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Wealthy Investors Lured Away as Brokerages Battle to Keep Them

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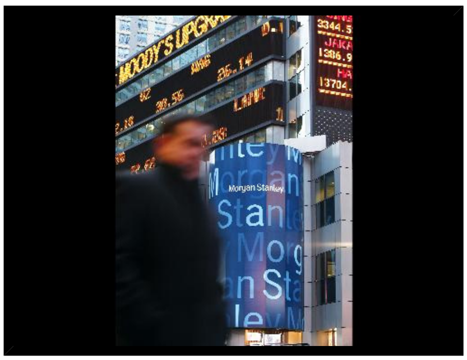
By Alexis Leondis



Nov. 17 (Bloomberg) -- Steve Rose, a public relations executive in New York, spent a year weighing whether to keep his money at **Morgan Stanley Smith Barney** or switch to an independent adviser. Last month he decided to make a move.

"They have a managed portfolio to sell and then it's sell it and forget it," said Rose, 56, who had an investment account with the New York-based bank that charged 1 percent of assets and was underperforming the **market**. "It's too late to get my business back."

Full-service brokerage firms such as **Bank of America Corp.'s** Merrill Lynch, Morgan Stanley Smith Barney and **UBS AG** are renewing efforts to retain retail clients like Rose and expand their businesses catering to wealthy investors, according to **Mercer Bullard**, founder of **Fund Democracy LLC**, an advocacy group in Oxford, Mississippi.

Almost 30 percent of the world's millionaires withdrew assets or left their wealth management firms last year, and 46 percent lost confidence in their advisers, based on a survey released in June by Capgemini SA and Merrill Lynch & Co.

Independent registered investment advisers are expected to gain about $50 billion in assets this year, in contrast to full- service brokerage firms, whose assets are projected to decline by $180 billion, according to Boston-based consultant Cerulli Associates.

"The retail side of the brokerage business needs to come up with something new and sexy and that's why they're pushing wealth management now," said **Charles Geisst**, a finance professor at Manhattan College in Riverdale, New York.

Until brokerage firms move to fee-based compensation entirely, investors will continue to be sold investment products such as annuities, mutual funds or new stock issues, rather than have their wealth managed, Geisst said.

Investment Advice

Financial advisers at brokerage firms focus on investment advice, and may be compensated through a combination of commissions and fees. With the emphasis on wealth management, they are targeting customers who have at least $500,000 in investable assets and branching into advice including insurance and estate planning, said Geisst.

Registered investment advisers, who are regulated by the U.S. Securities and Exchange Commission, may offer guidance ranging from tax planning to retirement savings and usually charge a fee based on assets under management. They are required to adhere to a fiduciary duty standard, which means they are supposed to put clients' best interests first, according to the 1940 Investment Advisers Act.

Adding Advisers

Financial advisers at brokerage firms generally follow a so-called suitability standard, which means they shouldn't make investment recommendations that are inappropriate, such as products focused on long-term returns for the elderly. Most must register with the SEC and be members of the Financial Industry Regulatory Authority. Some advisers at brokerage firms are dually registered as investment advisers and broker-dealers. President **Barack Obama** sent legislation to Congress in July that would require brokers recommending investments to meet the fiduciary standard.

New York-based Merrill Lynch recruited 96 advisers last month and Morgan Stanley Smith Barney added 54 advisers, according to Discovery Database, a sales and marketing firm in Shrewsbury, New Jersey. The numbers provided may be not be exact because of reporting delays from data sources, the company said.

Bank of America is bringing in more advisers, and expects asset flows to follow, **Sallie Krawcheck**, president of the wealth management division, said at a press conference Oct. 5. The bank said last month it was reviving the Merrill Lynch bull logo in a $20 million marketing campaign focusing on its wealth-management business.

The business has "changed dramatically" from transactional to wealth management, said **Charles Johnston**, president of Morgan Stanley Smith Barney, in a Bloomberg Television interview Oct. 14.

Stem Outflows

Robert J. McCann, the former Merrill Lynch executive who joined Zurich-based **UBS** last month as the head of wealth management in the Americas, announced the creation of a new team last week to focus on retaining clients and stemming global net outflows that totaled $25.8 billion in the third quarter.

Full-service brokerage firms are focusing on wealth management because it provides steady income, greater client retention and the potential for higher returns through cross- selling of products, said Monish Kumar, a partner in the New York office of the **Boston Consulting Group**.

"Despite their efforts to show otherwise, one size fits 20,000 is still endemic at the wirehouses," said Barnaby Grist, head of strategic development at San Francisco-based Schwab Advisor Services, the **Charles Schwab Corp.** unit that supports about 6,000 registered investment advisers.

Schwab has gained $29 billion in net new assets in the independent adviser business over the last three quarters and net inflows increased 44 percent in the third quarter from the previous quarter, Grist said.

Customized Approach

Investors are coming to Boston-based **Pillar Financial Advisors**, a fee-only advisory firm, because they want more direct contact and comprehensive planning services, according to **Bill Baldwin**, Pillar's president. Baldwin said almost 90 percent of his new clients in the last two years have come from full- service brokerage firms and he helps them by reviewing tax returns before investing and calculating sustainable withdrawals from portfolios.

Rose, the public relations executive, said he picked his new adviser because he offered a more customized approach for managing retirement savings by putting him in individual stocks.

"Focusing on me became more important than size," Rose said.

'World Open'

John Krambeer, founder and president of **Camden Capital Management** in El Segundo, California, which added $300 million in assets during the past 12 months, said his firm offers managed accounts and mutual funds similar to full-service brokerage firms. The difference is his advisers aren't paid any differently if they sell in-house packaged products designed to replicate a sector, Krambeer said.

Constellation Wealth, an independent advisory firm that manages almost $4 billion in assets for clients who have a minimum of $10 million in investable assets, offers a variety of investing opportunities for its clients, said **Paul Tramontano**, co-chief executive officer of the New York-based firm.

"We have the whole world open to us, so we're free to go out and choose the best investments," Tramontano said.

Production Culture

Full-service brokerage firms hold more than half of the $8 trillion in client assets, according to Grist of Schwab. That's because investors still want the financial strength and compliance standards provided by a name brand, such as **Merrill**, said **Lyle LaMothe**, who oversees about 15,000 financial advisers at Merrill Lynch's U.S. wealth management unit.

"Our advisers are not encouraged in any way, shape or form to favor something in-house," LaMothe said.

Merrill clients aren't leaving for independent advisers because of anxiety following **Bernard Madoff's** multibillion- dollar Ponzi scheme, Krawcheck said at the Oct. 5 press conference.

Morgan Stanley Smith Barney's $1.5 trillion in client assets demonstrates they are serving their clients well, said **James Wiggins**, a spokesman for **Morgan Stanley**, in an e-mailed response. Access to intellectual capital and proprietary research are some of the benefits enjoyed by investors who stay at Morgan Stanley Smith Barney, Wiggins said.

"The wrapper and presentation may have changed to prevent the runoff of clients," said Jeffrey Shulman, chief executive officer of Shulman, Jones & Co., an accounting firm in New York, which has referred clients to Constellation Wealth. "It's too early to tell whether they're really motivated by client relationships rather than production."

To contact the reporter on this story: **Alexis Leondis** in New York **aleondis@bloomberg.net**.

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