



## Seattle Brokerage Firm Attracts Elite Advisors

### Introduction

This issue, we interview Edward Riley, Chairman and CEO of EK Riley Investments, LLC. Headquartered in Seattle, WA, the full service regional investment firm serves over 70 advisors in five West Coast states.

The trend among brokerage firms seems destined to continue towards smaller, more flexible firms like EK Riley. The ability today to deliver a broad array of financial products and services, comparable to or better than those offered by the mega-brokerages, is one reason why regional firms have gained in popularity. Another attraction is their ability to home in on the needs and unique interests of local retail clients.

Riley obviously has a leg up on the trend, having established his regional firm early in the decade. The organization survived battle testing through one of the most challenging economic periods in our history.

### The Interview

*Mitchell: What motivated you to start a regional brokerage firm?*

Riley: The short answer is we wanted to create a regional investment firm for financial professionals who wanted a better environment to serve their clients.

My personal experiences contributed heavily to that ambition. The firm I had been working for in the 1990s was acquired by a megabank. My clients were uncomfortable with the idea of a large, impersonal bank providing their brokerage services and I was uncomfortable with the bank's culture.

I wanted to find a regional firm more attuned to the needs of my clients in the northwest and western states but remarkably, there wasn't one. So I went to work as an independent contractor at a regional brokerage back east, which wasn't bad until the firm was sold to a bank. Again, I was faced with either working for an East coast brokerage or another bank. I didn't like either option and it turned out that I wasn't the only one who felt that way.

The many independent advisors I know who moved from banks to independent regional firms tend to agree that the culture at an independent firm is better for them and their clients. On the other hand, there is the risk feeling somewhat isolated. I wanted the same thing most client-oriented advisors and brokers want: A "home" where I could stay put for the long term and give my clients the support they wanted.

Fortunately others shared my aspirations. In October of 2002, after eighteen months of research and preparation, my cofounders and I established E.K. Riley Investments, LLC. We finally had a place we could call home.

*Mitchell: How did you settle on the organizational structure of EK Riley?*

Riley: Based on experience, we concluded the ideal structure would be an employee and advisor owned brokerage with no outside investors. The firm would be regional to best serve the interests of clients in our part of the country. It would also be manageable in size and therefore, selective in choosing associates. We quickly decided to concentrate on retail customers and grow the business steadily through a comprehensive financial package including brokerage, advisory and insurance services. Our intention going forward is that the company will survive its original owners and continue in perpetuity. I love the business and plan to work into my 70's. That's another 30 years, but I expect the company will continue long after I'm gone.

*Mitchell: Do you have a reputation within the industry for any particular strengths or services?*

Riley: At this point, we might be most widely recognized for our bond trading expertise. It's a business we've done especially well for a long time. We believe our continued growth, however, is an integrated, full-service brokerage. While that includes an institutional and fixed income trading capability, our ongoing emphasis is on the retail side. As an organization, what most excites us is helping our advisors do innovative thinking and productive work for their retail clients.

*Mitchell: What do you see as the most beneficial aspect of being an employee and advisor owned company?*

Riley: Our associates know we did not build our firm so we could sell out. We built it to improve their ability to serve and support their clients.

As a group, we feel we have control over our destiny and we choose to remain independent.

My recommendations and decisions for the firm are made with permanence in mind. After twice seeing the firms I worked for being sold to banks, I determined I would never be the cause of it happening to the people in our organization. That sentiment is shared by all of our management. Stability is critical because so many competent and talented advisors in our industry have been abused and financially impaired by instability.

I realize there are a few people who made a bucket of money selling their brokerage firms to banks, and there are still advisors out there who sign on with a brokerage hoping they will hit the jackpot. But the reality is banks are already rethinking that strategy and questioning whether they should be in the brokerage business. When a brokerage is acquired, few people in the organization get rich, and rarely the rank and file brokers. Typically, they wind up no better off financially while they and their clients are miserable because of the changes.

Financial advisors are typically most successful in a stable environment with an investment firm dedicated to their support. Our associates know they are working with a management team who thinks like them, has been through the same challenges as them and is committed to their success. They know they can rely on our

management team to support them; we never want to be the cause of anyone losing their work life (and workplace) to a sellout.

*Mitchell: What are the most common concerns of advisors thinking of going independent or changing brokerage firms?*

Riley: There are literally dozens of issues, but usually a primary concern is whether we can provide everything they need to be truly independent and do the best possible job for their clients. Frequently their questions begin with the transfer of their clients to our firm. We have a sophisticated process that makes what can be a very stressful time almost effortless. Our advisors frequently comment on how smooth and thorough our transfer procedure is.

Another issue for advisors thinking of joining us is they want to be sure we will be true business partners; that we will sit on the same side of the table to help them find solutions. They want to know how our working relationship will evolve, what will happen and why. Most brokerage firms claim they have a great culture, that they're good people, that new members will feel right at home, etc. That's all fine, but vague reassurances and good feelings don't necessarily translate into professional success. An investment firm has to do more, and we do.

*Mitchell: What more do you do?*

Riley: Our advanced technology differentiates us from many other firms, particularly regional and local firms. For an advisor, being truly independent means being able to run your business from wherever you are: at the office, at home, traveling, even on vacation if you wish. We see technology as an integral part of that freedom, a part we can control. Our technology is key to our continued success at providing the highest quality services to our advisors and their clients.

*Mitchell: Can you tell me some more about how you free up your advisors to do business anywhere?*

Riley: For one thing, we stay ahead of the curve. We recognize that we must outsource -- and we must be prudent in setting up our outsourcing relationships. We make every effort to structure our systems so we can respond directly to problems, relying as little as possible on outsiders. With that in mind, we vet and bring in numerous applications. In fact, we expect to release information on an exciting new application soon. Initial reactions from our users are extremely enthusiastic. More to come!

*Mitchell: So, you are confident that as a regional brokerage, you can support the independent advisory model?*

Riley: Absolutely. In fact, we believe that we are ideally suited to support that model. First, we have all the capabilities, platforms and services of a wire house. And as I mentioned, we are highly responsive to day-to-day issues. But beyond that, we have an advantage in that we have flexibility, a culture and a network of like-minded brokers and advisors. Remember, as a firm that is dedicated to independent contractors, we are charged with more responsibilities and challenges than a firm that directs their advisors on what to sell, how to sell, and to whom to sell. We have the tougher job of supporting various business plans that are independently created,

sold and implemented. And we must do all this while remembering that each user is a member of our closely-knit family.

*Mitchell: What size organization do you want to ultimately become?*

Riley: From day one in 2002, our organizational mission has been to become the premier full service regional brokerage serving the West and Pacific Northwest. We intend to maintain our regional focus and feel no need to expand beyond our current geographic footprint. It's hard to predict our eventual head count but we know we won't want beyond the point where we can provide best-of-breed services to the highest quality advisors. If I were to estimate, I would say perhaps 75 home office staff serving the needs of no more than 400 advisors. We want to know each person who works here, and know him or her well. Could we find ways to properly support a greater number of producers? Well, we've got some pretty smart people here, so we might just be able to meet that challenge. For now, we'll just look forward to that time.

*Mitchell: You believe your size and regional focus positions you well for the changing financial services environment?*

Riley: Right! We sensed that our timing was going to prove excellent when we established EKR. We felt a regional brokerage of limited size but unlimited scope would attract great people. A decade ago, we determined that big, integrated bank/brokerage entities would serve a certain role but would not become the face of our industry. We concluded then that working for a wire house or a mega bank/brokerage was not necessarily the best career path for talented advisors and we have seen much of the top tier among advisors aligning with our perspective.

I agree with the prevailing thought in the industry today that big brokerage is on the way out, and is being replaced by smaller, more focused brokerage firms like ours who are better able to service the needs of both the brokerage and advisory models. Think about this: as firms continue to increase their required minimum production, aren't they forcing a reduction-in-force among themselves?

You know, it took our organization about five years to reach a really high level of competence in all areas. There's really no way to do it much faster. It takes time to build the proper infrastructure and acquire the necessary technology. There's a huge difference between the promise of technology and the delivery, and it's the delivery that pays off for our advisors. We've gone through that learning process and now we have the empiric knowledge to make it work really well for our associates.

*Mitchell: I imagine that today's availability of investment products and services that were once limited to large brokerage houses has also helped level the playing field?*

Riley: That's for certain. We went through a period in this industry in the 80s and 90s that was extremely frustrating for innovative brokers and advisors. In those days, they had to belong to a big broker/dealer so they could get access to their proprietary products and supposed high level of service. Today, we're at a point where most of those products are nearly ubiquitous, so there's no longer any need to work for a big brokerage to gain access or get support.

*Mitchell: Do you think the investing public has a different perception of the big brokerage houses as a result of the commoditization you mentioned?*

Riley: Just as advisors have come to realize that being bigger no longer translates into better access to innovative products, the investing public is beginning to catch on as well. Of course, feeding those flames has been the questionable way some of the larger firms have treated their clients. Questionable fees, research that may not have been in the best interest of the retail client, curtailing of access to advisors based on the size on one's account and numerous other sticking points is what we hear.

Today, investors can't ignore the fact that those big brokerage houses sold them proprietary products that were garbage and left them holding the bag. The investors weren't the only ones who were torpedoed; the advisors got the shaft as well. We have always believed that the most important relationship is between the investors and their advisor. They know their advisors personally, often their families as well. And they trust them with their money.

For the past two decades, the big firms did their best to convince retail customers all that really mattered was the size and strength of the firm, while all that time, retail clients instead identified with their advisors. Investors are now asking themselves, "What has that big brokerage firm done for me?" The answer most investors reach is, "Not much." You know, many of our candidates are reporting to us that what has prompted them to explore EKR is their clients asking them, "Why are we still here?"

*Mitchell: As a smaller firm, how do you justify your financial strength compared to larger firms?*

Riley: Great question! Remember, we have partnered with one of the industry's financially strongest firms through a correspondent relationship. In that way, we can quite accurately say that we have one of the industry's strongest financial profiles.

*Mitchell: You have said elsewhere how delighted you are with your correspondent relationship, and you mention how important that relationship is to your firm's financial strength. Let's go to basics here. What is a correspondent relationship? What makes a good one?*

Riley: Well, that's really three great questions.

A correspondent relationship, as we use the term here, is where a firm such as ours uses the services of another, usually larger, brokerage firm to clear, carry and execute their business. To clear business is to arrange for a seller's receipt of sale proceeds while also insuring the delivery of those securities to the buyer. To carry means to safe-keep. When our clearing and carrying firm goes to execute our orders, they are following our directions of where to buy or sell the securities our client wishes to buy or sell.

Our correspondent relationship is with First Clearing Corporation, which is now wholly owned by Wells Fargo.

As to why are we so delighted with our correspondent relationship, there are two reasons. First Clearing does a great job with the basics. Our advisors and clients have repeatedly told us this. First Clearing gets it right, and in those rare circumstances when they don't, they respond quickly and effectively to make it right. The second reason goes beyond the basics of clearing, carrying (safekeeping) and executing. Here, First Clearing and Wells Fargo have gone out of their way to bring us innovative platforms and expansive capabilities.

Consider that we have nine different advisory services; selected outside research (S&P; Credit Suisse; Dorsey Wright; Value Engine; Sanford Bernstein and Wachovia); a bond desk; and a top of the line inventory and order entry platform for fixed income. And we're delighted with the Alternative Investments desks of First Clearing, which bring us an expanded array of products. Further, it's nice to know that whether or not we choose to utilize them, we have full access to all the same services and capabilities as a Wells Fargo Advisor – including their various bank services. Now, I should point out that our advisors don't **have** to utilize any of these investments services; but they are there if needed.

*Mitchell: You have said that you are a full service brokerage and advisory service. Does that mean that your advisors can handle more than stocks, bonds and mutual funds?*

Riley: We offer options, insurance products, certain banking products and a full complement of alternative investments, including hedge funds, non-traded REITS; and managed futures. So to answer your question, yes, we do go beyond stocks, bonds and mutual funds. In fact, we encourage our reps to tell us about their business plans and their needs!

*Mitchell: It appears your model is suited to the seasoned professional – particularly the advisor that knows just what he or she wants. What do you do for the advisor that is interested in further growing their business?*

Riley: Well, we don't have a training program for someone who is just starting out, nor do we have an answer for the individual that is looking for a mid-life career change and wants to be an advisor.

What we do have is a number of different programs to further the experienced advisor's education and understanding of our business. These programs range from considering ways to increase a rep's productivity, working through continuing education, product knowledge and even something as mundane as better understanding the workings of Smart Station – which is our primary platform for account and market information. Simply, there's a lot here and it requires specific training to really grasp what is available and how it can be best used.

*Mitchell: Any final words you might like to communicate to interested advisors?*

Riley: I would say to any interested advisor that it's always good to know what your options are. Come in, meet us and see for yourself what we have built here. We think you'll be impressed.

*Michael Mitchell is an independent financial writer based in San Diego.*