William A. Johnstone

Serving Main Street

An Interview with William A. Johnstone, Chairman and Chief Executive Officer, Davidson Companies

EDITORS' NOTE *William Johnstone joined D.A. Davidson & Co. as President in 2000. He was named President and CEO of Davidson Companies in 2004 and, in 2012, was elected Chairman while also serving as CEO. Before joining Davidson, he was Managing Partner at Dorsey & Whitney LLP, the same firm where he began his career as an attorney. Earlier, he was Vice Chairman of investment firm Dain Rauscher Inc. and President and CEO of Rauscher Pierce Refsnes Inc., a Dain Rauscher subsidiary. Johnstone earned a bachelor's degree with honors from Montana State University and a Juris Doctor degree from the University of Minnesota Law School, again with honors. He currently serves as Vice Chairman of the Securities Industry and Financial Markets Association and was recently appointed by Montana's governor to serve as Co-Chairman of a statewide grassroots economic development initiative.*

COMPANY BRIEF *When David Adams Davidson joined a tiny Montana brokerage in 1935, he was planting seeds that would grow into a family of financial services firms. Today, if you consider the recent addition of Crowell, Weedon & Co., D.A. Davidson & Co. has grown to become the largest full-service, independent investment firm based in the Western United States, in terms of the number of financial consultants. Besides D.A. Davidson, the Davidson Companies family of firms (www.davidsoncompanies.com) also includes three other financial services firms: Davidson Investment Advisors, Davidson Trust Co., and Davidson Fixed Income Management.*

How has D.A. Davidson evolved over the years?

The company started in the mid-1930s as a classic broker-dealer and remained small until the late '50s. The real growth has occurred since 1958. Now, Davidson Companies as a whole represents a firm of about 1,400 employees doing business in 21 states with about $325 million in revenue.

We got here organically – continuing to methodically and consistently grow and invest back into the firm – and, to a lesser extent, through acquisitions.

I have been with the firm for 13 years and the CEO for 10 years, and over that period of time, we have tripled in size in terms of top-line revenue.

Fifty years ago, there were a lot of firms that looked like ours. They tended to grow up around regional stock exchanges because that is how the business operated. There are no more regional stock exchanges; in fact, one can argue that there aren't any more traditional stock exchanges. As a result, most of the regional firms have gone out of business or merged, which has allowed us to continue to grow and build.

We're a throwback in terms of our ownership and that has benefited us. We're employee-owned, which creates the ability to take a longer-term view of what we want to do. It creates some interesting leadership and management challenges, but they have been generally positive in terms of producing stability and a commitment to grow, and in terms of doing business the right way.

Is it difficult to maintain the culture with the growth you have experienced?

Our culture is our most important asset and we believe it differentiates us, and it is frequently noted by professionals who join us from other firms. But it is something that requires constant attention. We have worked to ensure that our associates are valued and in turn understand and value the benefits of being with an employee-owned enterprise, including the sharing of responsibilities and successes that comes with employee ownership.

At the same time, we have made changes in our governance and management team and policies to accommodate and support our growth. While we are private, we have tried to follow many public company governance and management practices by strengthening our financial management and reporting and compliance functions, adding a CFO and general counsel with public company experience, and adding a number of experienced independent directors to our board.

Will your presence geographically remain as is or are there more opportunities for expansion?

We're Westerners and there is a lot of opportunity in the West. It has great demographics and positive growth trends. I like the idea of looking west to Asia rather than to Europe – there is more potential there.

We also have recently added considerably to our presence in California. Our private client business with the individual investor – which is two-thirds of our business – will continue to be focused on the Western U.S.

The other one-third of our business is capital markets – that is, working with institutional investors – and those clients are all over the world.

We intend to continue to grow organically and via acquisition opportunities.

What is the profile of your investor?

We serve Main Street and we're not just focused on high-net-worth investors. Our classic client is a professional, small business owner or retiree with about $250,000 to $1.5 million in investable assets. We create relationships early, nurture them, and serve both the original client and family members.

How do you show what makes your brand different?

The essential products and services are largely commodities. So you have to distinguish yourself in terms of the quality of service you provide.

The most important thing we do is focus on client interests first. A lot of people talk about that. However, success doesn't come from talking; it comes from execution. We focus on execution and our employee-ownership model reinforces our ability and desire to do what's right for clients. This structure creates a different mentality that is more interested in client service. We are able to work with a more long-term approach.

How critical is it to still have client interaction despite all the demands for your time?

Very important. The key relationship in our enterprise is not so much the one between the organization and the client but between the employee and the client. We work hard to support that relationship. People ask me how we market, but our marketing strategy is through our employees; we're not mass advertisers.

Even though we're a corporation, I see the enterprise more as a partnership and manage it accordingly. I have a few priorities. First, to consistently reinforce the values of the organization and, most importantly, to manage the organization in a way that puts clients' interests first and that does so ethically. Sometimes that means trading profit for doing the right thing – and we're prepared to do that.

Second is investing in our employees and remaining connected to them, because they're my bosses.

Third is strategy – looking down the road to determine which changes are occurring in the marketplace and staying as best we can in front of those to make adjustments to our model. This is difficult and we strive to consistently get it right. ●

