WHAT IS "THE PROTOCOL"?

Tom Sedoric and Casey Snyder

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Imagine a sports team with aging "stars" that are hard to replace, fans who invest their hard-earned money and deserve the best, and team owners having trouble adapting to a new game plan and focused more on their own bottom line than providing the best tools and best talent for their fans.

This sounds like a losing proposition in the long run, doesn't it?

We intend for this primer to help explain some of the changes happening in our profession and how it may impact clients of financial services firms. To use the sports analogy again, this could appear to be "inside baseball" but it's important to share our view of the situation at hand.

It has to do with the Protocol for Broker Recruiting, an important industry agreement that has been around since 2004 between major financial institutions. Stripped down to its basic ingredients, the agreement is aimed at helping smooth a financial advisor's transition from one firm to another amid a fierce competition for talent. The protocol sets standards as to how much client information an advisor can take with them when they transition, with the idea that it paves the way for less litigation between firms. The protocol was meant to balance the interests of firms, advisers, and, in our view most important of all, the investors who have entrusted their hard-earned money to their advisors and the firms they represent.

To be sure, it's an imperfect system but the goal was to provide some stability in a market where successful (and sometimes unscrupulous) advisors could boost their own portfolio with large bonuses by jumping from one firm to another (it's the industry version of the seven-year itch). And there are more than 1,500 signatories to the protocol, many of whom are small, independent firms that have gobbled up talent and leveraged technology to ever greater degrees. A secondary benefit to the protocol was to reduce litigation costs for some of the largest investment firms.

As you may or may not have heard, two of the large, traditional brokerage firms (also known as "wirehouses") abandoned the protocol in the past few months.

The first was Morgan Stanley in late October followed by UBS in November. These two firms employ some 23,000 advisors and both made similar statements about lessening recruiting and focusing on current advisors and their clients. Morgan Stanley added in its Oct. 30 announcement that the protocol was “replete with opportunities for gamesmanship and loopholes” and “no longer sustainable.” Now, what about the other two major financial firms? As we write this, Bank of America Merrill Lynch said it would remain in the protocol and Wells Fargo Advisors has yet to announce its future course. Though the large firms have only about 40 percent of the wealth management talent pool, according to a recent Financial Advisor story, the big four firms control about $4 trillion of the $6.5 trillion RIA market. Their clout, though diminishing, is still considerable.

What does this mean for The Sedoric Group?

We hope nothing. As you may or may not know, Tom has not jumped ship from one firm to another during his 33-year career though he has been offered significant financial incentives to do so. In fact, as parent firms were bought and sold over the past two decades, The Sedoric Group has chosen stability for its clients over potential personal windfalls.

We do understand why the large firms are making this move to abandon the protocol. Part of it has to do with the generational divide in the industry. There are simply not enough talented young advisors to replace the “aging stars” of the industry. These firms want to make it harder for advisors to leave their team to perhaps a leaner, more innovative operation or to open up their own shop.

Like many industries, technology has been the great equalizer. The trend towards independent affiliations has only strengthened in recent years as smaller firms utilize technology to customize solutions catered to their own unique client base.

Lastly, there’s a bromide about the plight of firms who invest time, money and effort into nurturing talent and then watching that talent leave for greener pastures. Capitalism is sometimes imperfect. Loyalty can be fostered and encouraged in a proper corporate culture - but at what cost? The corollary to this is: what if the company didn’t adequately train talent and these folks stayed?

The Sedoric Group has embraced the protocol which, like anything political, requires compromise. From our perspective, the importance of being associated with a protocol firm has always been about having the freedom and flexibility to do what is in the best interests of our clients. The protocol encourages competition and pushes each firm to evolve. Abandoning the protocol makes the statement that the firm’s interests come before the best interests of advisors and the clients they serve.

In the short term, firms can attempt to lock in their best or even mediocre advisors. In the long term, we believe that doing so is not in the best interests of clients. No matter what you call it, atrophy is a losing game plan. We believe it is important to keep clients informed of changes going on around them and in our profession. To quote the legendary Sy Syms "an educated consumer is our best customer".

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