



FROM THE HEADHUNTER

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Two dentists drill down into bonus-disclosure controversy

Or, a little transparency never hurt anyone

By Danny Sarch

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So the commentary window on Finra's proposal to mandate that departing advisers inform their clients about incentives to change firms closed this past Monday. As time has passed since the initial brouhaha surrounding this proposal, I have some additional thoughts:

1. The firms who are either unwilling or unable to give any type of upfront money are beside themselves with glee in the hope that disclosure will slow down or do away with deals altogether.
2. Some advisers as well as some of my competitors oppose the measure either out of outrage (“too much disclosure, too much regulation, my compensation is none of your business”) or just plain fear (“NO MORE DEALS = NO MORE BUSINESS”).
3. In a world where the demand for quality advisers at every production level outstrips the supply for the foreseeable future, upfront money is unlikely to go away on its own.
4. The bridge between disclosures of deals leading towards deals going away is therefore speculative and tenuous.
5. The more sophisticated the clientele of a given adviser, the less he or she is alarmed by the idea of disclosure. In other words, higher net worth clients are more likely than lower net worth clients to understand the true economics of what upfront money deals entail.

I met socially with a couple of dentists who own their own practices this past weekend. Bernie was familiar with the debate about disclosure and did not like the idea that “Wall Street fat cats would get fatter.” Then we had the following dialogue:

“Those guys already make too much money.”

“What they make is purely objective and based upon the business that they do themselves. They only eat what they kill. Do you have a trusted adviser?”

“Yeah, I do. “

“If he moved and explained to you that it was as good or better for you at the new firm, would you follow him?”

“Yes, but he shouldn't make such a huge signing bonus.”

“Do you plan on selling your practice one day and do you begrudge any other practitioners who make as much money as they can by selling and then transitioning their practice?”

“Yes, I do...and no, I don't resent anybody for making what they can.”

“Are you aware that the bonuses are NOT employment contracts, and in fact are forgiven over the course of nine years? Advisers can still be fired and then they would have to give the money back.”

“So a million dollar bonus is really just \$111,000 ish per year for 9 years? That doesn't seem like that much money.”

“Correct. And the Adviser immediately has everyone else in his or her office calling their clients in an attempt to keep them at their old firm. Picture that scene from the movie Jerry Maguire .”

Thoughtful silence.

“I guess I would be glad that someone else thinks my adviser is worth paying that much money. I'm not that happy with his firm anyway. Can I ask him to call you?”

Sarch smiles.

“Absolutely.”

Part 2 of “When your firm costs you business” will appear next week.