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When Advisers Change Jobs, Ask Questions Before Tagging Along

By PAUL SULLIVAN

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FINANCIAL advisers are moving from one firm to another more often than they used to — some for the big bonus they get for moving, some to go out on their own and some who are on their own now and want the support of a large organization.

Whatever the reason, the transition often seems opaque to clients — the people whose money gives these advisers' businesses value. But most probably don't care too much as long as they get the same service and their statements arrive on time.

But a transaction this week got me thinking about the obligations advisers have to their clients when they move and how their handling of that process can offer insight into their character.

Seth Glickenhaus, who has worked on Wall Street since 1934 and started his first firm in 1938, has decided to sell his advisory firm, Glickenhaus & Company, to Marvin Schwartz, the team leader of six advisers called the Straus Group at Neuberger Berman.

Mr. Glickenhaus, who got his first job in finance from Herbert Salomon, one of the original Salomon brothers, is 98. With his eyesight failing and his step slowing, he said it was finally time to retire.

"I love being a money manager," he said. "If I didn't have certain obvious handicaps, I'd still be working at it. But I don't think it's fair to manage other people's money when you think your handicaps could impair your ability."

He had been concerned about finding a good home for his clients, who have entrusted him with over $900 million to manage. He has spent this past week contacting clients to tell them about his departure and why he picked Mr. Schwartz.

“I’ve admired him and used many of his ideas,” Mr. Glickenhaus said. “It was very hard to find someone with a similar investment policy. Most people in money management are interested in the fees they get and the commissions and don’t do an outstanding job.”

Mr. Schwartz, 72, whose group manages $11 billion, said he did not take the transition for granted. Mr. Glickenhaus’s clients are free to go elsewhere. But he said he and his team would be working hard over the next 90 days to meet with them and explain why they should move their accounts to Neuberger Berman.

“One of the challenges is to understand the mentality of an investor who entrusts a majority, if not all, of their invested assets with one person to manage over a long period of time,” Mr. Schwartz said. “I think it’s important to recognize that the new manager doesn’t have an attitude of coming in with a strong broom and instituting major change. Change should be instituted slowly, to the extent that there is change.”

That this transition of client accounts between firms is amicable is not the norm. Just ask people whose adviser has left one firm to go another and found themselves on the receiving end of a flurry of sweet-talking calls from the old and new firms.

“It’s a question of growing importance because there is a lot of moving of the deck chairs, partly in the brokerage industry,” said Stephen Horan, head of the private wealth practice at the CFA Institute, an association of investment professionals. “The situation creates a really interesting opportunity to gauge one of the things clients say is most important to them about their adviser, and that’s ‘What is the commitment to ethics?’ ”

Mr. Horan said that the increased movement of advisers over the last several years had been largely driven by the decline in the public’s opinion of many big Wall Street firms. Some advisers have decided they could be more successful at a boutique firm, on their own or, at the very least, at another big firm with a better reputation.

I decided to call three firms whose model is based on inducing advisers to leave established brokerage firms to join them and ask them how they look to smooth out transitions. All three were started, or began to grow, after the financial crash of 2008, and their goals are to become large enough that clients can get the advantages of a big brokerage house but with a wider variety of investment choices.

I wanted to know what clients could glean from how their advisers changed firms.

Moving has become so common that the industry has a set of guidelines called the broker protocol that is meant to govern the process and cut down on the number of lawsuits between firms.

Yet the information that advisers can take with them under the protocol sounds more like what a prisoner of war is compelled to reveal under the Geneva Conventions. Brokers can take only clients’ names, addresses, phone numbers, e-mail addresses and the titles of the accounts they managed. Anything else, like financial plans or asset allocations, is prohibited.

Evidently, this works. Elliot Weissbluth, chief executive of HighTower, a $25 billion advisory firm built by hiring adviser teams (35 of them, so far) from brokerage houses.

“We’re signatories of the broker protocol,” he said. “We’ve never had a single problem with protocol-related issues. We follow the rules, and to be fair, Morgan, Merrill and UBS follow the rules as well. At the end of the day, they realize the broker protocol has integrity.”

But even if an adviser follows all the rules in the move, that is only the first step. The transition is a good time for clients to ask probing questions, starting with what the adviser was paid to move. And second, clients should ask what the new firm has that will be better for them.

Shirl Penney, chief executive of Dynasty Financial Partners, which consists of 17 adviser teams that manage $17 billion in assets, said the capabilities of the new firm might not be as strong as the old one, but the financial incentive for the adviser might have been too big to pass up.

While there is nothing inherently wrong with moving to another firm to make more money — people in other industries change jobs for that reason all the time — clients would want their advisers to answer them honestly and to evaluate that answer.

In the case of an adviser who is retiring, clients who have become accustomed to a certain investment philosophy need to ask themselves whether the new adviser will be able to continue that strategy.

“If you’re going from someone with very specific investment knowledge and they’re delivering it in a precise way, that’s very difficult to replicate,” said Joseph Duran, chief executive and founder of United Capital, which has $8 billion in assets. “That may be very difficult to implement in the new environment. And if the adviser isn’t staying, you have to think about it.”

Mr. Duran said he structured United Capital around an investment process that was less idiosyncratic. “When advisers join us, we say we want all of you to stay for as long as you want to stay,” he said. “But what you’re going to be doing is less of a relationship-based model and more of a process-based model so someone can come in and take over when you’re not here.”

Clients should also feel free to ask about how their personal financial information was used in the transition. “It’s not an unreasonable question to ask if your adviser has signed with a new firm: What information have you disclosed about me or my account to that new firm?” Mr. Horan said. It should have been kept confidential.

Mr. Glickenhaus said he planned to spend six months helping with the transition and then devote more time to his hobbies — brain research and classical music. “The second 100 years will be quite different,” he said.

As for the septuagenarian Mr. Schwartz, he sounds as if he is just hitting his stride. “I work 12 to 15 hours a day every day, very often including weekends,” he said. “As long as my health holds out and my interest remains focused, this continues to be a very exciting business.” So much for retirement planning.

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Marvin Schwartz, the team leader of six advisers called the Straus Group at Neuberger Berman, bought an advisory firm and helped the previous owner's clients transition.

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