NEW YORK INSTITUTE OF TECHNOLOGY

School of Management

Riyaz Akhtar Experiential Education Program

Corporate Challenge-2023

Where careers begin

- Herold and Lantern Investments, Inc

Case On:

Herold and Lantern Investments NY

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https://cooperatornews.com/article/management-trials-triumphs

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Part I: Herold and Lantern Investments

Herold and Lantern Investments, Inc. is a family-owned business that was created through the merger of Bernard Herold & Co. and Lantern Investments. The business is a wealth management boutique that emphasizes the client experience for individuals, families, and institutions. It seeks to educate and guide its clients to achieve their financial goals through a thoughtful process that combines risk management, capital growth and wealth preservation. It is currently headquartered in Melville, NY and New York, NY with over 60 professionals in 9 offices throughout the country. It has over $3 billion in tri-party and customer assets. They offer a wide range of brokerage and products and services.

HEROLD & LANTERN INVESTMENTS, INC.

A Percheron Company

1.1 Bond Investing, Wealth management and Tri-party Clearing arrangements.

Herold and Lantern is a full-service broker-dealer with a fixed income securities foundation and therefore a leading bond specialist. They specialize on researching the appropriate bond to generate income for the client. While evaluating risk tolerance, income requirements, tax concerns and life goals to personalize the best recommendation for the client.

For the managed approach, Herold and Lantern tailors Wealth Management Accounts* Through looking at time horizon, risk tolerance, age and other circumstances to suit the investor's needs to recommend a correctly designed investment portfolio. Herold and Lantern uses a four-step process to design the most accurate investment portfolio. Again, with the offering a personalized approach. See Figure 1.1 below.

Figure 1.1

Broker dealers, small to medium sized banks and credit unions that operate broker-dealers are feeling the pressure of new regulations, innovative technology, enhanced cybersecurity rules and more comprehensive FINRA compliance requests. Herold and Lantern is a tri-party clearing arrangement (sometimes known as a sub-broker or "piggyback") which eliminates the need for the clearing or intermediary firm. Clearing up much time on focusing on their clients; this offers the ability to personalize service.

**Wealth Management Accounts and Investment Advisory Services are provided by subsidiaries of Percheron Asset Management Group, Inc.: Herold Advisors Inc. and Lantern Wealth Advisors, LLC.*

Herold and Lantern also provides Retirement and College Savings plans as well as Insurance Solutions. Fixed income Sales and Trading as well as Investment Banking are also part of the Business model. With all these services offered, the recurrent theme is that Herold and Lantern remains focused to the personalized approach to clients.

1.2 Four Pillars of Client Service.

Herold and Lantern is committed to providing their clients with a personalized experience and uses four pillars of Client Services as their base foundation. Herold and Lantern is a family owned business that was formed by the merger of Bernard Herold & Co. and Lantern Investments. The company was founded on these four pillars, Dedication, Accountability, Proactivity and Responsibility. Bernard Herold and Co. launched its advisory firm, Herold Advisors, Inc, 44 years ago. It is one of the longer established investment advisors in the nation. Lantern launched its advisory firm, Lantern Wealth Advisors, LLC a decade ago. Both firms offer superior service to their respective customers founded in the concept of the four pillars.

1.3 Brokerage Industry Culture.

Herold and Lantern is not alone in its quest to offer superior service to its clientele. This a recurring theme throughout the Brokerage industry. Savings Banks were using the idea of a Full-Service Financial Services Center as back as long as the 1980's. The company is a family-owned business that was formed by the merger of Bernard Herold & Co. and Lantern Investments. Most firms use the need for personalized client service as their foundation. Herold and Lantern needs to be able to distinguish their superior client service and four pillars foundation to give them a competitive advantage. This will be part of the foundation for the creation of this Case Study.

Part II: Herold and Lantern Succession Planning

2.1 Financial Advisor Proprietary Business Model.

To offer the most customized financial plan for their customers, Financial Advisors, such as the Vice Presidents of Investments, use proprietary models. This gives the clients the best customized plan. The model is designed for the individual client to offer them the best personalized plan. The thought process and the knowledge therein lies with the Vice Presidents of Investments and not communicated to other team members within the organization in a cost-effective manner. This would allow other team members to be able to leverage what the Vice Presidents of Investments are already doing.

2.2 Maintaining Business Continuity.

One in four Financial Advisors nearing retirement lacks a well-defined succession strategy. 37% of financial advisors, who manage 40% of the industry's total assets, are likely to retire within the next decade. The report also notes that the average age of advisors has increased over time. Some older advisors are giving up their CFPs after retiring, since they no longer want to pay the fee to maintain them. While the client base can be either older who are looking for their retirement income or younger looking for expendable income to help them travel, for example. This raises the question as to whether the client base can relate to the older Financial Advisor that they may be to trust rather than robo-advisors. The younger generation is used to digital processing and not collaborating with a trusted advisor to help them set their goals.

2.3 Challenges in the Financial Services Industry in which the firm currently operates.

There are several challenges that the Financial Services Industry are facing. After some research the average expense ratios, expressed as a percentage of assets, incurred by investors in mutual funds and ETFs have steadily declined over time. Mutual funds expense ratios on an assetweighted basis have decreased over time across different fund types. For example, the expense ratio for actively managed equity mutual funds fell from 1.06 percent in 2000 to 0.68 percent in 2021 (Figure 2.1), whereas the expense ratio for index bond mutual funds decreased from 0.21 percent in 2000 to 0.06 percent in 2021. The decrease in expense ratios can be attributed to economies of scale as assets accumulate with a fixed cost structure, as well as increased competition in industry. These have ramifications to individual firms and make it important to review the compensation structure to Financial Advisors.

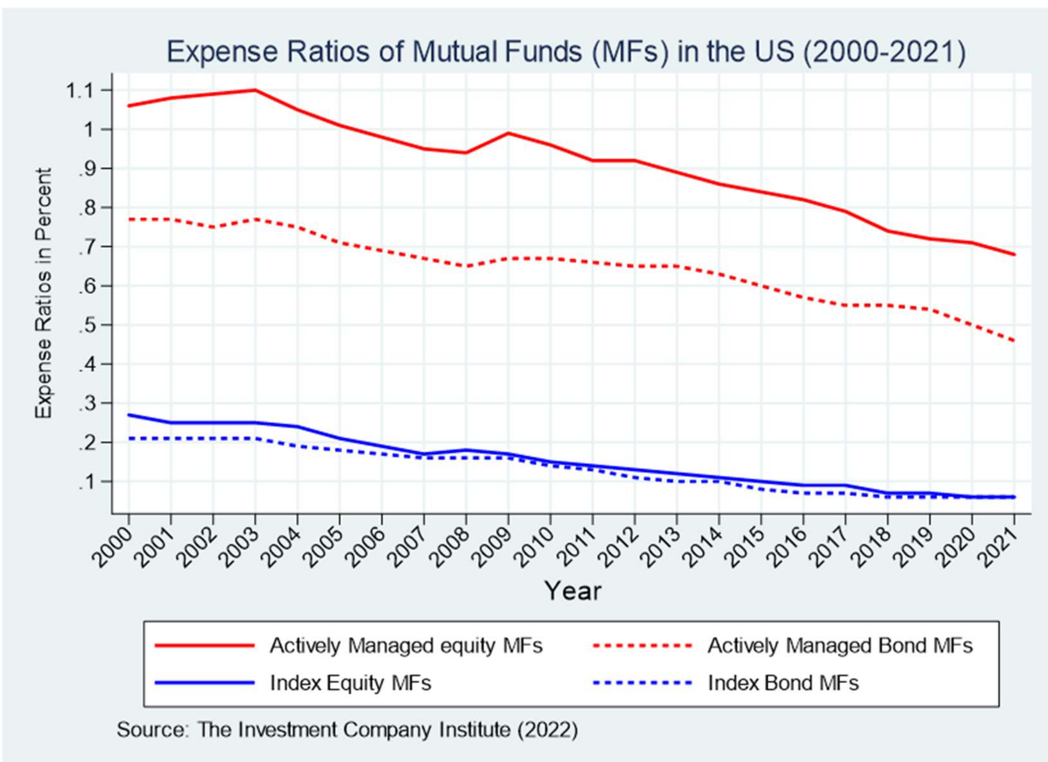

Figure 2.1. Expense ratios incurred by U.S. mutual fund investors by fund type from 2000 to 2021.

Part III: Questions

I. Business Model Structure

a. – How to scale the current models that are created by the Vice Presidents of Investments so that they can be replicated and scaled internally and possibly externally?

b. – How to incorporate the current model into the larger company infrastructure?

c. – How to transfer knowledge of the current models in a cost-effective manner for other employees to leverage? `

II. Business Continuity Succession Planning

a. – How to recruit younger employees and create a succession/transition plan for Financial Advisors?

b. – How can the transition plan for the knowledge transfer from current Financial Advisor to new recruit be tailored to the new members and the organization's needs?

c. – How can a separation be created and finding of a better alternative if a new recruit is not a good fit.

d. – How to persuade the younger generation of the value of working with someone on their goals rather than robo-advisors, as well as the value a trusted person, on whom they can rely.

e. – How to develop a strategy for recruiting younger team members who can relate to the target demographic?

f. – How to fill the need to hire new employees in order to improve backup systems for key positions?

g. – How to fill the need for much more training for older financial services personnel in order to be at the forefront of digital processing?

III: New Employee Planning based on current state of the Financial Services Industry

a. – What would the compensation structure look like for a new team member based on what is transpiring in the industry?

b. – How do you evaluate performance to develop compensation metrics?

c. – How would the fees collected account for the compensation?

d. – What would the firm pay this individual over time?

e. – How to grow and keep building assets under management in the face of steadily declining fees in the Financial services industry?

f. – How to explore avenues for prudently expanding the business in order to spread fixed costs can remain competitive and successful?

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