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New Service Aims To Keep Ultra-Wealthy Clients' Money Where It's Well Managed

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A new type of firm, created by financial services veteran Doug Black, is looking to sort the wheat from the chaff when it comes to ultra high net worth wealth management.

Last year Black founded a firm focused singularly on "wealth management match-making": helping very wealthy clients find a financial advisor that's right for them. He can claim plenty of experience in picking wealth management talent, having been responsible for the recruitment, training and development of financial advisors at UBS's private wealth management business in the US in his former career. He went on to become chief operating officer of the Swiss giant's Wealth Management Americas business, from which he retired in March 2010. After an appropriate length of time, he created and launched SpringReef Partners.

Black felt he could apply his background in hiring advisors to "separating out good salesmen from good advisors."

The firm focuses on the $10 million - $50 million marketplace and so far, in under a year of being in business and testing a business model that Black believes is unproven, it has had between 25-30 clients.

Why this service, why now?

When asked what prompted him to take the risk and launch an untried service, Black said that with his experience in the financial services industry he got asked all the time "who should I use and who should I trust?" He thinks the fact this question is so commonplace points to a fundamental flaw in the wealth management business: it is an industry based on trust, and yet there are so many instances of that trust being violated.

Over his career Black says he saw "an industry that is completely motivated by sales… People don't get retained for their investment acumen." And this sales culture leads to a bombardment of advertising and marketing that makes it hard for wealthy families to distinguish the reality over matters such as fees, conflicts of interests, and even talent and integrity.

"After '08 this had escalated dramatically, so I thought it was the right time to build a completely un-conflicted business focused exclusively on the investor. I have no relationship with any advisor or firm; it's all fixed-fee up front business."

Furthermore, despite the ongoing lawsuits that have emerged over miss-selling and despite regulatory heat, Doug is no optimist that the industry will be cured of its ills completely. He points to "a parade of events" throughout the 80s, 90s and 00s of the financial services industry "stepping on its own toes" by ruining trust.

"The industry recognizes it's under scrutiny but I'd be hard-pressed to believe the conflicts of interest have been really resolved."

He is not, however, scathing across the board by any means. It's not that there aren't any good wealth managers; it's that they're hard to find if you don't know what you're looking for. "With around 336,000 advisors, not all financial advisors are really exceptional," he says. "Less than 5 per cent of financial advisors are truly qualified to handle the complex needs of ultra high net worth individuals and families, and it takes due diligence to determine the right advisor for the right client."

He distinguishes between different models (broker-dealer, RIA, private bank and trust) and says each comes with different advantages and risks. With the RIA model the ADV form Part II bring "great transparency" says Black, while the private banking model is "pretty good around their own pricing" but perhaps not so clear on embedded costs, while with the B-D model there is almost total "randomness" around pricing.

However, it's about a lot more than picking the right model. When matching an advisor he says "there are two things that are really important to us: is the advisor a quality advisor, and is that firm and advisor a right match?" He recognizes many advisors have great strengths, but "you can be great at something irrelevant."

His process reviews clients' background, their financial positions and values, what's important to them – such as intergenerational and philanthropic issues – and what they're looking for – such as a niche service versus end-to-end wealth management. He also goes into topics such as their views on active versus passive, how involved they want to be, and what their reporting requirements are. All in all, the first meeting tends to last around two hours.

SpringReef hones in on the right business model, then uses a client's criteria to "cast a net," before doing further research and due diligence to slim down the potential firms to a small handful. It recommends these to clients then sits in on prospecting meetings between each of the selection group and the client. "I want to make sure the stuff they're telling my client is the same as what they tell me," says Black. After the meetings, the firm provides a final summary to the client.

What has been a surprise to Black, who anticipated the service would be used on a one-off basis by clients, is that around one-third have retained him as an advisor. His firm never manages any money, but clients have asked him to stay on as someone who can sit in on financial meetings with them, and help them with issues like driving pricing.

Simple steps to a better financial future

Of course, Black has a list of key pitfalls to picking a financial advisor that he can reel off at a moment's notice. Here they are:

1) Having no process. Black says that after a "lifetime spent accumulating wealth," wealthy individuals then often talk to a friend or relative and almost randomly choose an advisor.

2) Not demanding fiduciary behavior. He says "fiduciary behavior" (as opposed to a legal standard) can occur across all business models, and clients need to have an agreement in place regarding how their advisor will treat them.

3) Believing "bigger is better". "Bigger doesn't mean better, and it certainly doesn't mean the right fit with clients."

4) Believing everything they hear. "It's fine to listen but then you've got to match it up" with research and evidence, says Black.

5) Setting expectations correctly. Often clients will have "the first meeting with the [company] big guns then never see them again," says Black. Most of the complaints he gets relate to service failures as opposed to performance. He recommends laying out early on how often client meetings and contact will take place, and checking both parties are clear on what the expectations are.

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