boomer MARKET ADVISOR

# Finding the retirement planning sweet spot

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It's all blowing up; Which is good and bad for the independent broker/dealer space. An unprecedented recruiting environment, fee-based assets in crisis, boomer clients freaking – ***It's all a bit much***. But not for Kovack Securities. What are they doing right when so many others are getting it wrong? And what does it mean for their boomer advisor partners?

The landscape for independent boutique broker/dealers like Kovack Securities is, well – as COO Brian Kovack puts it – extremely competitive. Not surprising, given the shake-up several larger b/ds are seeing, and the increasing number of reps and advisors looking for a more grounded firm.

Still, the changing advisory landscape hasn't completely rattled the ideology of the Fort Lauderdale-based broker/dealer, a firm with less than 300 advisors that's rooted on a direct, advisor-to-management support philosophy.

Chairman Ronald Kovack founded Kovack Securities Inc. with his son Brian and began operations in 1998, having already spent almost 30 years at big houses like Merrill Lynch and Prudential Securities.

President Brian Kovack, possessing a roster of accreditations, – as to be expected, considering who his dad is – runs the day-to-day operations. Following in Ron's footsteps, Brian was naturally inclined to go into finance at the University of Florida, where he was also (no doubt from the photos) a linebacker.

Upon Ron's invitation to start an independent firm, Brian decided it best to further his education. He then jointly acquired his master's in accounting and Juris Doctor degree. Following a highly publicized election to the NASD Board (the first time ever a father and son team has held positions there), the two have remained on the regulatory front, with recent appointments to the FINRA's Interim Board (Brian) and District 7 Committee (Ron).

Their advocacy on compliance issues, combined with their size advantage, in-house RIA platform, leveraged technology and fee-based UMA integration have created a perfect storm for a firm that might now be best positioned to attract advisors in the retirement planning space, along with their boomer clients.

Poised to take over the Kovack legacy, Brian Kovack spoke with *Boomer Market Advisor* about the firm's unique position and how they're dealing with this highly transitional period.

***Boomer Market Advisor:* Just how competitive is it right now for independent broker/dealers?**
**Brian Kovack:** It's extremely competitive. A lot of the larger [independent broker/dealers] are being sold. And they are being sold based on (typically) the parent corporation looking at a non-profitable entity with one that's marginally profitable. It's also competitive for the smaller firms who don't necessarily have the critical mass to be profitable as well.

***BMA:* What's been the trend for transitioning wirehouse reps, what have you been seeing?**
**BK:** The trend has increased. Particularly in lieu of the current conditions of the larger firms, the failures that we've seen, has caused a lot of the wirehouse reps to re-evaluate their decision to remain at those companies. We're seeing that the cost of starting and breaking away from their current company is lower and is at a point where you can acquire good technology from an independent broker/dealer, receive high payouts and overcome the technology challenges of starting your own company. Technology has leveled the playing field.

***BMA:* So what's your firm's size advantage? What's giving you leverage in such a competitive environment?**
**BK:** I think that the midsize firm (where we are) is a perfect spot right now. We have the critical mass. We're covering expenses and are profitable.

As a midsize, we don't have the management philosophy that we're an arrogant master with servant rep relationships that often exist in the big firms. [Our] firm allows [us] to know each and every advisor, and know them by name. Strategically the firm has an advantage of having good support while maintaining good technology, specifically in the area of our RIA Kovack Advisors, a sister company to Kovack Securities. We've chosen to bring our RIA platform in-house, and that's allowed us to reduce our costs. It's one less hand in the cookie jar and that allows us to be a lot more competitive on the fee-based side.

***BMA:*** **What's the dynamic of the father-son team? Who does what on a day-to-day basis?**
**BK:** My dad, Ron, does the strategic planning and I do everything else. My title is president, my dad is chairman. Day-to-day, everything soup to nuts comes to me. Think of it as the macro and the micro. He's the strategic planner and I'm responsible for everything else.

***BMA:*** **Why do you believe Kovack Securities grew as fast as it did?**
**BK:** Since the firm started the challenges have always been three-fold: It is to avoid the regulatory risk of not following the rules (the risk of getting sued); Client litigation; and the operational risk. So avoiding those risks was the first thing that we had to do.

One other challenge was of reaching critical mass on revenue. And when the critical mass on revenue starts exceeding your expenses, you become profitable. That really is ultimately what we needed to accomplish early on and it's a function primarily of rep count. The reason the firm grew is by providing exceptional service to our advisors and their clients.

We also have a very good reputation in the South Florida area. The firm grew early on [because] we found a good recruiter that we brought in-house, and that was a very important step for us, as well as adding a good management team. I think one of the reasons we grew very fast is also based on our Biblical beliefs. My father and I are Protestant and we have always believed in Biblical principles of giving away monies to charitable organizations. We've tithed 10 percent of the firm's net to 501(c)(3) public charities as well as to 509(a)(1) private organizations.

***BMA:*** **Does that play into what you want the image of the firm to be – of doing the "right thing"?**
**BK:** The right thing is a decision-making process that represents the ideology of the management philosophy. It's a reflection really of the mission statement, which is to help our advisors so that they can help their clients meet their needs, goals and objectives.

BMA: **Overall, what makes you unique versus other independent broker/dealers?**

**BK:** I believe the multiple clearing that we offer along with the RIA platform is the real value proposition. I think a lot of folks would agree with the transition of wealth baby boomers are getting ready and are going to do in the very short to mid-term – that coupled with the increased regulatory standards – will create a uniform regimen that all advisors and reps will fall under. That along with the increased technology and the market shake-up at the wirehouse will cause the reps to leave and to transition to the independent world. And they're going to transition to the fee-based platforms. Specifically, in our opinion, the UMA. The real value proposition that our firm offers is a high-end, low-cost fee-based platform that we've built in-house.

*BMA:* **Being someone who is on the compliance front, what are you seeing going on right now with regulation?**

**BK:** The regulatory side [is] currently fragmented and turf-protected. The expertise, depending upon regulatory entity, ranges from extremely competent to completely incompetent. And so it doesn't take but for 10 minutes on any given day to read the headlines and know that change is needed.

But that change, I believe, will be positive if proposed and enacted thoughtfully. I don't think it's a shock to say we're going to see fiduciary standards potentially for all advisors and representatives with one regulatory agency managing the supervision of those individuals. I think we're going to see a lot of hedge fund reform.

From my viewpoint I think that there needs to be some changes with respect to the RIA business. The independent broker/dealer rules and regulations are very comprehensive and sometimes onerous.

*BMA:* **How can broker/dealers help advisors retain baby boomer clients who are struggling to make up their assets?**

**BK:** When the market is in difficult times clients are obviously going to be upset or disappointed with returns. Communication is paramount to reassure them that the market is going to come back. If there is ever a time to reach out to [clients], it's now. And as such, we remind advisors that communication is the best methodology to keep clients calm and that investing in equities, economically, is for the long run. If [boomer clients] are properly allocated and have liquidity for short term, they're going to be just fine.

***BMA:*** **What are the bigger b/d's doing wrong that you've managed to get right?**
**BK:** What we've seen is a lot of large independent b/d's outsource – you pay the custodian, you pay the money manager, you pay that third-party for their services. If you can extract one of those payments and use the synergy of the broker/dealer back office and you can bring it in-house and offer the same high-end front-end that they're used to, then you can really provide a value proposition. You could say 35 to 40 basis points is what we can save.

For an independent broker/dealer right now, call them, "XYZ large independent b/d," off-the-shelf pricing for a unified managed account is about 115 basis points. Wirehouse reps are being charged around 100, so as they look to move their going to 100 to 115. Although they will get a higher payout, there's a higher cost to the platform. Our shop is able to come in at 80, 85 basis points less than the platform fees that are being charged now at the wirehouse and with a two to three times higher payout.

That's a serious competitive advantage because payouts are done – payouts are over, their gone, the payout war is done. Everybody pays the same. Expenses are done. All the expenses, that is to say E&O, is all about the same. Ticket charges are about the same. Miscellaneous registration is all about the same. And so, as we have one regulator coming along and creating a fiduciary standard, [and as] you have more sophisticated clients that's more involved and wanting better management of their account you're going to see advisors from the wirehouse wanting to move to the independent channel and use quality high-tech tools to manage their client account via UMA accounts and wanting low-cost. We feel like that is our sweet spot.