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Angeles Wealth's Jon Foster: Ugly Surprise Stalks Advisory Industry

By Steve Garmhausen

The wealth management industry has seen juggernaut-like growth for more than two decades—but it has a blind spot, argues Jon Foster, president and CEO of Angeles Wealth Management. RIA firms are seriously underestimating the threat of falling fees, he says: "If you get 20% fee compression, which I think is a slam dunk, then I think a third of the business can't make money."

Speaking with Barron's Advisor from his firm's Santa Monica, Calif., headquarters, Foster talks about building a $2.2 billion-asset private wealth management arm of a $40 billion institutional investment firm, Angeles Investment Advisors. He details why he thinks he can grab a slice of the ultracompetitive New York City market. And he reveals how his stint leading E*Trade's doomed advisor rollup effort taught him to delegate responsibility to next-gen colleagues.

Kate Copeland

How did you get started in life and in the wealth management business? I grew up in the Boston area and then went to college at the University of Pennsylvania. And then I went back to New York and started as an institutional sales trader in the early '80s. I later worked for a hedge fund, and over time I worked my way toward the private-client business.

My first job in what we called retail was at Bear Stearns, in Los Angeles. I started on the brokerage side of the business and actually built my own brokerage business. And then in about '94, I called a team meeting and said, "Guys, I am buying into a registered investment advisory called Howard Capital, and I'm going to close the brokerage business in six months and never going to drop a brokerage ticket again in my life."

That was the beginning of a long adventure on this side of the business, which was the smartest thing I ever did.

Why was it so pivotal for you? The clients thought of me as a fiduciary advisor, but I felt like I wasn't properly aligned. So I just said, let's rip off the Band-Aid and do it properly.

I'd met a great guy named Hal Howard, who was a longtime RIA, and he was looking for a younger guy to come and be his partner and grow the business. That's where it started. Hal is still associated with the firm today!

That business was originally based in New York City; you opened its Los Angeles office and in 2005 and later sold the company to E*Trade. Tell me about that. There was an effort by E*Trade to move into the advisory business, which I was spearheading. We bought and built our way into a pretty decent-sized business. That period with E*Trade was great because I traveled around the country with a big checkbook so we could buy other businesses, and I made some great friendships and learned about a lot of other models that were successful. It really was a great education for me.

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Most people have forgotten, but E*Trade was the first major victim of the mortgage crisis, which really affected the company terribly. So they had to get down to the core discount brokerage business and dismantle all the other activities.

E*Trade, of course, was bought by Morgan Stanley last year. What do you think of that deal? I think it was a good move for all. It provides greater career opportunities for the E*Trade folks, and provided Morgan Stanley with two valuable business lines, discount brokerage and corporate executive services, which may well be the E*Trade crown jewel.

You went on to work for Ron Carson, who runs $12 billion Carson Wealth. I had met Ron Carson and we had struck up a friendship. At one point Ron said, "I can use you here in Omaha—what if you become president of Carson Wealth Management and of Peak Advisor Alliance, our consulting business, and you help me take the business to the next stage?"

So I spent two years, from '09 to '11, commuting from L.A. to Omaha. As you can imagine, it was a great business experience, but not a great family experience.

But I got to spend time with Ron, one of the great sales and marketing people and visionary people in our business. And I like to think that I helped a lot in some of the transition to where his business is today. I helped him start an RIA and really get out of the brokerage business and think about the national business he's built today. It was a great experience for me, and hopefully for him, too.

Your next stop was a lot closer to home. When I decided it was time to stop being a commuter, I thought about what was going to be the last business that I was going to build. I'd gotten to know Angeles Investment Advisors because I was a client: I had sat on the investment board for the City of Hope hospital, a wonderful cancer hospital in Pasadena, and we had hired Angeles to be our investment consultant. I hired them again for a private school in Santa Monica where I chaired the endowment board. So I was a client for five years.

I was thinking about what to do next and what I realized is that there is a gigantic gap between what institutions see and what private clients see in terms of investments. You could drive a Mack Truck through the difference.

Angeles hired you to build and run an RIA for ultrahigh-net-worth clients. How are the businesses connected, and what's an example of an institutional investment solution that you're able to provide to families? We have one investment process, and we now handle both institutional clients and private clients. Our pitch to families is anything we build for a billion-dollar institution is available to you, too, which I think is a unique and exciting model.

A great example is access to private-equity investing side-by-side with our institutional clients. Private families and institutional clients are invested in the same pooled vehicles.

Tell me about your private clients. What's the typical profile of one of those households? I think the largest client group is business operators who have had a monetizing event. And part of my job is to say to them, "Now you are rich and you are going to get 10 new best friends who want your money." So my job is being Dr. No.

It's about keeping them out of trouble and making sure to come up with an asset-allocation strategy that makes sense for them. We also manage all the other flack in their lives, around what do you want to do from a philanthropic giving standpoint, how do you want to deal with next-gen issues in your family. And now you've got a lot of taxes and estate planning that are actually a big part of the conversation.

Do you position yourselves as a family-office firm, with a robust service menu? I'm a big believer of open architecture in all things; I want to help clients access the best in every possible way, the same way we do on the investment side. The best CPA or estate planner wouldn't be someone who would come work for me; they are going to be at a top estate planning firm.

So family office or multifamily office is a sort of sexy term, but my question is, "OK, what do you really do? And what are the different components of a multifamily office?" I'm not sure I could tell you.

Another thing I absolutely will not do is concierge service. We're not the folks you can call and say, "Please make sure there is milk in the house," or, "Can you lease me a private jet?" I'm not going to do that.

Tell me about your growth strategy. We've built a fantastic business on the wealth side; average annual revenue growth at Angeles Wealth Management from 2013 to 2020 is 36% per year. Revenues were 54% higher in 2020 versus 2019. If we do not gain or lose any revenues for the rest of the year, 2021 revenues at Angeles Wealth would be 36% higher than 2020, so the momentum continues. We have all this growth momentum, but compared to the other behemoths on the wealth side out there, we are still small.

What's your goal in terms of growth? When wealthy families are asking, "Who should I talk to?" I'd like us to be one of the three names that come out of a referral source's mouth.

What are the keys to achieving that stature? For me, the first thing in terms of growing is, it's a talent hunt. It's about finding great people. And we don't have to do anything inorganic because of our organic growth, but if there is something inorganic to do where it fits in and fills some holes in our talent pool, then I'm very excited about it. I'm in the middle of pursuing several of those now, but if they don't happen they don't happen—it's all about the people.

A good example of that would be what we did in New York. I had no plans of being back in New York, but then I went to a Barron's conference and sat next to a guy named Harry Grand, who was working at another firm. We connected and hit it off. And I basically said to him, "What would it take for you to come and open a New York office for Angeles Wealth Management?" The conversation took well over a year, but I eventually got him to say yes.

I'm really excited about the New York opportunity. I just bought an apartment in Tribeca, so I'm serious about it. I think New York is going to make a real comeback, and I know Harry (head of the New York office and senior managing director) and Chloe Wohlforth (an advisor and managing director) are excited to tell the story of why this California firm is now in New York. We have a lot of fresh ideas and new perspectives, and it's a big, big market.

And an especially competitive one. But if you don't have competition, you don't have a good business, right?

Is your institutional-grade investment offering enough of a differentiator? I think that people still hire firms for their investment prowess. I don't think America's wealthy families are ready to be told that all they should do is buy index funds and never touch them, and that there's no value to investment advice. It's just not true. There is no value to retail investment advice, but there's lots of value to institutional advice.

Why do you say there is no value to retail investment advice? Retail advisors need to work a lot harder to provide enduring value to clients. This value might be by lowering their management fees, being better strategic asset allocators, ferreting out institutional-quality asset class access, top-notch financial planning, or probably all four. Most retail advisors simply do not have the bandwidth or budget to deliver on the rapidly advancing expectations of an informed consumer. This is why the private client industry is getting rapidly institutionalized by roll-ups and aggregators.

The financial advice industry is booming and everyone in it seems really sanguine. What if anything should the industry be worried about? I think fee compression is coming and I think it's coming in a big way. I remember speaking at an institutional investment conference about five years ago; the audience were all leaders of RIA businesses and asset managers.

I said to the group, "Those of you in the asset management business, how many of you felt significant fee compression during the past five years?" Everybody raised their hands; they were all getting crushed by it.

And then I said, "Those of you in the wealth management business, how many of you expect any fee compression in the next five years?" I was literally the only one who raised my hand. I think that's delusional.

I think there is fee compression coming in our space, and I'm actually excited about that. We'll kill in that world because we are super-efficient; we've got 40 people watching over $40 billion and we are doing it efficiently, we are doing it with technology.

If you get 20% fee compression, which I think is a slam dunk, then I think a third of the business can't make money.

When you say 20% fee compression would crush a third of advisory businesses, you specifically mean independents, right? Yes, I mean specifically independent RIAs. But I think this creates a reckoning for advisors and advisory firms of all types. For example, can a wirehouse continue with a 50% payout if gross fees are down 20%? I don't think so. Can they continue to offer forgivable loans at the same magnitude with 20% lower expected revenues? Unlikely.

Talk to us about succession planning and when you might retire. I have immensely talented colleagues who are in their mid-30s to mid-40s, and they still want me to come to work every day. I still add, I think, a lot of value, and I still bring in a lot of the business.

But I'll say, from going around the country and visiting other advisors, you run into these firms where there is a 70-year-old who has no succession plan, and they never want to leave. And you see turnover in the group because no one wants to wait around anymore. That's not good for the firm or the people or for the clients.

So much as I love the idea of dying at my desk at the age of 115, that's not realistic. I have a role to play: to create opportunities for the next gen to be in charge and to make decisions. They're doing it already; I've definitely turned over a lot of responsibility.

I think I'm at the point now where I can decide to take a three-month sabbatical and they won't miss a beat. Maybe I should do that. But at the moment I have no plans of retiring.

Later on, when you finally do step away, what do you see yourself doing? If I had more time, I'd spend more in philanthropy around social justice and education, and things like that. I do that already. We started a nonprofit called the Los Angeles Art Fund, that's supporting nonprofit art organizations in and around Los Angeles that have a social justice bent.

I find that really rewarding because I've got one schoolteacher son and one schoolteacher daughter, and I've got a musician son, as well as a lawyer. So I understand the idea of fruitful labor that isn't highly compensated.

I also think about all the opportunities that I have had, that typical inner-city kids don't get. They don't get five strikes and you're still not out; they get one. So I'd like to have more time to do philanthropy.

What do you do to relax and recharge? I spend time with my wife and the dogs, and I'm a golf and squash fanatic. I hate going to the gym, but I do like competing—that's fun.

Thanks, Jon.