Fox Rothschild Podcast

AdvisorEsq

Episode 8: Executive Insights: Succeeding as a COO at an RIA Firm

Featuring Matt Baum of Fox Rothschild and Matt Sonnen of Coldstream Wealth Management

Announcer: All rise. Welcome to "AdvisorEsq," where we discuss the financial services industry through a legal lens. This episode is now in session. And now your host, practicing attorney, Matt Baum.

Baum: On this episode, we speak with the very engaging Matt Sonnen, Chief Operating Officer of Coldstream Wealth Management.

This episode is a great starting place to learn about some best practices relating to COOs in the RIA space and whether a COO is the missing void in your practice. In our conversation, we discuss, among other things, what it means to be a COO in an RIA firm, how to build trust with leadership, the value of process over technology improvements and crafting the right company culture.

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Baum: Matt, welcome to " AdvisorEsq."

Sonnen: Thank you so much. It's great to be here.

Baum: So, let's just start right out of the gate. What is the role of a COO in an RIA firm?

Sonnen: It's a good question. I always joke that the job description of a COO is quote, do everything around here that isn't getting done.

It can be overwhelming but an extremely rewarding job. Typically at an RIA, the COO is managing the tech stack. They're managing IT for the firms. That's like the computers and cybersecurity and that sort of thing. Many times they're the head of HR, so they determine when to hire, they post the job descriptions and manage the hiring and onboarding process for new employees.

Many times the COO is wearing two hats and they're also the name CCO of the firm. But even if they aren't acting as CCO, they work very closely with the CCO to ensure that the firm is executing on all

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of those compliance requirements. So, that's the nuts and bolts of the job. But at a higher level, to answer your question, their job is to relieve the RIA owner of running the business so he or she can focus on client service and business development.

Baum: Matt, in your experience, what size of firm typically needs a COO? How big do you need to be before that becomes more of a necessity as opposed to a would like to have?

Sonnen: So I try not to put an AUM or a revenue number on it. I'm asked that all the time: "Tell me exactly what exact dollar amount should I hire my COO?" And I think it's very case dependent. It really goes back to what I said a second ago, it's whenever that owner feels that the firm could grow faster if they were able to focus 100% of their time on serving clients really well, so that they're referring their friends and family and allowing that owner to prospect for even more clients.

Baum: Traditionally large producers manage teams, smaller firms. How do you get the historical leader to give up control and give a COO the freedom and authority to be effective?

Sonnen: So, this is the million-dollar question right here. I've written a lot about this. I've spoken to so many COOs that joined a firm where the RIA owner said all the right things during the interview process. Like I said earlier they will tell the COO candidate, "Look, I'm swamped. I don't have time to run the firm. I need to focus on growing the firm. You come in here and I'm going to let you run it." But as soon as the COO joins and starts making recommendations of how to run things more efficiently and really scale the business, the owner, many times will get defensive.

It's a tough conversation to have, but I always advise RIA COOs to have really heightened sensitivity around this and try to best gauge the owner's body language. And really listen to the answers to the questions that they're giving you during the interview process. And try to determine in that interview if they're actually going to hand over the reins or not.

Baum: What are most firms doing operationally poorly?

Sonnen: So, the biggest mistake I see RIAs make over and over again is they assume that technology itself is the magic pill that's going to fix everything. And they think, we seem to have a lot of trade errors. The problem must be our trading technology. So let's rip that out and we'll replace it with something else and then all of our trade errors will go away. And so then they go through that process, they rip it out and they put in the new one. And they shockingly, all the trade errors are still happening because the problem wasn't the technology.

The problem was the RIA didn't have their clients set up on model portfolios. Every client had a customized portfolio. And so when they try to use their rebalancer across a number of client accounts, they always seem to be selling, you know, the Disney shares that grandpa had gifted to kids, or they were selling that low-basis Microsoft stock that their client, you know, they sold their company to Microsoft and they received stock and they didn't go into the trading system and mark these positions as do not trade.

To answer your question directly, firms should focus on process, not necessarily the technology tools.

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Baum: So, let's do a little bit of a thought exercise. If we dropped you into an RIA firm today and you had one week to act as COO, what would you focus on doing and potentially changing?

Sonnen: During my consulting days, I had this one-page slide. It was very simplistic, but I used it with every engagement, whether the RIA came to me and said, "We want to get into the M&A game. We're trying to be more successful at attracting advisors to join our firm. What should we focus on? Or they'd say, we just bought another firm and we don't know how to integrate the two businesses. Where should we go first?"

I had this real simplistic slide. It was just a schematic of the RIA back office. It had the custodian at the top and then it showed the data flowing from the custodian into the performance reporting tool. And then from the reporting tool, there were arrows showing the data then populating the trading tool, the CRM, the client portal and the financial planning tool. And I'd say, "Okay, choosing the vendors that make up these rectangles on this page, that's the easy part. Figure out how you're using these tools to deliver the service to your clients. So, who is your ideal client? What do they need from you and how are you delivering it?"

So to go to my previous answer, let's focus on process. I've seen countless mergers between RIAs. They'll erroneously say integration is going to be easy. We're using the same tech stack. But one of those firms may have ultra-high-net-worth clients with mostly alternative investments making up their portfolios and they drive their financial planning discussions mostly around cashflow. And then the other firm, again, same tech stack, but the other firm has massive fluent clients that are mainly in SMA portfolios and their financial planning conversations are goals-based not cashflow-based.

So this is a very long-winded answer, but with one week to clean up an RIA I'm focusing on who is the ideal client, what are the services we're delivering and how are we delivering them. And then we're going to focus on the process of delivering those services with each of those core components of the RIA back office and look for efficiencies wherever we can.

Baum: What is the interplay between a COO and legal and compliance of a firm?

Sonnen: I've always said that the COO and the CCO are going to be tied at the hip. But the CCO has to understand all of the requirements from a regulatory standpoint and how those requirements apply to the specific RIA. And then the COO works closely with compliance to ensure those requirements are being executed and carried out as effectively as possible at the firm.

Baum: What cultural components are universal to successful RIA firms with satisfied employees?

Sonnen: So, our industry, it's very noble that we take the fiduciary duty so seriously and we have it embedded in our psyche that client's needs come before our own. But oftentimes, employees will suffer from that, and it can seep into the culture of the firm. If an employee, they get up the courage to walk into their advisor's office and they say, "Hey, I'm having a problem. Can I talk to you for a minute?" The advisor says, "Of course, sit down."

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But then before the employee can even speak, someone yells out, "Mr. Smith is on the phone." And the advisor will tell the employee, "Hey, let's talk later. I've got Mr. Smith, big client. I got to take this call." And so the employee walks out of the room. And then that conversation is never going to happen, because the advisor is going to be busy for the rest of the day and will completely forget about that conversation.

And that hurts the employee a lot. It's not intentional, but it sends that horrible message. So, of course I understand that clients are paying the bills. And I know how important it is to offer white-glove service, I totally get all of that. But, from a fiduciary duty perspective, yes, we put our clients needs ahead of our own, but from that cultural perspective, we really need to care about our employees ahead of our clients. It's that old cliche, happy employees equal happy clients. So, it's just good business to act in that manner.

Baum: Now, you've recorded over 50 episodes of your podcast, "The COO Roundtable." What are the most important lessons you have personally taken from those conversations?

Sonnen: I originally launched the podcast five years ago with the sole purpose of highlighting how important the COO role is, and trying to wake up our industry to all things COOs can bring to their organizations. And I get frustrated in our sales-driven industry where operations is considered less than because we don't bring clients into the firm. So, I wanted to show RIA owners that COOs are more valuable than simply, I need someone to come in here and reboot the router whenever it goes down.

So, I interview two COOs on every episode and we talk about all the amazing work that they're doing on a day-to-day basis. And my initial intent was to have RIA owners hear all of this and realize that they should hire a COO for their organization. But over time, I think the most valuable thing has simply been for other COOs to listen in and feel better about themselves and understand that other firms are struggling with the same things that they are.

It can be a very lonely existence being an RIA COO. So I think the most valuable, the most value that we're bringing to the industry is just letting COOs know they aren't alone. Hopefully they can pick up some good advice from our guests that they can implement at their own firms, and understand that others are out there facing the same problems that they are.

Baum: You think you'll make it to 100 episodes?

Sonnen: I only do it once a month, so I've got to go another five years. But I love it and I don't see any reason to slow down.

Baum: I think they say the average podcast is like seven episodes, right? So you're well ahead of the game either way.

Sonnen: That's true!

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Baum: Very cool. What's the most exciting project you're working on for Coldstream Wealth Management?

Sonnen: So the wheels were already in motion when I got here, but we're doing a lot of work around client segmentation and determining what services that we're delivering to our clients. Coldstream is guilty just like most RIAs, we want to offer everything to every single client. But the reality is, there's only 24-hours in a day.

So as you grow your client base, you have to implement some kind of segmentation plan where you let clients know all the different services you offer, but you have to have cutoffs for where and when you can offer services that are included in your AUM fee. So, for smaller clients you can say, "Sure, we can analyze your tax return, but at your AUM level we need to charge a fee for that."

So, we're working on defining at each client segment how many people are dedicated to that relationship. Do we have a lead and a secondary advisor on some relationships? And exactly what services are included in our AUM fee at each level. And we're coaching the teams on how to broach that conversation of well, we're going to need to charge you an additional fee for those services based on the AUM that you have.

Baum: I know you're a major Eddie Van Halen fan. If you could ask Eddie Van Halen one question that he would have to answer, what would it be?

Sonnen: It's embarrassing to admit how many times I have dreamt about meeting him.

I have read so many interviews and watched so many video clips. I feel like I know the answer to most questions. But I think an interesting one to ask him would be, "Hey, Eddie, when you look at a guitar, what do you see?" He did an amazing interview at the Smithsonian, of all places, in 2015. It was this American dream series that they were doing. And he told the story that he arrived here from the Netherlands when he was seven years old. He couldn't speak one word of English. His family had literally $50 to their name. And so with that guitar he completely changed the world. So, I'd love to hear his answer to that question.

Baum: Very cool. Favorite album?

Sonnen: My cop-out answer is always, my favorite Van Halen album is the one that I'm currently listening to.

Baum: Oh, come on, let's get into the real one.

Sonnen: Yeah. Yeah. So I can narrow it to two.

Baum: Okay.

Sonnen: It's “Van Halen I,” the original, the first one 1978, of course.

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Baum: Yeah.

Sonnen: And then, the first one they also did with Sammy Hagar in 1986 the "5150" album. Those would be my two that I'd have to go with.

Baum: And which solo have you done air guitar to most?

Sonnen: Oh, it has to be "Eruption.". My son was probably four years old and he was doing air guitar to "Eruption."

Baum: What's your best piece of advice for COOs of RIA firms?

Sonnen: The to-do list is really never ending. So, my best piece of advice is look, the work is going to be here tomorrow. You are allowed to shut your computer off at the end of the day. And it's really important to set boundaries, because the questions from the firm are just going to keep coming and coming. If you don't let your firm know when you are available and when you aren't available, you're going to get yourself in trouble.

Baum: You've been in financial services for over 25 years. If you were starting all over, say a college graduate, what would you want as your first job from an experience standpoint?

Sonnen: So back, I was a recent college grad, one of our clients, he was a business owner. He said to me, "Everyone should work on commission at least once in their life." And at the time, I didn't fully appreciate what he was saying, but I think the general message was, we all need sales training. And I have this huge chip on my shoulder because our industry doesn't always appreciate operations folks because we aren't bringing in the clients to the firm.

But the more and more, the longer I've been in this industry, the COO role is a huge sales position. We're trying to sell our firm on adopting new technologies or new processes. We're trying to show everyone how we can add more and more clients to the firm without our level of service dropping.

We're trying to cobble together teams and convince everyone to work together in the most efficient way possible. So, COOs are always selling. I think, from an experience standpoint, the most critical skill you can learn early in your career would be those sales skills.

Baum: Do you have a favorite quote?

Sonnen: Being the Van Halen fan that I am, David Lee Roth.

Baum: We knew that was coming, right?

Sonnen: Yes, exactly. David Lee Roth is a quote machine. He's got a million one liners. But my favorite is, it just captures the 80s so well, he says, "The hood ornament is to show you where you're headed. The rearview mirror is to show you how good you look while you're getting there."

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And again, it captures the 80s so perfectly. But you can take it more to heart and it just reminds you not to take things too seriously. Keep pushing forward and make sure you're laughing along the way.

Baum: Wow. I love that. Thank you, Matt, for taking your time today to share some wisdom.

Sonnen: Thank you. This was great. Thank you so much.

Disclosure: Thanks for listening. Matt Baum, your host, is a practicing attorney and partner at the law firm Fox Rothschild. To contact Matt, you can call him at 212.878.1429 or email him at mbaum@foxrothschild.com.

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