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The Downside Of B-D Counteroffers

Advisors choose to leave broker-dealers for many reasons. It might be that they feel the culture of their firm is declining, that they're getting poor back-office service quality and the response times are lagging. It could be that a firm's heavy-handed response to compliance caters to the lowest denominator. Or it could be the firms don't give advisors access to more innovative advisory options—that their technology is pigeonholed. The list goes on and on.

When it comes time to finally leave (after they've done due diligence on other firms), and they let their broker-dealer know, that's when the company might come back with a counteroffer to stay.

These offers aren't common in the independent broker-dealer space, but they do happen, so you need to be aware of the risks of taking them.

The Path Of Least Resistance

Counteroffers are made in the hope you take the path of least resistance. Broker-dealers offer some retention money, perhaps offer a payout that's a bit higher, or renegotiate on client expenses like advisory administration fees, assuming you'll be content to stay put and not hassle with repapering to move your client accounts. But if you take the retention money, you'll have three-to-five-year forgivable note handcuffs, so the broker-dealer will have you shackled until the note period ends.

Countering Outflow

Counteroffers are usually offered by broker-dealers experiencing major advisor outflow. When you get one, it's likely that the company is in upheaval. When large producer groups leave, we've noticed, the companies might approach advisors individually with the offers, which in the independent broker-dealer world is highly unethical. They shouldn't overstep the OSJs (the branch managers) to offer individuals various enticements. Yet the companies will take extreme measures like this when assets are bleeding out and they want it to stop. Broker-dealers going through desperate times turn to desperate measures.

Do you want to stay with a firm that is experiencing advisor defection en masse?

Damaged Relationships

Realistically, your acceptance of a counteroffer has likely damaged your relationship with management. Consider: You just told them you are going to leave. But now you are staying because they offered you a retention bonus? Management will question your loyalty going forward and believe you'll likely jump ship again unless your reasons for leaving change in a meaningful way—which they rarely do. You'll likely be viewed as contemptible by management from this point forward after the perceived betrayal. Once you accept a counteroffer, management's focus will be less about you and any sort of ongoing relationship and more about how they can influence you to move your clients' assets to their more profitable platforms.

Same Problems

Meanwhile, the factors that drove you to seek change won't disappear with a retention bonus. Last year, we saw an outflow of advisors from a firm offering these bonuses and promising that chronic service issues would greatly improve. We've been gauging broker-dealer service and other criteria since 1999, and the only times we saw meaningful turnarounds in service quality were when a company got a new CEO. Without a change from the top, hope for major changes in service quality, compliance policy, culture, etc. are as rare as hen's teeth. Broker-dealers will fill you with promises of big changes ahead, yet without a crucial change of leadership, any meaningful change is unlikely.

What Quality Firms Don't Do

Ethical, reputable broker-dealers don't offer retention bonuses or special deals on costs because it reflects a poor business model and inconsistency. Good firms realize they aren't a fit for everyone and will happily wish you well in advancing your career, not hinder you in making your change to another broker-dealer or RIA.

Apollo Technical, an IT and engineering staffing agency, points out that 80% of those who accept counteroffers end up leaving within the next six months, either because they accepted another offer or were let go. It adds that further pay increases most often don't fix the pre-existing issues that led the candidate to seek out another job.

For the same reasons, advisors' retention bonuses also don't fix pre-existing issues. Forgivable note periods will likely make you a prisoner at the broker-dealer until the three-to-five-year note period ends, whereas in standard salary jobs you could leave in six months.

Great things come to those who step out of their comfort zone by changing broker-dealers or RIA firms for something better. Change not only benefits you but, more importantly, puts your clients in a better place. That doesn't happen by maintaining the status quo. Positive changes take effort and the short-term pain that brings long-term significant benefits. Don't allow a counteroffer to metastasize mediocracy into your practice.

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