

ADVISOR Q&A

Frank Marzano: How I Built a \$5.6 Billion Firm in 18 Years

By **Steve Garmhausen**

Melville, N.Y.-based GM Advisory Group was among the earliest wealth management firms to invest in companies in the virtual-reality space known as the metaverse. And it's now building investment positions within the cryptocurrency ecosystem. "One of the reasons we've been able to think ahead is that our investment team really has no other responsibility than to create our macro policy, and to make sure that we're getting ahead of market trends," says managing principal Frank Marzano.

Creating an independent investment team is an example of the business vision that has helped Marzano create a \$5.6 billion wealth management firm in just 18 years. In a wide-ranging interview with Barron's Advisor, Marzano says he built GM Advisory Group the hard way, making "pretty much every mistake that it's possible to make" along the way. He also reveals how his 45-person team avoids repeating mistakes, argues that AUM fees' days are numbered, and explains his work-from-anywhere hiring approach.

You began your career as a CPA, starting at KPMG Peat Marwick and then running your father's accounting firm before creating GM Advisory Group. Why did you change direction? I felt like preparing taxes was starting to get very com-



Illustration by Kate Copeland

moditized, and that being a CPA and also having the passion and ability to manage money was a niche that would allow me to be more relevant in clients' lives as their trusted advisor. I transitioned into wealth management in my 20s.

How did you get traction with wealth management clients? Being able to advise on taxes and estate planning and also having the ability and skill to be a successful money manager was very rare at that time, in the late

'90s. So I started to build a niche of corporate executives. A lot of times I would learn more about their benefits than even their companies' HR departments. I became very referrable from one corporate exec to another. And that niche served as a foundation to the growth of the business.

Are most of your clients very wealthy? No, we have a wide range of clients from different industries, different geographical locations, and different sizes of wealth. One of our core

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values is treating our clients the way we want to be treated ourselves. The clients who I started with, who may have given me \$25,000 or \$50,000 to manage, are still clients today. That's because those clients took a bigger risk in working with us than any client of any size would today, and we feel very loyal. We've created different platforms so that we can give any size client what we believe to be more than they would get in any other platform.

What's your investment minimum? We don't have a minimum. If an existing client said to us, "I have a family member who needs financial advice, can you help?" we will work with that client 100% of the time, no matter what their wealth is. As someone's wealth increases, their financial situation typically becomes more complex. And they typically require more services from a wealth manager. We were able to pinpoint the services that one would require at each level of wealth, and deliver those core services to those clients at that point in time and go above and beyond.

How do you charge clients? I think that over time our industry is going to transition to flat fees. I don't think charging based on assets under management is a structure that will ultimately lead to long-term successful relationships. Because the amount of time that's required to service the client is pretty much the same once you hit a certain wealth level.

Have you started to implement flat fees? How much of your revenue takes that form? Yes, and I would say 37% of our revenue is flat fee.

Can you say a little bit about how you built your team? Our team has been built on subject matter experts. We have 45 employees, and all of them have been hired to provide a service within their area of expertise to our clients. All of our business comes in through referrals, so we really don't have any business developers. Pretty much 100% of our team is allocated to the service that we're delivering to our clients.

And the reason we require such a big infrastructure is because of being

accountable. For example, we hold ourselves accountable to our clients' tax planning: If they're not taking advantage of a tax law that they should be taking advantage of, we hold ourselves accountable to that. That requires a whole other level of infrastructure. We apply that same type of accountability across all the different services that we offer.

You have team members around the country. What's your philosophy there? Yes. We have offices in Long Island, in New York City, and in Boca Raton, Fla. We have an employee who works out of Boston and an employee who works out of Scottsdale. At this point, we are just looking for the best people that we can find. We are constantly looking to hire in pretty much every area of the firm, and geographical location is not an obstacle at all. We are willing to hire from any location if they're willing to come to the office or travel as needed.

Our chief of staff is in every interview that we have with every [job candidate], and her only job in that interview is to determine whether the person fits into the culture of the organization. It's a very difficult job market right now. But we've been presented with candidates who are incredibly qualified but don't fit into our culture, and we would pass on them every day. That's an easy decision.

How is your investment offering set up? We have an investment team, run by a director of strategy and research and our director of alternative investments, who each have a team underneath them. We've worked hard over the years to create an investment process that's very scalable and easy to explain to clients so that if they choose to, they will understand how we're making decisions and why we are overweight and underweight different areas of the financial markets.

We create different models relative to our clients' different risk tolerances. We assign a model to a client based on their goals and objectives. And then we customize it based on their situation, how comfortable they are with alternative investments, what concentrated positions they hold. Our investment team's job is to create the investment

platform and manage the model. Then we have a portfolio management team, and their job is to apply those models on a custom basis to the individual client. Every client gets assigned a portfolio manager, and the portfolio management team is separate from the investment team.

Are you in the active- or passive-management camp? We always choose tax-efficient, low-cost, and liquid, but we are willing to sacrifice any one of those factors if we believe there's a reason to do that. In this environment. We've been generating outperformance relative to our policies by just overweighting and underweighting equity and overweighting and underweighting sectors within the equity markets. And so a very small percentage of our portfolios are in active management at this point.

What are you telling clients about the market right now? We communicate with them so that they know we're aware of the risks in the market. But we also share with them that we feel we still need to be overweight in equities and long equities, until the market really tells us not to be.

With interest rates being so low, I think that the markets are very likely to continue to rise. And in the event that the markets become more volatile and pull back, we've been very successful in the past in protecting capital in those environments. But until then, we've explained to clients why we've been overweight equities.

Where are your current overweightings? We're still overweight tech. We've created initial positions in thematic investments in the metaverse. We were early investors in the Metaverse ETF [the Roundhill Ball Metaverse ETF], and we're going to continue to build on that theme. And we've recently started adding positions in not necessarily cryptocurrencies but the ecosystem of crypto.

So, blockchain technology and that sort of thing? Right. Decentralized finance, blockchain...just anything to do with the ecosystem of cryptocurrency. We have done that through an ETF [First Trust SkyBridge Crypto Indus-

try and Digital Economy ETF] and then we're about to add to that through a hedge fund [Multicoin Capital].

I'd say you're ahead of the typical RIA firm there. I think so. One of the reasons we've been able to think ahead is that our investment team really has no other responsibility than to create our macro policy, and to make sure that we're getting ahead of market trends. They have very little interaction with clients because we've separated the functions of portfolio management and the investment team.

Where do you want to take the firm from here? It's incredibly likely that our business is going to be generational. We haven't been interested in any M&A type of transactions. I have five kids who are very likely to get in the business themselves. They have relationships with my clients' kids. We have a next-gen program geared towards our clients' kids—educating them, creating relationships with them. So when we make internal in-

vestment decisions, it's with a context of this firm existing with a very long time horizon.

How did you learn how to build a business? It's a combination of a lot of different things. I've had consultants and personal coaches since I started my business. That has been incredibly important in keeping focused on business goals and on my personal goals. I have incredible clients who we advise, but who a lot of times also advise us. And I have family members who are entrepreneurs: My dad was a CPA and an entrepreneur, and I have family members who I was able to tap into earlier in my career.

I've also made pretty much every mistake that it's possible to make in growing a business, and I've learned from every one. Every time we make a mistake, I set up policies and procedures to make sure that we don't make that same mistake again. We have a very transparent culture of communication within the firm, and if a team member makes a mistake, I highlight

that mistake, because I don't want any other team member making that same mistake. I also make sure I highlight all the good things we do. But in order to not make the same mistake twice, people need to know about it. And you've got to make sure you set up rock-solid procedures to make sure it doesn't happen again.

Your coaches have probably impressed on you the need to relax and recharge on a regular basis. How do you do it? Well, I just moved in August to Boca Raton, from New York. My wife and I have family down here, and we decided to move for a better quality of life. That was a major commitment to work-life balance. If just driving forward and growing the business was my goal, I would have stayed in New York. It's been great down here. I golf a lot, I read a lot of books, and I have a lot more time just to think.

Thanks, Frank.

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3. **Conflict of Interest**

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