clearly she was not a practicing CFP and zero experience doing full financial planning for clients, but she loved the idea of building a department, working with clients and advisors.

She loved creating scalable processes to be delivered to and through producers to their clients. She was young, bright and clearly the best person we knew. Not exactly what most advisors would have looked for when filling the position, but the best and brightest person. She also understood sharing the risk. She accepted our compensation offer which was significantly less than what she could have earned at a large company. In return, we gave her complete control over her schedule and flexible office hours. She grew into the role and became a great client facing planner as well as developed our entire planning process and platform of segmented, scalable deliverables for clients. We hired the best person and she grew into and beyond what we originally defined the role to be.



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KEY STRATEGY

**HIRE THE BEST PERSON
FOR THE JOB**



Find someone who loves the work regardless of compensation.

Our financial planning process and department is responsible for bringing in well in excess of \$100 million of new clients' assets per year. These are assets we would not have without the platform that has been developed at Beacon Pointe. In addition, many legacy clients have been provided financial planning giving them a better understanding of their finances and wealth and strengthening their relationship with our firm.

LESSON APPLIED:

We faced a similar dilemma when we wanted to enter the online space. How do you hire an online/social media guru to develop your whole platform, content calendars etc.? Do we search the market for an experienced social media guru? Do we pay up to get this person? We used the same approach and hired a young 24 year old woman who had interned for us in other areas while finishing up her Master's Degree. While interning she demonstrated intellect, energy, confidence, creativity and a great culture fit. When it came time to fill the role of Branding/Marketing and Online Strategies, we hired her. We had trouble rationalizing how this new role was even a full time job, but we hired the best person, not necessarily the most experienced and she ran with it. Just 18 months later we have an incredibly robust online presence and strategy thanks to her. Our social media strategy and original content produced and regularly distributed by Beacon Pointe is now starting to pay dividends.

SUMMARY:

Both of these capabilities, planning and online strategy, are critical elements for any wealth manager firm looking forward from today. Certainly the next 10 years will not be a linear extension of the previous 20 years in this business. Clients are demanding services and future clients will find you and vet you through some form of online process. To hire and build both of these capabilities requires hundreds of thousands of dollars initially and then every year going forward. They are essential components to grow a wealth management business, but you need growth to have the dollars to invest in them. In addition, if your firm is not growing a very healthy rate of 15% or more annually, you will most likely not be able to provide the career growth for these great individuals to keep them long term. They will go to a competitor that is growing faster.



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CONCLUSION:

BEST PRACTICES:

Is it necessary that every RIA evaluate and make these tough investment decisions putting great sums of money at risk relative to the top line of their business? A firm with \$1.5 million in revenue could be making a decision to invest up to 20% of their top line revenue to establish these capabilities. If an RIA were to make a wrong hire, it has the potential to be catastrophic. It may be wise to consider mitigating these risks by leveraging the successful investments others have made in proven, great people. The risk inherent in these tough investment decisions can be eliminated by partnering with others who have already taken the risk and succeeded at building that great human capital team. There is no requirement that your capital needs to be at risk to build all elements of your business. Whatever you chose to do, be sure to find the best people, they are what this business is all about.

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ABOUT THE BEACON POINTE FAMILY OF COMPANIES

Beacon Pointe Wealth Advisors (www.bpwealthadvisors.com) is a National Enterprise Building Partnership for a select group of wealth managers/advisors throughout the country. Beacon Pointe Advisors is an independent Registered Investment Advisory (RIA) firm with a mission to provide highly professional, comprehensive, and objective investment and financial advice for both institutions and wealthy families.

BPWA offers joining firms the following benefits, among others:

- Leveraging the Beacon Pointe brand
- Access to Beacon Pointe's proven best practices
- A seasoned compliance team
- A dedicated transition team
- A dynamic and comprehensive investment research department
- A detail oriented reporting department with best-in-class software
- Marketing and PR strategy and implementation
- Immediate, significant growth
- Enhanced enterprise value
- Security via a built-in succession plan

More about Beacon Pointe Advisors: www.bpadvisors.com

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ABOUT aRIA

aRIA, the alliance for RIAs, is a think tank study group composed of six elite RIA firms that collectively manage more than \$20 billion in client assets, and Advisor Growth Strategies, a leading consulting firm serving the wealth management industry. The group offers insight for advisors considering ways to enhance their firms' enterprise value.

Members include Brent Brodeski, CEO of Savant Capital; John Burns, Principal at Exencial Wealth Advisors; Ron Carson, CEO of Carson Wealth Management Group; Jeff Concepcion, CEO of Stratos Wealth Partners; Matt Cooper, President of Beacon Pointe Advisors; Neal Simon, CEO of Highline Wealth Management; and John Furey, Principal of Advisor Growth Strategies, LLC. The group meets regularly, releasing thought leadership pieces of interest to both independent and wirehouse advisors interested in exploring long-term growth strategies.

On the Web at: www.allianceforrias.com

