Transcription details:

|  |  |
| --- | --- |
| Host: | Bill Coppel, First Clearing Chief Client Growth Officer |
| Guest: | Robb Baldwin, President and CEO of TradePMR |

Transcription results:

|  |  |
| --- | --- |
| Intro | Welcome to The Next Frontier, where we examine what the role of the financial advisor will be in a world where we are living longer, more tech-reliant, and bombarded with information 24/7 as we navigate constant uncertainty and accelerating change. Our mission is to spark new conversations that explore the future of advice by rethinking the value we deliver. Join us as we look at the evolving advice business and explore the opportunities that lie ahead for an industry in transition. It's time for a new conversation. Are you ready to weigh in? |
| BILL COPPEL | Hi, this is Bill Coppel, and welcome to The Next Frontier. In the evolving advice business, one thing hasn't changed for RIAs, and that's the power of relationships. Relationships with our clients, of course, but also the relationship with our custodian. With the unbundling of the value chain, independent advisors have access to an array of technologies that can drive up value, drive down costs, and create better outcomes for their clients. And while fintech has made it easier for RIAs to start and run their businesses, the scale of some custodians can begin to eat away at their ability to provide real service. Ultimately, RIAs are in the service business, and their ability to help clients discover what really matters and then achieve it depends, in a large part, on how well they are served by their custodians. Our guest, Robb Baldwin, president and CEO of TradePMR, has been on both sides of the service equation and will share with us what he sees happening in the RIA space today. Robb is founder, president, and CEO of TradePMR, a growth-minded, service-oriented technology and custodial services firm built by RIAs for RIAs. He began his career as a financial advisor and became a fee-only advisor in the 1990s. After a problematic transition when his custodian was acquired, Robb knew that advisors and their clients deserved better. He envisioned a custodial services provider focused on combining exceptional service to RIAs with an innovative industry-leading technology platform. |
| BILL COPPEL | In 1998, he founded TradePMR to improve workflow, increase margins, and bring new levels of efficiency to advisors, allowing them to focus more on their clients and less on back-office infrastructure. In 2019, Financial Planning magazine recognized Robb as one of the "20 people who will change wealth management in 2020." Also, in 2019, and again in 2021, TradePMR's Fusion platform was the number-one-rated custodial platform in advisor satisfaction in the annual software survey by Bob Veres and Joel Bruckenstein. I should note that TradePMR and First Clearing have enjoyed a 10-year working relationship. Robb, welcome to The Next Frontier. |
| ROBB BALDWIN | Hey, Bill. It's a pleasure to be here and join you on your podcast. |
| BILL COPPEL | Thank you. We touched on this in the intro a bit, Robb, but you have a very interesting story about how you navigated your career as a financial advisor and what led you to launch TradePMR nearly 25 years ago. Take a moment to tell us a little bit about that. |
| ROBB BALDWIN | Yeah, Bill. Well, I knew I wanted to work in the financial services business since I was really young, almost 12 years old. My grandfather taught me how to read The Wall Street Journal, and I was fascinated. But after starting my career with an internship during college, I received a magazine. And on the cover of that magazine, it said “How to start an RIA.” And I knew right then that breaking away from my current broker-dealer relationship and becoming an RIA was my next move. A few years after I started the RIA, it was announced that my custodian had been acquired by another firm. I kind of trusted that this transition, which included the movement of hundreds of thousands of accounts from numerous RIAs, would be seamless. But overnight, a large portion of my book was totally misplaced and clients were calling saying their statement balances were zero, and you can imagine what that was like. So this merger that was supposed to be a non-event became a huge event for me and my practice. And in hindsight, my mistake was not taking control of this transition on my own terms because it was a transition as all mergers are. So I believe RIAs deserve better, so I set out to build a firm that specialized just in the RIAs really to provide the service levels in the same capacity that I wanted to be served as an RIA. |
| BILL COPPEL | So it was kind of baptism by fire, if you will. And picking a custodian clearly has got to be incredibly important. So let me ask you this question. From what I've observed and read about the industry, most RIAs have multiple custodial relationships, typically, with one of the big three. What's the rationale behind that? And did you go down that path? |
| ROBB BALDWIN | I did. And truly, that was kind of a theme that was created early on by most RIAs was a term called being custodial-agnostic. But what advisors have learned after having so many relationships with varied custodians that it's not very profitable for them, they have to have a lot of staff in place, and so the human capital, the technology expense is enhanced dramatically. So really what we're seeing for the first time in many, many years is that RIAs are choosing to kind of consolidate custodians and choose one over the other so that they can enhance their overall bottom line. |
| BILL COPPEL | So I guess my question is simple. Is this a short-term phenomenon, or can we expect to see more singular custodial relationships going forward? If we expect the trend to continue, what are the drivers of that? |
| ROBB BALDWIN | Yeah. Absolutely. It's all bottom line. And as we see firms look at what happens in the next generation and what happens if they try to sell their practice, etc., all of them are looking to increase the valuation of their firms. And this is the biggest driver of that is consolidating the assets to one custodian and consolidating technology overhead. |
| BILL COPPEL | Got it. And that makes a lot of sense. Let me go to a different aspect of the custodial relationship. So I really want to talk about this notion of service for a moment. Typically, when I think of service, it only becomes an issue in its absence. Our industry has a lot of price pressure on it today, and scale becomes more and more important as a result of that, right? So when I think about scale in the context of service, it becomes interesting. Can service be defined as flawless straight-through processing that frees advisors up from things that traditionally were done manually? |
| ROBB BALDWIN | Yeah. So as we've said, service is one of these terms that gets thrown around the industry and everybody believes they service to a certain level and they sell that service level to RIAs. But what we're missing in most service models is that human interaction when it's necessary. And I believe that that is the consistent difference between being successful as a custodian and not being successful. If you choose the model of just trying to do everything through a straight-through processing without the ability to create a service request and be able to speak to a representative about that service request, who is actually handling that service request, it's very complex because you don't want to reach somebody in a different country who is going to pick up the phone after you've sat on hold for 45 minutes and ask them about a service request that they have no knowledge of and are having to look into a CRM to determine where it went, what happened to it, and whether it was ever even completed or where it got dropped, etc. It's a dissatisfying process for these advisors. So it's allowed a boutique custodian like TradePMR to present their value proposition, their model, which is: If you send us a service request to, say, Susie, Susie can be reached by telephone, follow it up, and determine really what's going on with the service request, and then you can call Susie and say, "Hey, the service request I just sent to you, here are some certain details of that service request that I want to make you cognizant of so that you can handle this and make sure that it gets done by the end of the day." |
| ROBB BALDWIN | And to me, that is such a differentiator because, yes, some service requests can go through on a straight-through processing level, but many take a special, creative approach, and sometimes an advisor has some little nuance that they need to be accomplished. And you have to have that human interaction. And if you have to sit on hold for 45 minutes to make that interaction happen and sometimes wait three to four days for that to be solved, it's not a very good end-consumer experience. |
| BILL COPPEL | I agree. But I want to go back to your roots for a moment. Let's go back 25 years. When you started out, service meant something. How do you define service today in a world dominated by fintech? |
| ROBB BALDWIN | Well, I think fintech is a great service model and a complement to the human interaction because there are basic things that advisors should be able to do on a fintech level where straight-through processing is seamless and that they get to track the service request, see when it got entered, see when it got accomplished, and be able to have that feeling, when they go home at night, that everything that they submitted is completed, whether it be them or their staff. And so to complement the human interaction with fintech, I think, is a natural occurring event. I think where we break away from that is when we say we're going to solve all of our problems with fintech, there's no one going to be available by telephone to be able to assist with that solution, and then you're left with clients holding the bag, not knowing exactly when, where, or what things are in the process. |
| BILL COPPEL | Got it. Talk to me a little bit, Robb, about your perspective. I know that I've heard you say in the past this term boutique custodian, and I think that's how you characterize TradePMR. On the surface, that sounds great, but it's a bit confusing to me because when I hear boutique, I think of a very sophisticated, specialized, hands-on unique relationship in an industry dominated by process. How does the idea of boutique custodian fit into the world of fintech? |
| ROBB BALDWIN | That's a great question. When you have a boutique custodian, they're organized themselves in a way that can profitably serve a billion-dollar practice. And oftentimes, that billion-dollar practice has the same complexity as the larger ten-billion-dollar practices do. So we don't just look at, say, the AUM and say, "We want your business because of your AUM." We look at the AUM, but also at the quality of the accounts and the size of the accounts. The average account size allows us to determine the level of service that the practice is going to need, for example, relationship, we'll create a customized service model. And we can have a 200-million-dollar RIA that's very important to us and very complex because they only manage, say, 10 relationships. |
| BILL COPPEL | That's a great point. And that leads me to my next question, which is if we can break this down from the RIA's perspective, what are some of the key attributes of service they're looking for from a custodian? |
| ROBB BALDWIN | Number one, it's direct access to a relationship manager or, say, a team that knows them personally, so they don't have to go through a call center for assistance. Number two is just understanding their business and their goals. Making it to where these RIAs are not a number, but if you know them and you understand their business models and their goals, it helps you solve their problems and service them better. Number three is be subject matter experts and have your team prepared to be able to handle most of the issues that advisors have and most of the questions that you know are going to come your way. And number four, consistency. You've got to deliver consistent service across the board to these RIAs on a routine basis. And when you do so, you've delivered something that, I think, is exceptional in our space. |
| BILL COPPEL | And it begins to define this notion of boutique custodian. |
| ROBB BALDWIN | Exactly. Yes. |
| BILL COPPEL | Robb, that's a great answer. And that really describes and it begins to formulate the definition of what this boutique relationship can be like. What would be great for our listeners to hear, if you can, is can you share a story or an example of what you just talked about, those four points? |
| ROBB BALDWIN | Yeah. Absolutely. I'll say this as the Brian story because it's an advisor who, around four or five years ago, called me personally. And I remember, truthfully, I was on vacation, I was sitting outside, I knew my family was inside, and I wanted to be able to speak to this individual because they'd been speaking to me for weeks to determine which custodian would be the best platform for them. And as I was discussing these options with this advisor, he said to me, he said, "Well, I think I'm going to go with one of the big three." And he did. And he said, "I just feel like that's the right driver for my business." And so he set off and he went to a different direction. And two years later, he called me and he said, "Robb, are you still answering your phone? Are you still talking to people? Are you still servicing people like you said you did back two years ago?" And I said, "Well, Brian, of course." And he said, "Well, that's great because I'm moving in your direction because I'm really tired of calling call centers. I'm really tired of talking to representatives in a different country who don't know my business and don't understand me." And so he set out and converted over to us. And he's been really, really happy ever since. |
| ROBB BALDWIN | And it's just that, again, understanding their business, becoming subject matter experts to provide great service, providing that consistency for them, that advisors are looking for. They're looking for that relationship. And that Brian story really is just 1 of 100 that I can tell you that are driven into being solved with a great client service boutique approach to providing services to RIAs. And Bill, we do that because we don't service 8,000 RIAs, and that's really not our business model. We feel like we can service about 1,000 to 1,200 advisors and advisor firms efficiently and effectively. So that's really our goal is to get to a certain point and make sure we can continue this service model forever. |
| BILL COPPEL | Robb, that's a great story. And I think it really emphasizes a couple of really important points. One of which is while fintech can create appropriate scale with straight-through processing, what it can't necessarily do is understand a client's business, and I'm not sure that it can provide subject matter expertise. And I think those are two of the four points you made before. And I think the story you told about Brian really begins to illustrate that. Robb, the common belief out there - and I'm beginning to think it's a myth, right? - is that RIAs are reluctant to tell their client where to custody their assets. In fact, I think they think, and are probably convincing themselves, that, "Oh, no, no. We don't want to go down that path. We're going to let the client decide," which really was the catalyst for this multi-custodial relationship. And as I think about one of the bullet points you just made around consistency, it seems to me that multiple custodial relationships can't possibly deliver a consistent client experience because of the nuances and differences between custodians. So the question is this, is it a myth or is it real? Should it be left up to the client where the assets are held, or is it the responsibility for the RIA to guide the client to pick a custodian that the RIA is most comfortable with, where they get the best service to create a better experience? |
| ROBB BALDWIN | Great question. This takes me back to my response earlier about being custodial-agnostic. And advisors who practiced this by saying, hey, we're going to let the clients drive the decision of where they custody their assets did so in the belief that maybe this might enhance their practice, create a differentiator for them versus other RIAs, etc., and also against former wire house reps and other business models. But the truth of the matter is after a lot of research has been derived, we've learned that this practice just is not scalable. It doesn't create a good client experience. It's not profitable for the RIAs because they have to add human capital and have a relationship for each custodian that they have a relationship with because every relationship with a custodian has different nuances in how service requests are needed to be inputted and so forth. So you have a specialist that knows how to do that. So it's very costly to the RIAs. So although all RIAs came from a system whereby they drove their clients to one facility, one wire house, one broker-dealer relationship that they maintained at the time when they were coming up in the business, they've gotten it to-- well, they got into a space of actually allowing clients to choose the relationship. But now we're seeing a turn. And we've really seen this for about the last 18 months, driven by a lot of PE firms and a lot of firms that are buying practices, and coaches, that are out in the business today, teaching advisors how to increase their bottom line and make themselves have a larger valuation than they currently do. |
| ROBB BALDWIN | And so they're consolidating down to one custodial platform and reducing their overhead, enhancing the technology experience for their staffs to where they don't have different inputting systems to drive client relationships with custodians. And that's causing the shift to where they're starting to recognize that choosing one custodian moving forward is a promising thing for both their practice and for the client experience, creating this consistency that we're talking about as one of our four bullet points. And it's been a wonderful thing to see because I think it's the right thing to do is to narrow your approach. And we've interviewed over 500 firms who actually custodian at multiple places, and we've looked at their bottom lines. And their bottom lines, as their asset has grown, has been consistent. So in other words, their expenses are increasing as fast as their assets are increasing. And that's not what you want when you're growing a business. So as we see advisors now choosing this singular custodial model, it's going to enhance their overall bottom line, and then again, the client experience as well. |
| BILL COPPEL | That makes a lot of sense, Robb. And thank you for busting that myth. So this has been a great conversation, Robb, and I appreciate your time. And we've covered a lot of ground. One last question, as a former RIA, what's the number one thing you'd share with our listeners today about how they need to be considering who the right custodian is for them? |
| ROBB BALDWIN | Yeah. Absolutely. Because as I said to you earlier, I think advisors, historically, have gone to the multi-custodial route because they just didn't know what the true value proposition of each custodian was. So advisors need to understand the value proposition. There are two areas that, I think, will help RIAs increase their bottom-line profits as well as enhance the client experience. Two very big items in any business. The first being technology. The custodians who deliver technology that are most effectively servicing your practice will keep you from having to purchase numerous outside software systems to drive your business. And second, service. If you and your team have to spend hours on the phone to service your clients, it's going to greatly impact your client experience and the efficiency of your staff. So again, the number one thing I would tell RIAs when they're choosing a custodian is understand the value proposition that each custodian offers. |
| BILL COPPEL | Thanks, Robb, for sharing your insights with our listeners today. I'm sure that we'll all take away valuable information to help us make better decisions when it comes to selecting a custodian. For our listeners interested in learning more about Robb, his work, and TradePMR, you can find links to his information in this episode's show description. We hope you enjoyed our conversation today. Please take a moment to subscribe to our podcast. And if you like what you've heard, please tell others about it. It helps people find us and ensures you never miss an episode. I'd also like to encourage you to visit our website firstclearing.com to sign up for our monthly e-newsletter. It's an easy way to access curated content that can help you build a better future for your clients and your business. Thanks for listening. And until next time, be well. |
| Outro | If you want to join the conversation or connect with us, please visit us at www.firstclearing.com. This content is provided for general informational purposes only. The views expressed by non-affiliated guest speakers are their own and do not necessarily reflect the opinion of First Clearing or its affiliates. First Clearing and its affiliates do not endorse any guest speakers or their companies, and therefore, give no assurances as to the quality of their products and services. This channel is not monitored by First Clearing. First Clearing is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer, a non-bank affiliate of Wells Fargo & Company. Copyright 2021. Wells Fargo Clearing Services, LLC. All rights reserved. First Clearing provides correspondent services to broker-dealers and registered investment advisors and does not provide services to the general public. |

 CAR-0821-04365