Registered Rep. | TheNextMove®
News and Views on
Career Planning for Advisors.

Switching Firms: Lessons Learned Along the Way

By Cheryl Munk

February 25, 2010

Hindsight is 20/20, and when a rep changes jobs or switches broker/dealers, there's usually some room for improvement. In this article, we'll share a few of those "lessons learned" with you, in the hopes that you'll be able to avoid the same mistakes.

Be proactive

Don't be afraid to network and take a proactive approach to job searching. For example, when Rich Avdoyan, a financial advisor with William Tell, an independent broker/dealer in Albany, N.Y., was job hunting, he initially thought posting his resume on Monster.com and looking through print ads would be sufficient. But he was looking for something small and personal and he only received calls from large firms trying to appeal to the masses.

So Avdoyan decided to contact William Tell, a company he had read about in Registered Rep., and the rest is history. "Sitting back and just posting your resume will only get you so far," he says.

Get a good lawyer

If you're switching firms there are so many nuances to deal with, you don't want to be caught unaware. Many advisors, for example, haven't carefully read all the documents they've signed over the years and they don't know exactly what they're on the hook for to their firm. Also, you also don't want to run the risk of being cut loose by the new firm for problems you didn't realize existed.

Richard Roth, a civil litigation and enforcement-defense attorney with the Roth Law Firm in New York, represented one advisor, for example, who initially didn't go to a lawyer and didn't read his agreements. Within a week's time, this advisor had a temporary restraining order against him, which said he couldn't solicit the business he had while at the firm. The advisor also got hit with major legal fees for litigation and securities arbitration.

Also make sure you're aware what types of information you can and cannot take when you leave and whether the firm you are leaving and the one you are joining are part of the broker protocol.

"If you don't have counsel and you don't understand what you're getting into and you don't know what you've signed, it's an absolute nightmare," says Roth, adding that legal fees can easily exceed $100,000.

Be prepared

"You can never be too prepared in advance of your move," says Randal C. Langdon, president of Lindner Capital Advisors Inc., Marietta, Ga. "If you don't put the homework in ahead of time to learn the new paperwork, technology, and processes, you're going to have that much more of a difficult and uphill battle," he says.

It's also important to talk to others who have recently joined your new firm so you understand the process. And make sure you designate plenty of time after the move for filling out paperwork, phone calls, face-to-face visits with clients and other administrative tasks that divert time from asset gathering.

"I recommend you stay in your office. You don't move, you don't do anything, and that set me back because it was a lot more than I even imagined," says Joe Appolito, an investment advisor with United Planners Financial Services of America, Palm Desert, Calif., who shortly after joining the firm embarked on a three-week, pre-arranged trip to China.

What's more, you can't just rely on assistants to do the work. "It takes that personal touch," Langdon says.

Use the move as an opportunity to segment clients

Advisors typically have some clients with whom they no longer enjoy working, and a transition offers a great opportunity to clean house. You don't have to fire clients, but you also don't have to aggressively pursue those you don't want to keep, Langdon said.

The move also gives you an opportunity to weed-out commission-based clients if you're planning on moving to a fee only model. Keep in mind, however, that drastically changing your business model during a transition could do more harm than good, according to Langdon of Lindner Capital.

If you try and switch business models at the same time you're dealing with new account documents and more, clients you want to keep tend to get confused and upset, which is never a good thing. "It can be part of a six-month strategy, but at the initial transition, it's moving the client that's most important," Langdon said.

Maintain control

While many firms and custodians offer transition support, it's always in an advisor's best interest to remain on top of things throughout the process.

"You just cannot do enough to make sure everything is absolutely covered," said Rich Arzaga, founder and chief executive of Cornerstone Wealth Management, Inc., an RIA in San Ramon, Calif.

For example, Arzaga, who switched broker/dealers twice last year, didn't realize after the first move that his clients' 401(k) accounts didn't transfer as anticipated. He discovered the problem after the second broker/dealer change when clients were getting ready to fund their contributions for the previous year.

Through this and other transfer problems, Arzaga learned how important it is to check, check and check again. "It's okay to be paranoid. I used to think it was a bad word, but now I realize it's a very important standard. You just can't trust that everything will be done right."

Don’t overhire

When Justin Krane joined Cambridge Investment Research in Fairfield, Iowa, he had a full-time assistant, but he discovered after the first several months that he really only needed someone part-time. His advice is to hire as you need, because you’ll save on office space and have a better idea as time goes by on what your true needs are.

Be realistic about the costs

Regardless of the firm you are going to, make sure you have a realistic expectation about the costs associated with the move. This is particularly important if you are looking to start your own RIA. If you choose to join an established RIA, your costs will be lower because you'll be tapping into existing infrastructure.

The Roth Law Firm, PLLC
295 Madison Avenue, Floor 22
New York, NY (212) 542-8882
www.rrothlaw.com