Kathy Freeman Company's

LEADERSHIP INTERVIEW SERIES

A Conversation With

DEREK BURKE

CEO & President

FSC Securities

CELEBRATING 25 YEARS | Kathy Freeman Company

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Kathy Freeman Company's Leadership Interview Series

The Leadership Q&A Series is an ongoing set of interviews with investment industry leaders from Asset Management, Brokerage, Wealth Management, Investment Consulting, and Fintech. This series was launched in celebration of Kathy Freeman Company's 25th anniversary. It is designed to provide perspective from key industry influencers about the evolution of their market segment over the years, projections on opportunities and challenges ahead, and leadership insights gained throughout their successful careers.

Derek Burke
FSC Securites

Leadership Q&A with Derek Burke of FSC Securities

As CEO & President of FSC Securities, Derek Burke leads the 25th largest independent broker-dealer in the U.S. He is responsible for the strategic direction of FSC's business and for executing growth initiatives. Before FSC, Derek was President of Waddell & Reed, Inc. Earlier in his career, he held executive positions in both the wealth and asset management industries as Managing Director of UBS America's Wealth Management platform, Chief Operating Officer of New York Life Investment Management and Chief Compliance Officer for Prudential's Private Asset Management business. Derek started his career as an enforcement attorney with the U.S. Security & Exchange Commission's New York office and also worked in litigation at Collier, Jacob & Mills, P.C. Derek earned his law degree from Rutgers Law School and a Bachelor of Science degree in Finance from Seton Hall University.

Interview conducted by Kathy Freeman Godfrey

How do you lead a business today as a result of your cumulative experience?

Today, all leadership positions in financial services are much more encompassing and complex than they were 10 to 20 years ago. No matter what you're doing, it's no longer sufficient just to be a good sales or marketing person. You have to fundamentally understand the business. You need to be more proficient in a lot more fields than in the past. You also need to build really strong teams. You can't be a subject matter expert in everything, but you do need a firm grasp and awareness of areas of expertise. That's why a great team is so important.

How has the wealth management business changed over the years?

It's a heck of a lot harder being in wealth management today than it's ever been. There is increasing complexity, whether it's technology, regulatory matters, fee compression, and there's just more competition. The upside is that there will be consolidation. There will be fewer winners, but those winners will have pretty significant positions relative to scale.

How big of an impact will consolidation have on wealth management?

It's going to be significant. The greatest driver of consolidation is fee compression and transparency. In many respects, it will be about scale going forward. And it's not only about scale in the true financial sense of the word, where greater infrastructure allows you to drive down your variable costs and increase your margins. Scale is about the sophistication that's required to run a bigger, more complex business. To achieve scale, you'll need the expertise to build a technology platform that will compete with firms like Schwab and Fidelity. You'll need operational efficiencies to be able to run like a big operation and drive down costs.

How will that impact wealth advisors?

For advisors who operate their business as a hobby, it's going to change dramatically. If the business is run by a senior patriarch who works a couple of days a week, that's not going to work going forward. Because the industry has gotten more competitive, firms are reducing fees and clients are noticing. They're asking, "Why am I paying $10,000 annually to meet with you twice a year and have you take me to a nice lunch?" Those advisors don't really have a compelling value proposition. They are going to be challenged. What's likely is that more firms and old-school advisors are going to leave the business.

What impact are robo-advisors having on wealth management?

We've already seen a lot of the impact. The robo-advisor concept has really helped clarify the different components of wealth management. Robo-advising is just one of four or five elements of the wealth management experience for a client. The investment advice may be worth 25 or 35 basis points. If you're an advisor, you need to ask yourself where you are adding value and how much that is worth. If the market is clearing at 25 to 30 basis points for that component of the client experience, and you're caught charging 100 basis points, that's not sustainable. Some advisors are going to be threatened by that transparency and the lack of a value proposition. For firms that understand how robo-advising is changing the market, it will create opportunity. Ultimately, it will make the industry better. We'll have fewer advisors and firms, but they will be better.

What role do you see technology playing in wealth management?

We're going to see fewer firms and significantly more automation. There's going to be a next generation of intelligence – it may or may not be AI – but the whole wealth management experience is going to be smarter and more efficient. You're going to see a much more automated, mechanized process for providing new services. You're going to have fewer advisors supporting more clients. As a result, advisor compensation is going to adjust accordingly.

How will human touch remain part of the process?

With robo-advising, you're also seeing a revaluing of the importance of personal service and human interaction. The challenge is creating a cost model in which you can deliver service. Clients definitely want that. If you give away everything for free, which is what Vanguard and, to a lesser extent, Schwab and Fidelity are doing, you must figure out how to pay human beings for that time. With consolidation, better technology, and more automation, there's going to be a repricing of compensation for investment professionals who deliver service.

How do you make the investment industry more attractive to the next generation of advisors, Millennials in particular?

Young people don't want to commit to a commission-based business because that's not the way they think about the world. However, younger people absolutely want to go into an industry where they're presented with complex, challenging issues and can help people achieve their goals. So I just think it's how you frame the argument. If your growth model is expecting advisors to cold call the way it was done 20 years ago, that's just not going to work. The job has to be positioned and structured properly. However, the industry remains highly attractive to people interested in building an exciting and dynamic career.

How does FSC attract and retain talent given today's full employment market?

These are very difficult days for recruiting talent, but the opportunity starts by clearly articulating the vision for the business and for the individual. I always think you're selling a vision, and it has to be done with passion that genuinely reflects your own enthusiasm for what's possible. There are clearly items that are table stakes people will check off. But then there are the more qualitative questions. Is your firm unique, and is it the real deal? Does your culture reflect who you really are and support career growth? Do you really have talented people? Most of us are looking to learn from our colleagues, so that's really important. At the end of the day, it's vision, it's passion and it's culture. And then I think there is an equity component. You have to let people share proportionally in the rewards of the business.

Another key to retention is specialization and segmentation. It will become increasingly important for people to understand how they want to spend their time and if they are going to play to their strengths. Do you want to spend 80% of your week working with clients? Or do you want to spend 80% of your week building a business? Those are not consistent. You can't do both, especially over a long period of time.

With so many advisors set to retire soon, how does FSC think about transferring institutional knowledge from one generation to the next?

I hate to say it, but many advisors really don't have anything worthwhile to pass on. That sounds a bit tough, but it's the 80/20 rule. 20% of our advisors are probably doing 80% of our business. So we have to replicate their institutional industry knowledge. We'll provide transitional support, help them find the next generation of advisors, bring them in, train them, and make them junior partners. We'll cultivate them to become the next generation of leaders. They won't do it on their own. We'll do it together.

What are the critical leadership skills in a market where the 80/20 rule sets the ground rule?

I think it goes back to my first answer. The game has fundamentally changed, and the required skillsets are vastly different. The industry is more complex, and the sales process takes longer, but ultimately, this is a people business. You have to connect with individuals, and in my case, with advisors. You need to understand how they run their business, understand what's important to them and be empathetic. You need to have a strong service ethic, whether in a corporate role or as an advisor. You need to be smart, hardworking, articulate, and personable. All of these are essential to be a successful leader in today's business environment.

What makes you excited to get up every day and take on the world?

There is tremendous opportunity ahead that's very exciting for me, for FSC, for our advisors, and for the industry as a whole to create a slightly different playbook – one that really forces you to assess a much broader marketplace and take into account those different factors. I've always liked big challenges. Looking ahead, there is great opportunity for those folks who are willing to step up to meet those challenges.

Celebrating 25 Years of Success

Kathy Freeman Company is a woman-owned, retained, executive search firm serving the investment industry for the past 25 years. The firm offers to its clients an unparalleled understanding of the complete lifecycle of the investment industry and how to think differently about what backgrounds and competencies are critical to grow a business. Its consultative approach, experience, judgement and national network of relationships makes Kathy Freeman Company the go-to partner for companies looking to hire top-tier executive talent reluctant to make a change.

The Perfect Fit

Kathy Freeman Company's 25-year track record of success is predicated on process, discipline, and a commitment to excellence. The firm's search work is based on a customized methodology developed to create the best fit for each client. Less than 1% of Kathy Freeman Company's engagements have resulted in a replacement search – an exceptional track record in executive search. This repeatable, process-driven approach and methodology instills confidence that these well-executed searches will produce a successful return on investment.