



TIME FOR A VISIT

By Terry Buffalo

October 22, 2010

Advisors who want to switch brokerage firms should plan on a back-office tour first. It may be the most important consideration of all on whether you make the move.

A lot of advisors are changing firms in response to the shifting economic and regulatory environment. For some, the migration to new pastures is the result of imprudent risk management practices. Top producers are being courted, wined and dined; promises are being made. But amid all the rosy expectations, it may be time for increased due diligence.

Amidst all the flattery and compliments, it's easy for professional advisors contemplating a new situation to overlook what may be the most important consideration of all: back office competence and reliability. The scale, skill and attitude of a home office staff can spell the difference between a robust practice and a daily ritual of frustration.

Our firm regularly meets with advisors contemplating a change. (For simplicity, I'm going to use the term "advisors" to refer to both fee-based and transactional advisors in this article.) Most of these are advisors at other independent firms and, typically, their motivation to change is based upon frustration with the lack of support they receive from their current firm's back office staff. The individual circumstances vary, but their dissatisfaction inevitably is rooted in back office employee turnover or systemic ineptitude.

Despite back office issues being the reason for so many transitions, many advisors surprisingly do not visit the back office of firms that they are considering for their new home. Lacking the benefit of an initial due diligence visit, the first test of the home office often occurs in real time, during the transition process and while clients have market exposure. If an account is rejected because of what should be a minor glitch, such as an incorrect account number, and it takes a week to get the problem resolved, it's too late for the advisor to reconsider the move. It's out of the frying pan and into the fire. That's one reason why every transitioning advisor should spend some time with the potential firm's home office staff.

Consider the experience of a successful advisory group whose principals were being courted by a regional firm. Despite several otherwise cordial and productive meetings, the group's requests to see the

firm's back office were ignored. When the group insisted any agreement was contingent upon a tour of the support facilities, the firm's executives reluctantly agreed, revealing the reason for the hesitancy. The back office consisted of four people mercilessly crammed into a small room amidst a stack of storage boxes. The search for a new firm continued.

One measure of an organization's commitment to home office service is the ratio of staff to advisors. While a deep and talented staff is important, head count is not always an accurate barometer of that commitment. Some firms have been known to manipulate the numbers so that they are represented in their best light by counting every possible body, including "assistants to assistants."

Today, one could reasonably conclude that technology has surpassed headcount as the defining metric of a firm's commitment relative to back office service. Fast-moving markets, enhanced reporting requirements, and a host of new products and regulations render technology vital. While all firms of size have similar tools, the deployment and reliance upon technology requires financial services industry expertise and training. That's often where the differences lie.

Finra evidently considers back room functions important as well. In a groundbreaking move, Finra recently floated a proposed back office registration requirement, RN 10-25. While awaiting a final resolution, advisors might inquire as to the licensing and educational qualifications required internally of a firm's home office personnel. One indication of a commitment to service would be an internal policy of having all back office staff hold both 7 and 24 licenses as an internal best practice.

Transitioning advisors rarely inquire about a firm's culture. A top-down phenomenon defined by those at the executive level, organizational culture usually reflects their collective backgrounds. A firm managed by former consultants or executives from outside the financial services industry may not provide the empathetic environment a transitioning advisor seeks.

A review of executive management is no substitute for an in-person visit to the firm's home office however. Viewing the physical facility will go a long way towards an accurate appraisal of the support issue. Does it appear to be a pleasant work environment? Is the back office clean and spacious or dingy and cramped? Are the files organized or are boxes haphazardly stacked up along the walls? Do staff personnel have to wade through piles of paper to find a new account form or stock certificate? Cleanliness and efficiency go hand in hand. Finally, do the people in the back office seem happy? A pleasant work environment could be a favorable harbinger of a good culture.

Another hint is whether the firm is comfortable letting new advisors chat with staff personnel and ask whatever questions they like. Is the meeting rehearsed, harried and controlled or informal and relaxed? Can new advisors view the work areas or are meetings conducted exclusively in a conference room? Again, these are signs of culture.

Importantly, the relationship has to work for both parties. It's incumbent upon the advisor to disclose any special situations early on in the discussion, for example, if an advisor's business model has a unique aspect, such as a single hedge fund client. The honeymoon period ends quickly. Once the accounts are transferred and locked in, reality emerges.

Something that surprises me in conversations with recruits is how often prospective advisors are ignored

by executive management during home office interviews. If an advisor or group isn't worth a little up-front time during the interview process, what are the odds that executives will be accessible after the transition? The cordiality and sincerity of executive management can be feigned, but if they don't even make the effort, it's a sign of indifference, a big red flag.

My business card has my cell phone number on it. Not long ago, we were being interviewed by a large retail group. On Sunday evening at 9, my phone rang. It was the group's senior advisor, checking to see if I would answer. As an organization, you never know what will be most important to a new advisor, but availability is likely a worthy attribute.

When you think about it, there aren't many significant differences among the services, platforms, clearing firms and other resources offered by firms in the independent sector. We all have our different areas of focus, but pretty much the same products and services can be made available on any shelf. The principal differences are reflected in the competence and attitude of the firm's personnel, from the CEO to the operations staff. Transitioning advisors who fail to meet and get to know those people are needlessly gambling with their future.

Before you make the final transition decision, insist upon a visit to the firm's back or home office. Get a feel for their people, for the organization's culture, how they treat each other, and whether they are a good fit for your practice. The reliability and competence of a firm's back office is a key to a successful transition and ultimately growing your book of business.

Terry Buffalo is CEO of First Midwest Securities Inc., a full-service broker-dealer and RIA headquartered in Bloomington, Ill. He can be reached at tbuffalo@firstmidwestsecurities.com or 800.662.8452.

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