Wealth Management May Face Growing Pains

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The wealth management business is still going gangbusters but may face growing pains this year.

"There's been three years of really good times, and when it comes to the retail-investment business, the verdict is in: Wealth management wins," said investment banker Daniel Seivert, chief executive and managing partner of ECHELON Partners LLC in Manhattan Beach, Calif. "It's here to stay. It's the new paradigm."

Nonetheless, Mr. Seivert and other observers believe that while the industry's growth will continue this year, issues such as the rising cost of talent, industry consolidation, client retention and a volatile investing climate will become increasingly prominent.

"Talent will continue to be a scarce resource," said J. Stephen "Mac" MacLellan, chief executive of JPMorgan Private Client Services, a unit of JPMorgan Chase & Co. of New York. "The ability for firms to attract, train and retain top talent is as fierce as I have ever seen in my 25 years in this business.

"The firms that can find and keep the right talent that is aligned to their culture, their value proposition and their client outreach model will have a huge competitive advantage," Mr. MacLellan said.

The demand for chief investment officers in all segments of the industry is "off the charts," according to the annual Asset and Wealth Management Recruiting Trends report, released last month by New York-based executive-search firm Russell Reynolds Associates Inc.

"I used to get people for free," said Harold Evensky, chairman of Evensky & Katz LLC in Coral Gables, Fla. "Now you have to pay through the nose."

PRIZED RECRUITS

Prized recruits include relationship managers and executives for single- and multifamily-offices, industry experts said.

"Human capital" is expected to remain one of the multifamily-office industry's biggest challenges, according to Thomas Livergood, chief executive of Wheaton, Ill.-based Family Wealth Alliance LLC.

And annual compensation for chief executives and chief investment officers of single-family offices with assets exceeding $100 million has already reached $1.5 million, not including bonuses based on investment returns, ac-cording to Jane Bierwirth, a partner at Higdon Partners LLC, a New York-based executive-search firm specializing in family offices.

Industry consolidation last year was highlighted by the $3.3 billion acquisition of New York-based United States Trust Co. NA by Charlotte, N.C.-based Bank of America Corp. from The Charles Schwab Corp. of San Francisco, and the merger of The Bank of New York Co. Inc. with Pittsburgh-based Mellon Financial Corp.

While no blockbuster deals are on the horizon, industry leaders expect more consolidation this year, especially at the regional level.

Last November's merger between two top California wealth managers, San Francisco-based Kochis Fitz Tracy Fitzhugh & Gott Inc. and Quintile Wealth Management LLC of Los Angeles, is widely considered a prototype of two regional powers joining forces.

"I see a great deal more consolidation," said Mr. Evensky. "You can't be a viable business at the scale some firms are currently at unless you just want it to be a lifestyle business."

RETAINING CLIENTS

Wealth management firms also appear to be increasingly concerned about retaining clients, especially those highly sought-after clients with investible assets of $10 million or more.

Just last month, a group of high-powered Wall Street and corporate executives announced plans to open a new private bank this year in ultra-affluent Greenwich, Conn., the epicenter of the hedge fund industry, because they were dissatisfied with the service they were getting at their current firms (*InvestmentNews,* Dec. 10).

"There is dissatisfaction among ultrahigh-net-worth clients," said Jamie McLaughlin, New York-based managing director for Convergent Wealth Advisors LLC of Rockville, Md.

"There is a latent suspicion that the platform they are given is ultimately more beneficial for the shareholders of the company than the client," he said. "As a result, we will see the continued emergence of boutique, high-touch firms."

Also, Mr. McLaughlin is convinced that the market for such firms is not yet saturated.

"It's like the Wild West. The business is so fractionalized, it's still open for people to take market share," he said.

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