As featured in the December 30, 2021 issue of ThinkAdvisor **ThinkAdvisor**

By Jon Henschen

Upfront Money Should Be a Spice, Not a Main Course

To a large extent, [broker-dealers] are just forgivable note peddlers. That's their primary sales pitch when they talk to advisors—what we'll give you if you move," argues recruiter Jon Henschen, in an interview with ThinkAdvisor.

"Upfront money should be a spice, not a main course," says the founder of **Henschen & Associates**. "That should not be a primary motive for moving, by any means."

Henschen also has a strong view about BDs who mark up outside money managers' fees, which are paid by the client. The advisors typically aren't aware of "the manipulation," he says.

"Some of the firms are getting downright abusive in their markups. The broker-dealers certainly make things opaque and hidden," he notes.

Henschen opened his firm in 2001 and is nowadays focusing more and more on helping FAs to become RIAs, either starting their own advisories or joining existing ones.

The RIA channel is the fastest growing, according to Henschen. The channels losing advisors the fastest are wirehouses, captive insurance BDs and banks, he says.

In the interview, the recruiter discusses what he expects to be "a fast-growing part of the industry": larger RIAs who take independents under their umbrella but let them run their practices independently.

Based in Minnesota, near St. Paul, Henschen started out in the 1990s as a broker with Merrill Lynch and Prudential Securities. After that he became a mutual fund and annuities wholesaler. By 1998, he was recruiting for National Planning, a broker-dealer. ThinkAdvisor recently interviewed Henschen by phone.

A "frustration point," he says, is that when speaking with certified financial planners, some seem dismissive of the fiduciary standard, to which they must now adhere on plans and investments. "They make comments like, 'Yeah, fiduciary standard—what's that?'" he says. But others are "very careful to adhere to it."

Here are highlights of our conversation:

THINKADVISOR:

How strong is the trend of independent advisors going RIA?

JON HENSCHEN:

The fastest growing channel is the RIA channel. Independent broker-dealers are second.

The channels losing the most advisors are [in descending order] the wirehouses, captive insurance broker-dealers and then, the banks.

When advisors contact you, do many want to become RIAs?

A lot of times they're not aware that there are RIAs they can join, keep their independence and drop client costs dramatically.

Why are you focused on the RIA channel?

Because RIAs can have huge savings for clients since they're [required to adhere to] the fiduciary standard on investments.

You can either go to a broker-dealer that pays you a big upfront check—that's [actually] going to be paid for by your clients—[or go RIA].

It's a matter of: Do I do what's best for the client, or do I do what's best for me?

Unfortunately, it certainly seems that [many] financial planners are more concerned with what's in their best interest, not necessarily their clients.'

What stands out right now in the RIA space?

One area of the RIA market that I think is going to be a fast-growing part of the industry is the larger RIAs that bring on independent advisors who can be under their RIA but still operate independently.

For example, you could be at a broker-dealer and net, say 65%–75%, and then join an RIA and, maybe, net 88%–90%. So the advisors could net quite a bit more and cut their overhead dramatically.

Opening your own RIA or joining an outside RIA is appealing because it offers more choices and gets rid of a lot of layers of broker-dealer costs. It also gets rid of the conflict of interest.

When you go to an RIA that isn't affiliated with a broker-dealer, you get away from [many] fees and get much lower administrative fees on the advisory assets. So it's a much lower-cost, transparent, fiduciary-friendly environment.

Why else do you think the RIA channel will grow faster than the independent broker-dealer channel?

It's because of two events, both of which motivated me to get deeper into the RIA channel. The first was when CFPs were required to adhere to a fiduciary standard not only on their financial plans but on their investments.

Enforcement of that started in June 2020, though I haven't heard of any cases of disciplinary action [thus far]. The other event was when outside custodians, like Schwab, TD Ameritrade and Fidelity IWS [Institutional Wealth Services] stopped charging a ticket charge on stocks and ETFs.

That was another big deal because it made wrap accounts obsolete.

What are the main motivators for advisors to want to move firms?

There are a lot of reasons, like better culture and access to outside custodians. Also, there are trigger events, like regulation change such as implementation of new compliance; Reg BI, for example.

Some firms are heavy-handed and make a lot of [compliance] changes that turn reps off, and you may see outflow. Other trigger events are broker-dealers getting sold and mergers, which can [set off] a flurry of broker-dealer changes.

What was the most recent merger trigger?

Probably when Voya got absorbed by Cetera [in June]. The reps thought: "Hey, our firm is getting sold. Do we go with Cetera and take the retention bonus? Or do we look around and go where we want to go?"

What are your thoughts about the practice of paying upfront bonuses?

Upfront money should be a spice, not the main course. When you take that money and leave during the forgivable note period, you're going to owe money to the firm.

I've seen some worst-case scenarios where broker-dealers were going after advisors' homes. They had spent the [upfront] money.

A recruiter friend of mine told me about a situation where the firm he recommended was the perfect fit, but another firm was offering the advisor big upfront money.

The advisor told the recruiter, "We've been wanting to buy a beach house." So the wife insisted that he take the other offer. His wife was pushing it, not the advisor.

It boils down to doing the right thing or the greedy thing. Greed is powerful.

I wonder if female advisors are just as eager for those big signing bonuses as male advisors?

Greed is pretty universal. Upfront money is all about greed. Broker-dealers use that to their advantage.

To a large extent, they're just forgivable note peddlers. That's their whole focus. That's their primary sales pitch when they're talking to advisors—what we'll give you if you move.

I don't think that's right. That should not be a primary motive for moving, by any means.

What should the primary motive be?

To look for a place that will help you grow your business to new heights and offer things like better technology.

What may induce an independent to leave their RIA broker-dealer?

The problem with corporate broker-dealer RIAs is that there are layers of expenses—like platform fees—which you don't have with many outside RIAs.

What other negatives are there?

Quite a few independent broker-dealers mark up third-party money managers' fees [which the client pays].

You might have a manager charging, say, 35 basis points for his fee. Well, the broker-dealer adds 15 basis points to it.

Some of these firms are getting downright abusive on these markups.

The broker-dealers certainly make things opaque and hidden. It's not like they come out and say, "By the way, we're marking up the management fee." A lot of the bigger firms do that.

But the fiduciary-focused broker-dealers, which tend to be midsized or smaller, don't.

Suppose the client asks the advisor, "What's the management fee?"

The advisor will tell them but [likely] won't know that it's been manipulated.

He might say, "the fee is 45 basis points." But if the advisor were [using], say, Schwab or Fidelity, it may be 15 or 20 points less.

How's your own business at the moment?

Moderate. It was quite busy over the summer. I think there are some after-effects of COVID that are [making] advisors more lackadaisical.

Also, markets have been good. And when markets are good, reps focus on business.

It's usually a flat market, when it isn't going up or down, that's the best environment for recruiting.

When it's going down, reps can be afraid to move because they're worried about retention.

In up markets, they want to focus on bringing business in and not have that disrupted with a move. But a flat market is ideal.

What about a highly volatile market, as we've had recently?

Reps still move. I have quite a few moving in January.

What's your outlook for the new year?

We've seen an improving market. That's going to be questionable.

Find a Broker Dealer
HENSCHEN & ASSOCIATES, LLC
Independent Broker Dealer & RIA Recruiting
PO Box 56, Marine on St. Croix
MN 55047
TEL 888.820.8107 651.433.3501
jon@henschenassoc.com
www.FindABrokerDealer.com