BARRON'S
MARCH 29, 2024

ADVISOR PRACTICE MANAGEMENT | ADVISOR POV

Sammy Azzouz: Why a $2.7 Billion RIA Isn't Interested in M&A

By Steve Garmhausen

Heritage Financial Services isn't 100% opposed to merging with another wealth management firm in the future, but President and CEO Sammy Azzouz sounds highly skeptical. Even when firms make deals with attractive suitors, "you don't know where your clients and shareholders and employees are going to end up after that," says the head of the $2.7 billion-asset firm based in Westwood, Mass. "That's a big question that these mega firms aren't answering satisfactorily in the market."

Speaking with Barron's Advisor, Azzouz, who took the reins last year from founder Chuck Bean, argues that the supposed benefits of merging into a bigger advisory firm may be overstated. He explains why the independent advisor industry's fragmented tech stack is among his biggest business challenges. And he describes how his background in law helped put him on a path to running a major independent firm in his native Massachusetts.


Illustration by Kate Copeland

Where are you from? I'm originally from Massachusetts, but I lived overseas a lot in the Middle East as a youngster. My dad was an MIT professor and went to teach at Kuwait University. So I spent five to six years in Kuwait and two years in Egypt, before moving back to North America to go to college in Toronto. That's where I met my wife. And then I went to law school in Maryland and finally moved back to Massachusetts, where I've been for most of my professional career.

How did you wind up in wealth management rather than in law? I liked the [field of] estate and tax, but I didn't really like the idea of practicing law. I never found it as interesting or compelling as I had thought I would. I passed the bar in Maryland, in the 2000s, and there was a lot going on with the market and investing at that time. So I decided that what I really wanted to do was help people with all aspects of their finances.

At the time things were very siloed: You could be a stockbroker, you could be an estate planner, you could sell insurance, but this thing that we now call wealth management, where you could help people in all areas, didn't really exist.

I got a unique start in that I ultimately worked at a law firm whose estate planners had set up a financial advisory subsidiary to compete with some of the accounting firms that were doing the same thing. The law firm had a trust department that was successful, and they wanted to continue a relationship with some of those beneficiaries once the trusts were wound down. They also just wanted to offer more planning and investment advice to their clients broadly.

They saw me as a young advisor who spoke their language because I had gone to law school and shared a similar background. They brought me in to be the lead advisor for their clients as they were building the entity. I learned a lot from them about estate and tax planning and working with higher-net-worth clients than I would have been able to find on my own in my early 20s. So it was a big break for me in my career.

How did you wind up with Heritage Financial Services? I was at the law firm until 2005. While it was a great learning opportunity, it was a side business. It wasn't anything that was going to grow and accommodate my career. By 2005 wealth management had begun to take off as a concept. More firms were trying to do more for their clients, and a larger money manager in upstate New York, Manning & Napier, which managed portfolios for clients but didn't do a ton of proactive planning, would get upset when their clients would leave over short- term relative performance issues. For example, they were more valuation-conscious in the late '90s, and they were doing well, but they didn't participate in the tech bubble. So they decided they wanted to build a proactive wealth management offering to offer more to their clients, anchor them to their long-term goals, help build the relationship, and make the clients stickier.

They had tried it a couple of different times with a couple of high-profile hires, and it hadn't worked. They looked at me as a 28-year-old who had all the components: I'd been a financial advisor, I've been working at a law firm, I knew estate taxes, advising on insurance. They were like, he's not going to be expensive; he can be a little bit expendable if it doesn't work out. But maybe we'll take a shot with him. So I moved to Rochester, N.Y., and built that national wealth management practice for them.

Sounds like a good situation. Why did you leave? I was there for close to eight years and was a shareholder in the firm. And then my wife and I decided, for a variety of reasons, that we wanted to move back home. A friend knew one of Chuck's senior advisors. And when I mentioned I was looking to come back home, he connected me with Heritage. At the time, Chuck was looking for somebody else to help him with his clients. He had transitioned a lot of clients, but he was still working with a lot of high-net-worth clients. And he wanted somebody else to contribute to business development. So they brought me in to work with clients and develop business.

How did you wind up on track to lead the firm? Every year we have a two-day off-site with our management team and our shareholders. Day two is just the management team, sometimes with an outside practice management consultant. A few years ago, the consultant became clear from what he was hearing that Chuck needed to think about succession planning. So he planted the seed with Chuck, telling him that it might be a good idea to, a few years before you think you need to, lay out a succession plan for your clients, your employees, your management team, and your shareholders.

And that started the dialogue. There are multiple members of the management team who could have been a good choice as succession candidates. Chuck talked to each of us. We all worked with a business coach to help with the business management and the succession plan. That just kind of organically led to me being in the president role. At Heritage, being president basically means next in line to be CEO.

How did you prepare for the CEO role? I was president with Chuck as CEO for a time. During that time, I think he would say, we were functioning like co-CEOs. We weren't splitting duties; we were basically working alongside each other so that I could learn some of the things that I hadn't been as heavily involved in. And then at the beginning of 2023, he transitioned to the chairman role, and I became CEO and president.

Would you talk about your strategic goals? At a high level, we're really trying to remain independent and employee-owned. We've not engaged in any M&A in either direction. We've done a lot of work on succession planning and broadening out the shareholder base. We're going to add a board next year to keep the corporate governance train moving in that direction. And we're also focused on organic growth. We want to grow and do more for our clients through the growth in our employees. Ongoing education, training, employee engagement, culture, succession planning, promoting people through the ranks so that we can keep this thing going, is all extremely important. Organic growth is a big focal point for us.

Why not join with another firm to quickly add resources and scale? Because we're in the Boston area, we haven't struggled to hire. We have access to a great pool of talent, both in terms of young college graduates who are graduating with financial-planning degrees and also a lot of firms in the area. So we've never felt that pull to merge to add resources. When we need to add somebody, we've been able to hire organically from the area, actually with very little reliance on recruiters.

I think adding resources becomes a little bit of an overstated thing with the people who are pursuing M&A. I think they're primarily pursuing it for growth, to create enterprise value to increase share value. On the flip side, why haven't we done it? We're not opposed to it. We like to think of ourselves as financially savvy business owners. And if there's an opportunity to add something to our firm at the right price, that won't be disruptive to our culture and will keep us going, of course we're open to it. But it is a seller's market right now. And we just don't see how paying some of these lofty valuations and competing with these big aggregators and acquirers is a prudent use of our capital and, frankly, our time.

What's behind the desire to remain independent? That's something that's driven by our founder and chairman. I think for him it's much more important to keep this thing that we have, that we feel is pretty special, going the way that it's going. We are very proud of our culture; we are very proud of the recognition that we have in the industry for being a firm that does things well at our size and of growing organically.

Chuck just feels like the best thing

for him and his family, for our clients, for our employees, is to stay where we are and keep doing what we're doing. That doesn't mean we'll have our heads in the sand. If the best thing for our employees and clients in the future is to join a bigger firm because we're not able to compete or offer what they can offer, we would revisit that.

But the advantages of merging can be very overstated. We compete as an industry with mega firms every day. We compete with Vanguard, J.P. Morgan, Merrill Lynch, Morgan Stanley . This idea that an RIA can become so big that all of a sudden it's going to do things differently than we are, and we're not going to be able to keep up, I do find is a little ridiculous.

The other thing that's important to me is where your clients are going to end up. People aren't doing these deals to piece together a bunch of RIA firms to not ultimately profit from that. We've seen some acquisitions where employees end up working at places where they never intended to work, or that have their business model driven in ways they never intended it to be driven.

A lot of United Capital people ended up working for Goldman Sachs . A lot of people end up working for private-equity firms that reduce services to clients or client segments. So even if you can find what you consider [an attractive acquiring firm], you don't know where your clients and shareholders and employees are going to end up after that. That's a big question that these mega firms aren't answering satisfactorily in the market.

What's your biggest business challenge right now? The industry tech stack has been a frustrating challenge—just the limited amount of vendors, with a lack of client responsiveness and thinking outside the box to help their customers. There are a lot of systems that don't talk to each other. The inability to easily extract analytics from your own tech stack is a challenge.

What's an example of technology you've added recently that you're happy with? We are using the Betterment for Advisors platform. We've built a dedicated group to work with the family members of our high-net-worth clients, both kids and parents. Within that service model we are often using the Betterment for Advisors platform. We think it's a better way to interact with some of these younger clients. My daughter, who is 23, was the guinea pig for us working with this. Before we had Betterment, we might have asked her to send a check. She'd be like, what's a check? How do I send it? Opening accounts digitally through Betterment, with our help, is so easy for these kids.

What's your market outlook for the rest of the year? We're somewhat optimistic. Inflation has come down, and the rate hikes the Fed has done to get us there don't seem like they have broken the economy. There are some challenges, particularly with smaller commercial banks and in commercial real estate, but there are reasons to be optimistic, given the state of the economy and the idea that the Fed is going to cut rates at some point this year.

We've diversified away from large-cap tech, large-cap growth a bit; we have concerns about the concentration there. There are other areas of the market that have more appealing valuations for the long term. Developed international, which is an area of the market that's doing well, is a lot cheaper than the U.S. In emerging markets, there are concerns about China, but the representation of China in the index has come down dramatically. And you're getting an attractive yield on fixed income without taking on too much risk. But while I'm optimistic, we're not taking more risk than usual. Were diversified. We're staying the course. We know there are things that can derail a market at any point.

How do you like to blow off steam outside of work? I love to read. I'm a die-hard NBA fan, a Celtics season-ticket holder. I love to go to the games with family and friends. And when the weather warms up I enjoy golfing as well.

Thanks, Sammy.