Fox Rothschild Podcast

AdvisorEsq

Episode 11: Planning Ahead: Creating a Smooth Transition

Featuring Matt Baum of Fox Rothschild and Jeff Nash of Bridgemark

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.

Matt: On this episode, we have part two of our in-depth conversation with Jeff Nash, CEO and co-founder of Bridgemark Strategies. Jeff shares his perspectives on organic versus inorganic growth, due diligence tips on selling a practice, mistakes advisors make in their choice of legal representation, general advice to younger advisors and more.

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Matt: So, given private equity's strong role now, and just giving the marketplace a whole new valuation on practices and otherwise, do you think younger advisors are still able to inorganically grow their practices by buying practices, which was a traditional model for many to grow a practice?

Jeff: Yes, no question. I mean, I think of, what is this industry going to look like 10 years into the future?

Matt: Yeah.

Jeff: I think the industry is going to look a lot more like what I would describe as the savings bank or even banking space. You've got a few really large banks that make up over 30% of the market. And in the wealth management space, the largest players, maybe 5%, 8% of the market.

Matt: Sure.

Jeff: And so there's a big delta in there, which is what the consolidation is going to be. After that, when you still compare to the bank space, then you have some large mid-size, right, large regional banks. And then you got a lot of small banks, a lot of small-town banks.

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I absolutely see the future of this business where I wouldn't be surprised to see upwards of 50% advisors kind of connected to a smaller number of firms, you know, as we continue to consolidate and kind of aggregate in this business in this marketplace.

But on the flip side of that, I wouldn't be surprised to see another 50% of advisors that are just continuing to provide services to mom-and-pop America, throughout the country.

And so that's a pretty large market share. Even if we look at the data around consolidation there's over 300,000 advisors today. And the forecast is 10 years in the future there may be 200,000.

Matt: Yeah.

Jeff: In my 50/50 vision, that's still 100,000 advisors that are going to be available for the mom and pop working in America. And so there's going to be, I always see a place for them. And I always see that younger, smaller advisor will still have some opportunity to continue to kind of build and create their own firm.

Matt: Sure. We focused a lot in our conversation on valuation, which in certain ways could be translated to money that goes into an advisor's pocket when they sell a practice that they've built or that they have an ownership interest in. But there's another side that I speak to clients all the time about in connection with transitions and M&A and otherwise, which is, they want to make sure their clients are taken care of. That they're not going to just join some big firm with a lot of capital that's going to want to do things their way, so to speak, which could be very disruptive and upsetting to some of the client base.

So, what's been your experience? What are some tips you have on the due diligence end of advisors to make sure that their clients are going to be taken care of in addition to obviously them monetizing their practice?

Jeff: I actually came up with an expression a few years ago. And the expression is really to help frame in how to evaluate firms. And I turned it into three simple words, and I actually went out and trademarked it because I use it every day. And the expression is: feel, fit and financials. Three Fs. Real simple. When you're evaluating firms, and this is for certainly the M&A side, but even just transitioning and changing broker dealers.

Matt: Yeah.

Jeff: This is the mistake I see people make, is because they don't even know how to evaluate a firm. And when you're evaluating a firm, if you look at feel, fit and financials. If you consider feel, fit and financials, you will make a better, smarter decision. So what is feel, fit and financials?

Well, feel to me is about cultural philosophical alignment. How do you think about the business, right? What's important to you and what's important to your clients as you think about the business. Goals, objectives, et cetera. It's also likability, by the way, right? And I say that really importantly. I'm a huge believer that you have to like the people you work with.

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Matt: Sure.

Jeff: But also I believe advisors overweigh likability and under-weigh culture and philosophical alignment. And likeability is table stakes, but the decision is really about alignment. But don't forget, when you're an advisor talking to a firm, you're talking to a paid recruiter, right? Somebody who's paid to be likable. And that's not a decision-making. So feel is number one importance for me.

And then we get into fit. And fit is the business itself, right? Fit is about the client. Fit is about everything that you need: the technology, the tools, the resources, the products, the things that impact the client's life. And what I see with fit is I see the deal-breakers, right? That's the big part of what you have to look at for fit. There's not usually the deal-makers so much where this is a perfect fit, because it doesn't exist. There's always going to be something that's going to be a little different, but really important.

And then last one in the list, of course, is financials. Really important. There's a lot of negotiability in the financials, regardless of the scenario. And that's the stuff that we help with and help to educate advisors of properly contexting feel, fit and financials.

The one thing I see advisors do on their own when they are evaluating firms, they really are focused on financials and likability. Those are the two things they overly emphasize. And that is where you can run into a problem, right? Because financials can mask a lot of mistakes in both feel and fit. And you're talking to a person, again, as I said, whose professional job is to be likable. And there are some firms who will throw out some really large numbers to get deals done and then try to solve it on the backend, right? So the proper due diligence really puts it in perspective of focus on what's important first: the feel, the culture. Make sure you're selecting firms that you're aligned with and look at the financials last.

Matt: That's great advice.

Do you have a favorite war story about making an M&A deal happen that almost didn't?

Jeff: I don't know if I have a favorite. I mean, I've had several where I've literally worked with advisors and have closed deals that had worked with other companies and literally had been in the marketplace for years plus, working with other companies, had kind of fired, contracts had run out and then they came to me and we got the deals done. And so a lot of what I try to do in the M&A stuff is, you know, it really is about curating and trying to find the right solution firms for that advisor. And then it's about the negotiating at the end. And you got to be careful in the negotiating side of it, which is what I found. I've been able to help a lot, right? No disrespect to you. And I'm sure you'll appreciate this, but your job as an attorney is to protect your client. Well, when you have two attorneys whose jobs are protect their individual clients, and that's an inherent conflict in an M&A transaction, it can hit a wall, sometimes.

Matt: I can't believe you're blaming the attorneys, Jeff. I, you know, everyone blames the attorneys.

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Jeff: I said you're doing your job at least, right? That's it. I'm giving you credit for that. And that's really where--

Matt: But good attorneys understand the business objectives.

Jeff: No question.

Matt: And try not to get in the way.

Jeff: And I obviously, I'm going to give you a softball. And I know that about you as well, right?

And so, that's obvious that piece. But I see it in these deals where I see these attorneys just, you know. And so I've been able to kind of get in the middle of some of that stuff and just kind of talk to both parties. Literally, I talk to both parties independently without the attorneys and say, are you good with this? Are you good with that? Okay, now go get the attorneys to write it up. So I've had that happen. It's... but it's, it, by your way, I will put another plug in on that: When I've worked with attorneys that are great like that, that are understanding the business side of it.

Matt: Yeah.

Jeff: Boy, it makes a huge difference and goes smoothly. It really does.

Matt: Yeah. What are-- and this may have already been answered by you, depending on, just your experience and how you'd react to this-- but what are mistakes you've seen made by advisors in their legal representation in M&A transactions?

Jeff: So it's, both, it's anything in this industry, right? The biggest mistake advisors make when they're doing M&A or even with like recruiting is they're going to their friend. I mean--

Matt: The college buddy who's a real estate attorney.

Jeff: Is the number one mistake, right? And then even with M&A, it's, you go to an M&A attorney is another huge mistake.

Matt: They don't know the space.

Jeff: That's exactly right. This is a niche space and it is really important to understand that. The securities laws that are applicable within an M&A transaction, right? You have to have, you have to have knowledge and know the space. And it really is critical to make sure you're getting the right representation.

The other thing I would say is, so some of these deals, you're going to expect a minimum of five figures of expense. And realistically, it's six figures of expense when you're doing these M&A transactions with the lawyers, right? It is not uncommon to have $100,000 bill with a law firm. Certainly $50,000 is more norm than $10,000 by the way.

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Matt: Sure.

Jeff: You know, so it's, there's some sticker shock, I think for advisors. That they don't want to spend that amount of money. But if you're selling your firm for what could be $10 or $20 or more million dollars, to something that, yeah, you've got to, you really have to get that right representation.

Yeah. So that sticker shock I think is the biggest one that people are like, there's no way it's going to cost 100 grand. And I've done enough transactions now that I'm like, oh, yeah it will. Be ready.

Matt: And some people almost think of it like an insurance policy. You're selling this very worthwhile asset. You want to make sure you're protected. You want to make sure your attorneys have done what they can to align with your interests and make sure if things don't work out the way you anticipated, you have recourse or, going back to your analogy, the four-engine plane.

Jeff: I would even add to that, right? I mean, people, when it comes to selling things, they have some experience of selling houses and hiring a realtor or a broker to sell your house. And in a similar manner, right, that's kind of a role that I play, right? And so they understand fee structure and understand how that works. But again, when you sell your house, the attorney's fees are like a couple thousand dollars, because it's all formula that the banks gives you right?

Matt: Form agreements.

Jeff: Right, it's driven by the bank. And so this is where it's a real sticker shock. It's just, you know, this is what it will cost and it is, and it will be your best spent money. Besides me, of course.

Matt: We're going to have to get you on retainer, Jeff, just to promote us. That'd be great.

What advice do you generally have to young advisors? And it doesn't have to be M&A related, but just, you've been in the space a long time. You've worked at firms. You've now been in more of a recruiting role on M&A space. What advice do you give to a young advisor?

Jeff: On the young advisor, what I usually tell them is, it starts with just the overall work, right? I mean, we've got millennials here, I've got kids that are in the workforce. And there's definitely kind of a reputation that I think a lot of these folks have, and they're looking to fast-track, often, their success. And some of them will actually be able to do that, right? But the reality is, when you look at someone who's been in the business for 30 plus years, like myself, right, you don't get that by not being in the business 30 years. And so some of it just comes with time, and there's an element of patience and learning.

And that's what I would say is, look, if you work hard, surround yourself with great people, and then have the patience to learn and develop, you will be successful, right? Clearly there are some core skills that you need in that success environment, but the way this industry is built, there's a huge amount of opportunity. Even among these private equity, you know, RIA firms. They're creating pathways for these younger advisors to actually be successful without having the entrepreneurial risks. And can make six figures, even seven figures of income at these RIA firms starting off at a

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young age and growing and developing, and they're going to give them all the tools. So some of it is just a patience, right, a work ethic. And try to learn as much as you can learn. Sponge, right, without a level of expectation.

And those are the ones that are going to be really successful.

Matt: What's the best business advice you ever received?

Jeff: You know, that's a great question. I think for me, it's something that I try to do often, and I also try to coach on it often, is I really try to think outside the box. I really try to use time and thought to be creative, even in an individual interaction with a new client or an existing client. Questions come up all the time. Problems come up all the time. And for me, I try to think about, is there a better way to solve this, even though I've heard it five times in the past?

Matt: Sure.

Jeff: And so that, the element of creativity. And what I learned about creative thinking it's best when you actually work at it.

Matt: Yeah.

Jeff: Right? And I think that's one of the things is, I mean, when I started off younger in this industry, and I started kind of getting into the more the thinking outside the box, I literally would drive home from work --and I read a book about this --and I shut off the radio and I would literally just kind of think about it in the drive with some silence.

And next thing, you're actually coming up with ideas. And so we all kind of don't tune things out, we stay focused on podcasts and-- like this, which everyone should listen to clearly, right? But we read, but you listen to the radio and we'd listen to all these things and this. You don't spend time just kind of being in your thoughts. And it's really developmental and can really help folks. And that was really, it worked out really well for me in that sense.

Matt: So outside of family and friends: What are you passionate about outside of work?

Jeff: What I do outside of work is I certainly spend a lot of time with family and friends. Sports, I enjoy sports of all kinds. I enjoy watching sports. I enjoy watching competition.

I also was just rewatching the new Netflix show about the 2004 Red Sox. That was a lot of fun. But yeah, that's what I enjoy doing. I really like to, I mean, I play golf, I fish, I like outdoor activities. I play a lot of pickleball. And so, I really enjoy just all kinds of activity just to stay as youthful as you can.

Matt: Pickleball is just taking the nation by storm. It's unbelievable how many people are into pickleball now. I've never played, but athleticism has never been my thing.

Jeff: It is fun.

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Matt: So, you have a favorite book?

Jeff: I don't know that I actually do have a favorite book. It's really funny. I kind of read books in three categories. So I've got the, just the regular light reading type books. And then I've got history books that I read. And then I've got kind of the business books. And I probably have some favorites in each of those categories. If I think about just some of the ones that I've read more recently, on the the light reading book, I can't even remember the name of the book, honestly. There's a series of them within David Baldacci. It's a guy who has a memory, he never forgets anything. And I know all of us have thought about, hey, I wish I had a memory. I never forgot anything. And it's interesting how it's written almost as a curse for him, because --

Matt: A lot of married people don't wish for that skill.

Jeff: Yeah, well. And this individual, right, he's had some tragedy in his life. His wife got murdered and things like that. But since he doesn't forget everything, it's literally the pain is relived every single day as if it had happened the day before.

So, it's an interesting thing, interesting book. On the business front. I mean, one of my favorites on the business front is *Good to Great*. Jim Collins. I reference that book often in my daily life and think about it a lot. And that's definitely one of my favorites, no question.

Matt: Very nice. Do you have a favorite quote?

Jeff: No, I really don't. I mean, I guess if I had to pick one. I, on my website, I think it's still there somewhere. It's a Darwin quote, which is, and the quote is, "It's not the strongest of the species that survives, it's that's most adaptable to change."

And so I definitely, I definitely have my elements for myself of trying to live to that, not being so set in your ways and things like that. It's always listening and learning. That's a big part of what I try to do, is listen and learn all the time.

So I don't know that's a favorite quote. I found it a number of years ago, put it on the website because it's certainly applicable to what I do every day with people who are set in their ways and not wanting to switch firms and recognizing that there are better places for them. But it's definitely something I lived, it kind of affects me individually as well.

Matt: Great. Well, Jeff, thank you so much for your time today. I thought this was fantastic. I think it's a great overview for anyone who is interested in the M&A space in particular and the financial advisory space, and just great general advice all around. So, much appreciated.

Jeff: Matt, it's been my pleasure. Really, thanks for having me here as well. I had a lot of fun.

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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