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Recruiting tug of war

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Within the individual brokerage firms, there is an ongoing tug of war going on. On one side are Branch Managers who are put under pressure to hire. The pressure comes in the form of a Boss, who is also under pressure for his division or region, to deliver head count numbers and bring in new assets.

The Boss says: “If you want to keep your job, you better hire big producers.” And that's because the Boss' Boss says: "If you want to keep your job, you better hire big producers.” And so it goes. (Note to all: The Headhunter likes this).

However, elsewhere within the organization, on the other side of the tug of war rope, stand those who are ensuring that corporate dollars are not wasted on buying bad businesses and bad people? Brokerage firms have an elaborate vetting process which is designed to keep the hiring manager out of trouble. These checks and balances include a drug test, and an elaborate series of questions designed to determine the level of risk involved in that one Advisor's business. Those questions include: Are there international accounts in the book? Are there any concentrated equity positions? What percentage of the business is fee based? How did the Advisor bring in accounts? Are they inherited from those who had left or are they accounts that are truly attached to the Advisor? Are there past compliance problems or criminal issues on the CRD that need to be explained?

Note to Advisor seeking a new home: If you're not prepared to undergo this level of scrutiny and more, then don't bother interviewing.

Considering how many Advisors moved in the last year and changed for big money, it's not surprising to see the level of scrutiny raised; some of the “shotgun marriages” in 2008 and 2009 proved disastrous to the hiring firm when the recruit was unable to move his or her business.

One of the criteria that the Brokerage Firms also use when evaluating a book is the relationship between Assets under management (AUM) and the Advisor's trailing twelve months' gross commissions (TTMG). If the ratio of TTMG (which reflects fees and commissions generated) to AUM exceeds 1%, then the Advisor faces a new level of scrutiny. The ideal candidate is therefore the $1 million producer, or better, who has $100 million or more in assets. However, what if the Advisor charges a typical 1.25% for a pure separately managed account business? Throw in the occasional Annuity commission (typically 4% or greater) and it's not hard to see how 2% could be reached. Hear that? It's the alarms going off within the bureaucracy because that crucial ratio for this recruit is now above 2%!!! Horrors!!!

The Branch Manager is the one spending the most time with the potential recruit. They should have the most weight pulling on that tug of war rope.

Remember: Every Advisor in every branch of every firm is putting the reputation of his or her firm on the line every single day when he or she is talking to clients. The Branch Managers in all of those branches go home every night not knowing if one of those Advisors did something that day that will cost them their jobs sometime down the road. Considering the level of responsibility already given, it makes sense to me to test the managers continually on whether they are doing their due diligence on recruits (as Reagan said: “Trust, but verify.”). Reward them for a job well done; penalize them for when they screw up, but let them do their jobs.