

## ADVISERS FACE 'REALITY CHECK'

Originally Published By **Dan Seivert**, Fund Fire

### Financial meltdown leads disgruntled investors to shop for new wealth managers

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Among the changes wealth managers will confront this year, the most challenging might be the accumulation of new clients and the preservation of old ones, according to industry executives.

"It's going to be a reality check," said Tim Kochis, chief executive of Los Angeles-based Aspiriant. "The last few years have been easy, and it was easy to think you were smart instead of lucky. This year, it will become much more evident."

Many wealth managers believe that clients will be up for grabs this year. Aspiriant, for example, will be sending a letter soliciting its services to a list of prospective clients at other firms, Mr. Kochis said. "It's the first time we've spent the money to do something like that, but we think it's a great opportunity," he said.

Convergent Wealth Advisors is also on "superhigh alert" for new clients, said Jamie McLaughlin, managing director in New York for the Rockville, Md., firm, which has approximately \$16 billion in assets under management. The financial crisis, he said, "has unleashed a very large universe of clients."

New clients will be badly needed to offset the decline in revenues wealth managers are suffering as a result of a sharp drop in client assets. That's critical because the business model for most firms remains charging clients a fee based on a percentage of their assets under management.

"Assuming most firms do not have all of their assets in equities, most firms' asset levels are down 25% to 35%. That means that if you did not have profit margins over 20% to 35%, you are not breaking even or you are losing money," said **Dan Seivert**, chief executive and managing partner at **ECHELON Partners**, an investment banking and consulting firm in Manhattan Beach, Calif.

To make matters worse, fees are likely to come under pressure in 2009, industry observers said.

"Clients are asking, 'Why am I paying you [0.6% to 1%] to help me select managers that are underperforming the market and creating a strategic asset allocation that has not protected me in the recent market sell-off?'" said consultant Jeff Spears, principal at San Francisco-based Sanctuary Wealth Services LLC.

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As a result, wealth management firms are likely to examine alternatives such as charging clients fixed fees.

Mr. Kochis said his firm has been well-served by charging a separate fee for financial planning services. "It's not trivial. It means that a big chunk of our revenue, about 20% to 25%, is not tied to assets under management," Mr. Kochis said.

Turmoil in financial services companies has transformed the job market for wealth management talent from a sellers market to a buyers market, a trend which is expected to continue in 2009.

"There are more people on the street, and we're seeing great candidates, people we wouldn't have seen six months ago," said Jeff Rupp, managing director at Bluffview Wealth Management LP in Dallas, which has \$1 billion in assets.

The wealth management industry will also be waiting to see how big industry consolidations shake out, Charlotte, N.C.-based Bank of America Corp.'s purchase of Merrill Lynch & Co. Inc. of New York and Wells Fargo & Co. of San Francisco's purchase of Charlotte-based Wachovia Corp. shakes out.

"The question will be which elements of the disparate delivery models for wealth management will be used in the newly consolidated organization," said Allan Starkie, a partner at New York-based executive search and market research firm Knightsbridge Advisors Inc.

## ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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