

Firm Commitment

DO YOU HAVE THE RIGHT STUFF TO START YOUR OWN INVESTMENT FIRM?

By Lori Pizzani

Everyone knows starting a new investment firm takes a lot of hard work and professional competence. But success requires more than investment savvy and relentless dedication. It also demands the right character, personality traits, and non-investment business skills, according to experts. To succeed, an entrepreneur will need bravery, resourcefulness, and tenacity, as well as the sales acumen necessary to raise money and attract investors.

Do you have the right stuff? If you are thinking about starting your own investment business, it's a good idea

to take some time to assess whether you are hardwired to be your own boss.

"Be honest with yourself, and determine if you have the necessary DNA to be a successful entrepreneur," says Roy Cohen, career counselor and executive coach in New York City and author of the book *The Wall Street Professional's Survival Guide: Success Secrets of a Career Coach*. Often, starting a busi-

ness means handling everything, down to such mundane administrative tasks as photocopying.

He also recommends getting a true grip on what a new venture will cost you month after month. Cohen says he often sees individuals seed a start-up that subsequently fails, but performance is not usually the issue. What becomes difficult is raising enough money to fully fund a sustainable business. Think twice if funding isn't guaranteed or if you are a fundraising novice.

If you are self-funding your new firm, Cohen asks, "Do you have both the runway and resources to get up to speed?" Consider all potential expenses, including the square-footage cost for rent—particularly if you establish your firm in a large city, such as New York, Boston, Chicago, or Los Angeles. What can you pay a clearing firm? What will be your budget for new technology? And what effect will these overall expenses have on those around you? "Are you attached to a lifestyle that doesn't allow much wiggle room?" Cohen asks. He suggests that you candidly ask yourself, "Do I have the resources to invest in and build this business while also building the investment product?"

Today's new firms often find it difficult to attract high-net-worth or even institutional investors. "Determine who you will be competing against and how you will be better," Cohen says. "What will be your distinguishing factor?"

GROWING ORGANIC

You should be aware of what others in your space are doing. But, don't let sizing up the competition paralyze you. "Don't worry too much about what others are up to; focus on being the best at what you do," says Dori Graff, CFA, founder and president of the New York-based consulting group Mirabelle Strategies. She started her firm in 2013 to serve the needs of investment managers seeking to grow their businesses. "There will always be others pursuing similar strategies. The winners will be those who execute better and are more effective with clients. You won't win the race if you're always looking over your shoulder."

Beyond embodying that entrepreneurial spirit and a tolerance to risk, build up your track record first, even if you're using your own money. "Investors look for proof of concept. It's hard to attract assets with an unproven team or strategy." She suggests that an organization's culture also be considered. "Where a group that has been working together spins out of a larger organization, that established entity often gives clients comfort."

Furthermore, Graff advises that entrepreneurs proceed with caution when initially hiring staff. She likes to leverage freelancers and strategic partners for her projects. "You want to go to market with a team in place, but beware of over-hiring," she advises. "Ideally, growth should happen organically over time." You may want to outsource your IT or compliance functions so you can focus on investment performance, but remember that you still need someone monitoring these providers.

RULES OF ATTRACTION

Even if you have a premier investment process, platform, or product, once you affix a welcome sign, you need to continually attract new clients.

"I've always focused on adding value to the client and delivering solid investing results based on value investing," says John Cooper, CFA, who founded Stuyvesant Capital Management in Armonk, New York, in 1978. "But I've never focused on marketing or building scale. Marketing is an area we've been weak in," he admits. "You have to grow a business, or the business will die. I never thought about it that way back then."

Cooper's son, Jason Cooper, CFA, joined his father's firm a few years ago as a portfolio manager and research analyst. Knowing he needed to bring the business into the 21st century, he redesigned the company's website so clients could continually review Stuyvesant's strategy and communicate via both traditional and modern media channels. He is also building the new Stuyvesant planning unit, which

Determine your competitive edge and how you will attract clients.

Define partnership, equity ownership, and other details from the get-go.

Understand your funding needs and how to get funding.

adds financial planning to pure investment management. “I found it necessary to understand how the financial services industry was evolving in order to identify how our competition was attracting assets,” says Jason Cooper.

If you’re starting out and have no clients to speak of, first look to family members and friends who may have lent you money to start your firm, says Jamie Ebersole, CFA, founder and CEO of Ebersole Financial, a wealth management firm founded in 2014 in Wellesley, Massachusetts. Because he transitioned his focus from institutional money management to interacting with retail customers, Ebersole needed to build his client list from scratch. “Friends and family members who know and trust you will become your first clients. It’s a great place to start, but it takes time to accelerate and build up,” he says. Ebersole also spends time looking for networking opportunities. One chance meeting at a conference introduced him to another adviser who was seeking to retire and transition clients to a new firm.

DON'T WORRY TOO MUCH ABOUT WHAT OTHERS ARE UP TO; FOCUS ON BEING THE BEST AT WHAT YOU DO. ... YOU WON'T WIN THE RACE IF YOU'RE ALWAYS LOOKING OVER YOUR SHOULDER.

But you also need to be realistic and expect a lot of rejection along the way. “Do not get disillusioned; you’re doing the right thing,” Ebersole says. He also cautions against taking on clients who don’t genuinely fit your firm’s profile just to bring in revenue, warning: “You can’t be all things to all people.” He additionally suggests staying nimble, understanding that things constantly change, and being flexible enough to pivot your business in the direction it needs to go.

START OFF ON SOLID GROUND

If you are starting an investment business with friends or partners, be sure to iron out the details up front to avoid misunderstandings down the road.

When Joseph B. Hosler, CFA, managing principal of Auour Investments in Wenham, Massachusetts, established his “regime-based” investing firm three years ago with two partners, they turned to a lawyer well versed in corporate law and organizing start-ups to create their limited liability company. The firm’s partnership agreement provides that everyone’s voice is equal, all three partners are equal investors in the business, and consensus is key. Though most decisions can be made by two of the three partners, for more “strategic decisions,” all three partners must agree. “If one person is not in agreement, it can be hard to go forward,” Hosler concedes.

The partners purposefully established their firm 25 miles north of Boston to save on rent. “The stigma of not being in Boston is no longer a stigma,” he says. To help bridge the distance, they decided at the start to use nothing but

cloud-based technologies, including Salesforce as the customer relationship management platform and MailChimp for content distribution. “We don’t want to be email administrators, and we are not salespeople. We are investors and want to focus on other things,” Hosler says. “You need to focus resources on where you can have a great impact.”

For Sanjay Sharma, 23, who passed the Level III CFA exam last June but must still fulfill the work experience requirement, purchasing and transforming a 15-year-old company he and his two co-owners bought was a risk. But, he says, it has “worked out exceedingly well,” and he cites the trio’s free-flowing communications as proof. “Our long relationship has helped us be more frank with one another and critical when we have to be,” he explains. “Given how well we know each other, we can communicate without the worry that somebody will take anything personally or misinterpret body language. This all reduces potential drama and makes it easier to discuss the business/technical issues at hand.”

Sharma is the president and head of operations at Bridge Financial Technology in Chicago. The three partners—college friends, two of whom are brothers—share a history, having lived together for three years, including traveling together and studying side by side in London. They lack a formal partnership agreement but do have equity agreements in place.

A fourth partner, who one of the brothers met in graduate school when pursuing his master’s degree in computer science, was brought in last May. The two grad school friends are leading the technology development at Bridge Financial while Sharma and the other partner focus on business development.

When they purchased Bridge Financial in early 2016, much of the core infrastructure and technology were already in place. But the executives shared a vision for transforming the company into one offering a technology platform that automates back-office functions for registered investment advisers. The firm is now building its book of business.

Building a business often leaves entrepreneurs at a funding crossroads: to seek venture capital investment or not. The Bridge Financial executives began extreme networking, including going to events, contacting people via LinkedIn, and sending cold emails asking for seed money of \$50,000 to \$250,000. “There’s a perception that venture capitalists are sharks,” Sharma says. But he believes he is offering an opportunity to invest with returns. He says he found people responsive and “surprisingly happy to talk.”

FRIENDS AND FAMILY PLAN

But do good friends make good business partners? “It’s always a matter of separating business from your personal life, but it’s not an issue for us,” Sharma says. “At the end of the day, we leave the business behind and are still friends. I get to choose who I am working with.”

Leveraging existing, strong relationships is often the foundation upon which successful businesses are built. Dixie Klaibert, CFA, founding partner of BeaconHill Wealth Management, a Raymond James affiliate in Victoria, British

Columbia, not only started her own firm with her husband (who had a similar financial industry background), but she founded a second firm focused on finance career counseling (FINVOGUE) in July 2016 with her best friend Sabrina Liak, CFA, a former Wall Street trader.

“I needed a change of location, and I wanted to start my own firm,” Klaibert says. “For some, starting a firm with your husband would be the last thing to do, but it worked for us.” She admits that she initially thought about going into business solo, but coming from her former job on a busy trading floor, she knew she needed that interaction and to collaborate with people. “Find people you like working with,” she says.

She also confesses that she grossly underestimated the amount of money she needed to start BeaconHill, including investments for technology. But the firm became so profitable so quickly that financial pressures eased. “I waited for a point in my life where I could afford a start-up, but our expansion plans will require angel investors,” she concedes.

Klaibert and Liak knew each other from their Wall Street jobs and became friends 15 years ago. Liak was a managing director at a prominent investment bank and had experience in both private equity and talent recruitment. “That experience became the seed for the bigger platform,” Liak says. She and Klaibert partnered, in part, because research shows that the most successful businesses are those with two or more partners who will hold each other accountable, support each other, and come up with different ways to approach things.

Entrepreneurs should live within their cash flows and carefully consider each and every dollar of their projected revenues, Liak counsels: “Have a realistic business plan in place which addresses funding issues and revenues.” She adds that once you’ve decided to take in outside capital, more is better so you have money for a rainy day.

She also advises being super thrifty. She tells the tale of the founder of a small start-up sleeping on an air mattress every night but renting a fancy car to meet with clients in impressive hotel business rooms. He eventually sold his company for billions of dollars.

FIRM ADVICE

“Just take the plunge and do it,” suggests Christina Worley, CFA, founder and managing member of Castle Wealth Management in West Palm Beach, Florida. Founding a firm can be especially hard for women, who represent the minority within the investment industry and account for less than one in five CFA charterholders. “You will make errors, and you will learn from them,” she notes. “Learn the lingo, get your polish, then start your own firm.” Worley also suggests entrepreneurs start small and never stop learning.

Worley started her firm with her husband in 1993 when they moved to Florida. But, her husband soon accepted a lucrative offer at another firm. Knowing she had that cash cushion, she built her firm on her own, investing her free time on weekends doing contract work for a tax firm. “You do what you have to do when you start up,” she adds.

Sharma says you should know that as an entrepreneur, quality time off is elusive. He typically spends eight hours on Sundays handling mundane business tasks. “Thinking about my business permeates my time off,” he admits.

Lewis J. Altfest, CFA, founder, CEO, and CIO at Altfest Personal Wealth Management in New York City, says he’s learned a lot since founding his firm in 1983. “Have a good reason to launch your own firm,” he says. Altfest’s father used to discuss owning a business on their frequent long walks together, and that motivated him to seek the same.

Altfest encourages entrepreneurs to give talks, write articles, and develop niches within their bailiwick of expertise. He also suggests joining the most relevant industry association and continually learning as much as possible through educational seminars. As far as attracting clients, he advises against advertising, which he’s found doesn’t work (although he’s a true believer in having a public relations firm). Finally, he cautions against burning bridges when leaving a previous firm. Former employers can provide great referrals or, alternately, cast a shadow on your reputation.

“Brush up on your interpersonal skills,” Altfest says. “It’s still a face-to-face business.” It’s also important to recognize that you are constantly selling—both yourself and your services.

Lori Pizzani is an independent journalist specializing in business and financial services.

KEEP GOING

“Start Your Fingines,” *CFA Institute Magazine* (December 2016)
[www.cfapubs.org]

“STARtups of David,” *CFA Institute Magazine* (September 2016)
[www.cfapubs.org]

ADDITIONAL RESOURCES

In *Make Your Mark: The Creative’s Guide to Building a Business with Impact*, editor Jocelyn K. Gleib offers a collection of essays identifying vital traits that creative professionals or “makers” need to build and lead successful companies. She presents succinct nuggets that include memorable personal stories. Twenty-one entrepreneurs explain the qualities necessary for good leadership. They address the importance of defining a clear business purpose, the challenges of building a product and brand, the necessity of connecting with customers, and the need for creatives to become leaders. Gleib offers lists, questions, and exercises to help creative entrepreneurs learn to manage their companies and to help them make the transition from makers to leaders.

A five-page summary of *Make Your Mark* including useful tips and takeaways is available exclusively to CFA Institute members at www.cfainstitute.org/getAbstract.