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THE DOW JONES BUSINESS AND FINANCIAL WEEKLY www.barrons.com JUNE 3, 2022

# Doug Black: Matchmaker Between Ultrawealthy Clients and Advisors

**ADVISOR PRACTICE MANAGEMENT | ADVISOR Q&A**

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Illustration by Kate Copeland

If you're an advisory firm that claims to serve ultrahigh-net-worth clients, but in reality most of your accounts are below that line, Doug Black won't be referring his clients to you. "We don't want to spend time with firms that are going to learn on our clients' money," explains Black, a former UBS executive who founded SpringReef, an advisor search firm for very wealthy families and institutions, 12 years ago. He describes himself as a fiduciary advocate for families with $25 million and up and endowments and foundations with between $50 million and $500 million.

Speaking with Barron's Advisor, Black reveals what the most desirable and discerning clients want in a firm. Investment performance is just one part of it. After all, a firm might owe its good track record to luck, Black says, adding that firms wanting to serve SpringReef's clients should be ready to fill out the mother of all questionnaires. But in the end, says Black, advisors often get the nod due to a factor that can't be quantified.

**Before founding SpringReef, you had a long career in wealth management. How did you break into the business?**

I started at Merrill Lynch in 1980 as an organizational psychologist. It didn't take me long to figure out that financial advisors were having more fun and making more money than psychologists. So I became a financial advisor for Merrill Lynch in Washington, D.C., and was there until 1984.

**You went on to hold a series of management positions on Wall Street, ending up as UBS's chief operating officer for U.S. private wealth management. Tell us why you ultimately left.**

I retired in 2010 to become an independent, unbiased advocate, taking what I'd learned from the industry over 30 years—the inside baseball if you will—and applying it solely to help private clients, and ultimately endowments and foundations, make their decisions. I'd been in enough meetings where I knew that the most talented advisor wasn't on the field. And I felt like clients who'd spent significant years building large amounts of wealth deserved the best.

We knew how to ask hard questions and do good due diligence. I thought people would pay a fair and reasonable hourly rate to get solid advice and have somebody work as a partner and advocate on their behalf. Today we're a successful partner/advocate consultancy. We've worked in the past decade with 190-plus clients, representing about $15 billion in assets. We've done over 110 searches for wealthy families, endowments, and foundations. Our average client has about $75 million on the private client side and $125 million on the endowment and foundation side.

**Do you tend to recommend advisors from a specific channel to your clients?**

We do searches that land clients in large broker-dealers, private bank and trusts, and registered investment advisors. We know the models extremely well.

Let's talk about private clients. Many of the large brokerage firms have private wealth organizations. If we think a firm is a potential fit, or the client wants to consider them, we reach out to the senior leadership. Then those organizations talk about our client. So it's not the favorite advisor or the first advisor, it's leadership's point of view on who is the best advisor to compete in that circumstance.

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In private bank and trust, we know all the organizations that have clients who look and feel like ours. Registered investment advisors are more challenging, because there are so many of them, but then again, they have the most, and cleanest, disclosure.

**Do you wind up sending multiple clients to the same advisor?**

In the 110 searches we've done, I think we've ended up with 55 different firms and advisors. So it's not like we have a shortlist of two or three. It's a very customized process.

**How does the search process work?**

Once the client retains us, we want to understand everything we can about their experience, what they're trying to accomplish, their level of wealth, their goals, their investment acumen, etc. And then we educate them on the business: Here are the three business models—large broker-dealers, private banks and trusts, and registered investment advisors. Here are the strengths and limitations of each business model.

We have a collaborative dialogue with the client about which model or models are the potential best fit and whether there are models we want to exclude. And then we come back to the client with recommendations based on our due diligence of firms we think are a potential fit. That's usually four firms. The client generally selects two. We tell those two everything about the client, allow them to ask a series of questions, and then expect them to provide a very detailed and customized proposal.

We're big proponents of working with firms that have clients—and not just one or two clients—who look and feel just like our clients. If our client has $100 million, then we want to work with organizations that have clients with $100 million. So we look at their mean and median client because that's going to dictate the types of services they have and the solution set that they employ. We don't want to spend time with firms that are going to learn on our clients' money.

We do the same thing for endowments and foundations. If we have a $200 million endowment or foundation, and 5% of your business is endowments and foundations, and your average is $10 million, we're not going to spend time with you. It's not an effective fit.

We also work with each of the firms to identify and match the specific characteristics to the needs of the client. If the client really needs planning, for example; if the client really needs investment advice, or both; if the client is focused on private equity; if the client is focused on passive solutions. We know the characteristics of these firms, and we'll try to match them with the characteristics of our clients. We put firms through a very disciplined, difficult, comprehensive due diligence process. And we ask for a lot of data. If you can't provide that data, you're never going to get a chance to be in front of our client.

**Can you talk about how investment capabilities figure into your searches?**

You have to be able to demonstrate that you've added value, for real clients, for the risk that they've taken in their portfolio. So we require performance data for existing clients. It comes in every format possible: model portfolios, composites, individual client data. But we will never put an advisor in front of a client unless they've been able to demonstrate that they've added value relative to the simplest benchmark that matches that degree of risk for a specific period of time.

Performance can be hard to get to because firms report in so many different ways. But we dig and dig and dig, and have gotten very good at this. We think we have pretty good methodologies to arrive at a conclusion as to whether, for real clients, advisors have historically been able to add value.

**What are a couple of other factors that can disqualify a firm or practice?**

Not having a clean regulatory record. And client attrition is a good measure of client satisfaction and client performance. If there's high attrition, there's generally a problem in either service or performance.

Another is if their fees are out of line with industry standards. That's based on what we know about the marketplace, given this level of assets, given the complexity of the client, given the sophistication of the solutions. If they're 20 basis points higher than a peer group of five or six firms that look and feel like them, that offer the same services equally well, that's disqualifying.

We also look at something called sales gap. It won't surprise you to learn that in certain circumstances in this business, what gets presented in the sales presentation is different from what surfaces later in either regulatory documents or in the due diligence process. A gap between those two is disqualifying in our view.

**How decisive is investment performance when clients are looking at the short list of candidates?**

We [grade firms] on 50-point scale, with six factors and 20-plus dimensions inside those factors. Historical investment performance is 10 of that 50. You can get great investment performance by luck, and we think a lot of other things are also important. Equally important is the depth of the investment process and capabilities, the talent of the team, the experience of the team, the depth and breadth of the research function in the organization.

By the way, we feel like we've done our job when clients have difficulty making a decision at the end of the final presentations. You never want to back a client into one option. And frankly, it often comes down to kind of the personal fit between the advisor and the client.

I would bet that more than half of the final decisions, assuming that all other things are equal, are less about the performance and more about the fit of the team and the firm.

**Do many candidates score a perfect 50 on your evaluation?**

The best score anybody's ever gotten on our due diligence is 47. We're hard graders. The vast majority of firms come in under our recommended rating of 40. We tell clients that there's never a perfect answer; it's always a balance between the things that are great and the things that are not so great.

**Is there a way that firms successfully bring themselves to your attention, or is it a matter of "Don't call us we'll call you"?**

Let me phrase it this way: In the markets where we work—that is, $50 million to $500 million endowments and foundations, and

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$25 million to $1 billion families—we know the vast majority of firms that participate and are really exceptional in those arenas. We have a really good database and a really good understanding of who's who in the marketplace.

Having said that, there are spinouts, there are folks going independent, there are mergers, there are new firms popping up. We're always open to hearing from firms that work in our markets. But if your average client is $5 million, and our minimum is $25 million and our average is $95 million, we're not going to spend time getting to know your organization, no matter how good it is. It's not a reflection of the quality of what you do. It's a reflection of who you focus those qualities on.

**Do you have many competitors?**

There are very capable competitors in the nonprofit space that run searches, RFPs [request for proposals] primarily, and that know what they're doing. In the private client sector, a bunch of firms and people nibble around the edges of what we do. But we don't think we have a significant competitor. And by that I mean, one, you have to be a registered investment advisor. You can't come at this, recommending advisors to people, from any other way. In order to recommend an advisor, you need to be a registered investment advisor from a regulatory standpoint. We're a fiduciary. And we want clients to see our [Form] ADV, we want them to understand that our sole source of revenue is from our clients: We have no financial relationship with any organization that we recommend, period.

**What is your hourly rate?**

I charge $900 an hour, and Anna [Bronstein, SpringReef's chief operating officer] charges $350 an hour. A search is generally around $25,000, and evaluations are generally around $20,000. For an endowment or foundation, it's usually about a $45,000 or $50,000 piece of work.

**Barron's Advisor's readers are always looking for ideas about how to raise their games. In your experience, what do the best teams have in common?**

There are hundreds of thousands of advisors. My view is that a bunch of them wake up every day thinking about how to apply their skill set for the best benefit of the client. Unfortunately, a bunch of them wake up every day trying to figure out how they can take client assets and make them benefit the advisor. And the guys that wake up every day, regardless of model, and try and do the best thing they can for the client are the people that are going to be successful.

The best advisors are also transparent. There's a lot of smoke and mirrors in the business, and being transparent about your conflicts, your fees, your performance, and the strengths and weaknesses of your team or your firm, I think, separates people.

**Thanks, Doug.**

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