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By Jon Henschen

How to Tell When Broker-Dealers 'Jump the Shark'

In the early '90s I was brokering at Prudential Securities in Pasadena, and in my first few months prospecting for new clients, I brought on some blue-blood Pasadena residents who had net worth that I found somewhat intimidating.

We had a branch manager with an open door policy to discuss whatever was on our minds, so I shared with him my feelings of intimidation with these new clients. His feedback cut to the chase, "Jon, the only difference between you and those clients is the number of zeros after their net worth." Over the years I've found his input to hold true: human desires are universal in wanting to feel connected, valued and appreciated—regardless of the zeros.

The Loyalty Factor

Broker-dealers have an ongoing challenge in fulfilling advisors' desires and when they are successful, they gain a loyal following. Still, there is no perfect broker-dealer, and all firms go through periods where issues are being worked out. For some firms, problems are ignored and grow, and multiple issues chip away at a rep's loyalty.

For some broker-dealers, they reach a point of decline, which in Hollywood parlance is known as "Jumping the Shark." The term comes from the '70s sitcom "Happy Days." In one episode, the iconic character Fonzy was water skiing, smiling and being happy-go-lucky in his demeanor versus his usual leather-jacket-clad Mr. Cool persona. While skiing, he actually did jump over a shark (while wearing his leather jacket.) This episode was the turning point for the show, starting a steady decline in ratings, hence the term "Jump the Shark."

How Not to Jump the Shark

For a broker-dealer, "Jumping the Shark" is not necessarily a single incident or quick decline in the number of reps, but rather a slowdown in growth that leads to stagnation or decline. It's important to note that some firms don't want to grow quickly and choose to cap growth to maintain the culture and qualities they have worked hard to develop, such as high-end service and management that is easy to access. For those firms choosing to not grow (provided they've reached a critical mass of near $100 million of revenue) you can measure loyalty by their ability to retain reps.

When we consult with advisors during broker-dealer transitions, we always probe as to why they want to leave their current BD: it nearly always correlates to a loss of loyalty.

Here are some examples of loyalty breakers for advisors at broker dealers:

I'll be out of the office starting June 3rd and returning June 12th.

There's nothing wrong with staff and management taking occasional vacations or attending a few conferences each year. However, for some in management, they are out of the office more than they are in. We've noticed that firms striving to succeed tend to stay put and not travel much. Once they reach a certain level of success (mid-sized firm), their schedules get filled up with conferences they previously would not attend and vacations become more frequent.

Representative feedback includes statements like, "Management seems more concerned about their golf game than us," or "I can never get hold of management anymore, they always seem to be out of town." With all the conference opportunities offered to broker-dealer management, it's easy to fill your schedule, but keeping yourself available to your advisors should take precedence.

Busy-Ness Does Not Equate to Productivity: Death by Meeting

When I recruited for an insurance broker dealer in 1999, we had a weekly, one-hour conference call that was 95% an exercise in futility. The meetings seemed more of a way for our manager to justify her position. As I expressed to her at the time (she hated me for saying this), my time would have been much better spent being on the phone talking to advisors.

A recent *Wall Street Journal* article by Alina Dizik "For Some Managers, Doing Less Means Getting More Done," discusses the new school of thought on how managers are supposed to get more done, and done better. The takeaway? They should do less.

Dizik points to J. Keith Murnighan, a professor at Northwestern University's Kellogg School of Management, who contends that the key to unlocking greater productivity is to just say no: to switch off the email pings, decline meeting invitations and get home in time for dinner.

In fact, dozens of studies all say the same thing: Doing less, and doing it without interruption, can be the key to being a more productive manager and entrepreneur.

With fewer distractions, management will have more time to spend talking to advisors. And when they are talking to advisors, they'll be more focused and in the moment rather than the advisor getting the impression their mind is elsewhere.

Hanging Up the 'Do Not Disturb' Sign

Another problem facing broker dealers as they grow is the decreasing availability of upper management to talk to their advisors. "We used to hear from management on a regular basis, and if we wanted to talk to them, they were easily accessible. Now, the only time we hear from them is at our annual conference," is common feedback from advisors at firms that have grown or merged with another firm.

As broker-dealers grow into the thousands of advisors, it's common to see the president of the firm settle into an ivory tower, with only the largest of producers having the privilege of contact.

How to Emulate the Best BDs

By contrast, our favorite broker-dealer presidents have been advisors themselves. Having walked in the same shoes, they empathize and relate in ways an individual with an accounting or compliance background cannot. For BD presidents wanting to stay connected with advisors we've seen several tactics successfully deployed.

- They make their cell phone number available to all advisors
- They call 10-20 advisors per week to connect and talk about work and/or family
- They make sure to have a "service hot button" installed on the broker-dealer's website where an advisor with an unresolved issue can click the button and a message goes to the president for intervention
- They make it a point to spend quality time with recruiting prospects visiting the home office for due diligence as well as occasional calls during their first year or two
- When they do travel and visit key offices, they take advisors out to lunch or dinner

Chronic Service Problems

At some firms, chronic services issues are viewed not as an issue for the broker-dealer to resolve. Rather, the problem is perceived as the advisor complaining. This state of denial is more common than you may imagine.

One advisor shared a story with me about a visit to his broker-dealer's home office. While talking to someone in the operations area where reps called in, the phone rang and the staff person looked at the phone and then kept talking to the advisor. The advisor commented, "Aren't you going to answer the call?" The staffer responded, "If we don't like the name of the person that shows up on caller I.D. we let it roll over to message."

The advisor was shocked at how blatantly dismissive they were to advisors in need of help. Other comments we've heard include, "We usually have to leave a voice message and if we get a call back within a few days, we are lucky. With some messages never returned, we've just had to learn to be more self- sufficient."

Sometimes the service issue may not be the quantity of service but rather the quality. That was demonstrated by this comment from an advisor: "We're always talking to new people who are on learning curves, which means they have few, if any, answers to our questions or we get different answers from different people—it's very frustrating when you need problems resolved."

A Change of Culture Is Never a Positive

When an advisor tells us the culture of the firm has changed, it has never been a positive development. Ultimately, a change of culture translates into:

- Less personal contact with management
- More corporate or management focus rather than rep focused
- Reps feel they are being treated like a profit center
- Compliance and company policies/procedures becoming extremely restrictive and bureaucratic

Granted, we have FINRA getting increasingly intrusive in how advisors run their business. However, when a compliance department goes above and beyond what FINRA requires, it is often reflective of a broker-dealer trying to protect themselves from their own advisors, or a firm that FINRA has in their crosshairs due to problematic compliance patterns.

A common tactic that broker-dealers implement when introducing a policy or compliance change is to tell the advisor, "FINRA is requiring this change," which may be true, not true at all or a half truth. An example was a firm that stopped paying mutual fund 12b-1 fees in advisory accounts if they were qualified assets.

The broker-dealer told advisors that regulations forbid qualified mutual fund 12b-1 fees from being paid to the broker. It turns out that ERISA-qualified funds (401(k) assets) cannot be paid out but non-ERISA qualified assets such as IRA, 403(b) and 457 mutual fund 12b-1 fees can be paid to the advisor, hence a partial truth was being told. Advisors may call other broker-dealers or people like me to verify if what they are told is true.

Loyalty Does Not Conflict With Profitability

In his book "The Loyalty Effect," author Frederick Reichheld discusses loyalty being perceived as a conflict to profits. "It may sound as if loyalty and profits are in conflict. If business were a zero-sum game that would be true; any given pay increase or price reduction would be a trade-off against increased profits. But business is not a zero sum gain, and the putative conflict is a misunderstanding."

Reichheld breaks down profit into two forms: virtuous and destructive. "Virtuous profits are the result of creating value, sharing it, and building the assets of the business. Destructive profits do not come from value creation and value sharing; it comes from exploiting assets, from selling off a business's true balance sheet. Once you see profit as a means to, and a consequence of, the sustained creation of value, then only virtuous profit will do."

Financial advisor loyalty is chipped away as broker-dealers go the route of destructive profit, be it through nickel and diming advisors via excessive fees, oppressive compliance and policies (over policing), cutting staff during market downturns or generally neglecting those who butter their bread.

If ignored, advisors will at some point lose loyalty as the broker dealer "Jumps the Shark."

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