FINANCIAL ADVISOR IQ

Why Advisors Are Flocking to Privately-Owned Firms

By Mrinalini Krishna April 1, 2019

"I think sometimes when you're in a publicly-traded company, the desire for shareholder returns can sometimes make advisors feel a little less certain about where the firm is going," **Katherine Mauzy** , principal of Financial Advisor Talent Acquisition at Edward Jones , told FA-IQ in February. Edward Jones operates on a partnership model.

And that uncertainty is driving advisors to consider opportunities that give them a perception of keeping their interests safe — at privately-held firms.

Advisors tell **Jodie Papike** , president of recruiting firm **Cross-Search** , that they would like to move to a privately-held firm because they "feel that if they know the owners of the company, that they're going to treat them right, and they're going to make decisions based on [the advisor's] needs."

As a privately-held organization, his firm is appealing to advisors, says **Brian Kovack** , co-founder and president of **Kovack Securities** , a Fort Lauderdale, Fla.-based mid-sized independent broker-dealer.

For publicly-traded firms, there's shareholder pressure to "squeeze revenue and cut expenses to create higher EBITDA," says Kovack, who says being a privately-owned company absolves them of such pressures.

"We're focused on the long-term, treating advisors the way we would want to be treated and most importantly looking out for their customers," says Kovack.

On their part, large stock-exchange listed firms do try and soothe advisor anxiety.

"We invite all interested financial advisors to our monthly FA due diligence meetings at which they can meet directly with our most senior leaders for transparent, open dialogue and learn about the advantages of size and scale in a company proud of its regional roots," Wells Fargo told FA-IQ.

Papike says making a transition to another firm is a "complex process" for advisors and involves a lot of questions about why they are unhappy with their present situation and how a new firm can fix those "pain points."

She says one of the top reasons advisors come to her is because they are unhappy with the service they receive from their current firm. In an environment of mergers and acquisitions of broker-dealer firms, long-term stability is also a concern.

"Their perception is that if they go to a privately-held firm, they're somehow going to get better service, or they won't be sold again, there'll be long-term stability. So, it's not just 'Oh, I want a privately-held firm' -- it's for a purpose, it's to make sure that the structure will stay longer-term in their mind, or that they'll get better service," Papike says.

Friedman agrees. "You lose the personalized service when you get into publicly-traded, corporate firms," says Freidman.

Kovack owns 45% of his firm while his father owns the remaining 55%. He says with succession planning, his father's ownership will eventually make its way to him and he plans to remain in the business. "We're not for sale. We will remain privately owned," Kovack says.

But advisors needn't blindly opt for privately-owned companies, warn others. The "devil is in the details," says **Danny Sarch** , president of White Plains, N.Y.-based Leitner Sarch Consultants .