More Money Men

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As wealth rebounds, so has wealth management. Banks, breakaway firms and out-of-towners are all clamoring to manage the money of L.A.'s elite now that cash is coming off the sidelines.

Wealth management firms know that Rob Babek, a partner in charge of accounting firm Marcum's Century City office, keeps the books for some of the richest families in Los Angeles.

Which is why at least twice a week, Babek gets cold calls from brokers and investment advisers. They're pretending they can help him drum up business, but really they're looking for an in with his wealthy clientele.

"They always start off with the same line: 'I could refer you a lot of business.' But in reality, it's the other way around," Babek said. "The competition is brutal."

And it's getting more so. In the past two years, out-of-town firms have been buying local wealth management shops or opening their first West Coast offices here. New shops are cropping up, too, as money managers leave big firms and star their own practices.

With a growing economy and a booming stock market, the fortunes of wealthy families are on the rise. And that's leading to more competition to manage their money, especially for the richest of the rich, said Paul Miller, managing director in the new Westwood office of Irvine wealth manager First Foundation Advisors.

"It's a pyramid," he said. "As you go up the pyramid, the number of clients gets smaller and the competition gets fierce. Clients have a lot of options."

The biggest recent deal was the October acquisition of Century City's Bel Air Investment Advisors by Montreal asset management firm Fiera Capital Corp. Another noteworthy local deal was the December 2012 acquisition of Luminous Capital Holdings, also in Century City, by San Francisco lender First Republic Bank.

Luminous and Bel Air each manages more than $5 billion in assets, making them two of the biggest wealth managers in Los Angeles.

City National Bank, the biggest local commercial bank, has offered wealth management for years, but it recently expanded its offerings, launching subsidiary City National Rochdale in September. It's the combination of City National Asset Management and Rochdale Investment Management, a New York firm the bank acquired in 2012.

The number of wealth management firms is growing at a remarkable pace.

Last year, 65 new wealth management firms in California registered as investment advisers with the Securities and Exchange Commission – up from 57 in 2012 and 42 in 2011. And the pace continues to quicken: Already this year, 23 new firms registered.

Westwood stock brokerage and investment bank B. Riley & Co. late last year created B. Riley Asset Management, a new affiliate that will offer investment products and advisory services for wealthy clients. Steve Lockshin, who founded Convergent Wealth Advisors, now owned by City National, last month started Century City wealth management firm AdvicePeriod.

Driving the growth is an increasingly buoyant economy, competition among banks over wealthy clients as well as a shift by both investors and advisers away from big brokerages toward smaller, independent firms. Those factors are likely to continue producing startups and acquisitions, said Rebecca Rothstein, a managing director in the Beverly Hills office of Bank of America's Merrill Lynch private wealth management practice.

"The competitive landscape in Los Angeles has changed dramatically," said Rothstein, who moved her team from Morgan Stanley to Merrill a year and a half ago. "And I don't believe we've seen the end of this."

Throwing lassos

For City National and First Republic, wealth management is not a new business line, but it's something those and other banks have been more interested in over the past few years as low interest rates have made it more difficult for them to make money through their core business of lending.

To banks, wealth management is a source of steady income, said Tim Coffey, an analyst in the San Francisco office of Atlanta brokerage and investment bank FIG Partners.

Coffey, who follows City National parent City National Corp. and First Republic, said both banks hope to make money from wealth management clients in two ways: charging fees to manage their money, and developing relationships that lead to jumbo mortgages, business loans and other traditional banking services.

"There's a lot of pressure on banks to grow revenue, and in a low-interest-rate environment, it's hard to do that if all you rely on is loans," Coffey said. "Wealth management clients drive a lot of fee revenue and they're an opportunity for banks to sell other products."

In buying Rochdale, City National increased its presence in New York and added a few new investment strategies, said Richard Gershen, executive vice president of City National Wealth Management.

He said City National Asset Management, the old bank unit that merged with Rochdale, was known for bond investments, while Rochdale's specialties included investment in emerging markets and so-called alternatives, such as hedge funds.

"It was all very complementary," Gershen said. "We now have a much broader set of strategies."

Russell Goldsmith, City National Corp.'s chief executive, said the acquisition was about finding out what clients need, then offering it.

"We have a broad and longstanding relationship with clients," Goldsmith said. "We're serving them across the board. We can site with the client and say, "What do you need?"

Other banks are taking a similar approach. Rothstein at Merrill Lynch said she left Morgan Stanley in part because of the opportunity to get business from Merrill parent Bank of America's client base.

But the strategy is as much about getting new clients as it is about keeping existing ones, said First Foundation's Miller. His firm is affiliated with Irvine's First Foundation Bank and about 30 percent of his wealth management clients have come to him through that connection.

By providing wealth management, he said, the bank helps keep clients from taking the rest of their business elsewhere. If a client gets a commercial loan from one bank but manages their personal wealth at another, both banks fear they could lose the client.

"Everyone tries to throw lassos around clients," Miller said. "The more lassos, the less likely they are to leave. It makes it hard for a client to say, 'I'm going to go to a different bank.'"

But don't expect many other banks to get into the wealth management business, said FIG's Coffey.

For banks that don't already offer wealth management, he said that starting up a business unit can be costly. And wealth management is different enough from ordinary banking to make it a potential headache for bank executives.

"I wouldn't expect to see this among the smaller banks," Coffey said. "If you know how the business is run and you know how it fits into your corporate structure, it's relatively easy to do. But if you don't have that experience, it can be expensive."

Independent players

In addition, Banks are getting more local competition from smaller investment advisory firms – those not connected to banks or brokerages.

Some are new, started by money managers who have left bigger firms. There's Lockshin's AdvidePeriod; Kinney Group, a Pasadena wealth management firm started late last year by former UBS adviser Paul Kinney; and Adherence Capital Management, a Century City firm co-founded by Steve Johnson, former chief investment officer at Apple Inc. investment arm Braeburn Capital.

Dan Seivert, chief executive of **ECHELON Partners**, a Manhattan Beach investment bank and consulting firm that works with investment managers, said advisers from big firms are leaving to start their small advisory firms as contracts and incentive agreements signed during the recession expire.

Seivert said that's happening because advisers nearing retirement age might want to start their own shops, bring their clients along with them and later sell their book of business to another firm. What's more, some advisers don't want to work with big firms connected to banks that made bad investments and then had to be bailed out.

"There's been a big desire to get out from under these firms because many of them were affiliated with the big banks," **Seivert** said. "They became synonymous with the problems associated with the downturn."

Along with startup wealth managers, Los Angeles has seen an influx of out-of-town firms setting up their first local offices. There's True Capital Management, a San Francisco money management firm for pro athletes that opened an office here a year ago; Silvercrest Asset Management Group, a publicly traded New York firm that opened a Century City office in June; and TCI Wealth Advisors Inc., a Tucson, Ariz., firm that opened a Santa Monica office last month.

David Murdock, a Silvercrest managing director who runs the local office, said his firm and other out-of-towners see opportunity in Los Angeles in part because it's a market where independent advisers, ones not connected to brokerages, don't have a big presence yet. He and other advisers say big brokerages have been more dominant here than in San Francisco, New York and other centers of wealth, and that independent advisers are more common in those markets.

"Our competitors here are not first like mine," said Murdock (no relation to Dole Food Co.'s chief executive). "There's a much smaller number of independent investment advisers here than traditional brokerage firms."

Many of the firms opening offices here have L.A.-area clients already, but they're hoping to build a bigger base with a local presence. Trisa Summers, president of TCI Wealth Advisors, last month hired Marc Campbell to run her firm's Santa Monica office. She said she hopes L.A. clients will feel more comfortable referring acquaintances to her firm now that she has a local office. Like the banks, she hopes to take advantage of existing relationships to help grow the business.

"Our biggest growth opportunity is client referral," Summers said. "Where you have clients without a physical presence, that's a challenge."

Niche Focus

Wealthy clients are becoming more aware of these smaller firms, said Gary Reuben, chairman of the L.A. chapter of Tiger 21, a networking group for investors who have at least $10 million in investable assets and pay annual dues of $30,000.

Reuben said Tiger 21 members have expressed interest in moving their money to independent advisory firms. Small firms are seen as more nimble and can invest clients' money in smaller, more niche investment types. That's something his members want.

For instance, he said, members have lately been interested in investment in first-trust deeds – short-term loans made to real estate investors or developers. Many funds making such loans are too small to entice large firms that manage billions in client assets.

"They might be $100 million funds or less, and bug firms aren't interested in that," he said. "But a small adviser is interested and those are the kinds of investments that high-net-worth investors like."

Across the board, there's one more factor to making the wealth management market so frothy: After a recession and a few years of slow growth, money managers say the economy is creating wealth again. Todd

Morgan, senior managing director at Bel Air Investment Advisors, mentioned Facebook Inc.'s huge purchase last month of messaging company WhatsApp Inc. as evidence of a new boom.

"It's exploding – someone just paid $19 billion for a company," Morgan said. "Real estate portfolios are growing; business owners are making more money."

As a result, wealthy investors who have been sitting on cash are thinking about putting their money to work again, meaning there's more business for wealth advisers.

But some advisers fear there's a bandwagon mentality at play – that firms are starting up and expanding because wealth management looks easier today than it did a few years ago. The S&P 500 is up about 20 percent from a year ago, and it's more than doubled since 2009. First Foundation's Miller said the founders of new firms might have forgotten how bleak the market looked just a few years ago.

"You get several years of wind at your back and it makes this look easy," he said. "Everybody's doing well so everyone looks and says, 'Where do I want to grow next?' But people forget the complexity of our business."

Others, though, say Los Angeles could use more money managers and that the number of firms here is still dwarfed by the number in New York.

Bob Graziano, a longtime Los Angeles Dodgers executive who now leads the Century City office of wealth manager JPMorgan Private Bank, said his office has doubled its staff from 40 to 80 over the past few years and still sees growth ahead.

"There's a strong recognition that Southern California has a tremendous amount of wealth and there isn't a dominant player in the market yet," he said. "When people are looking at opening satellite offices or creating new organizations, they see L.A. as a place with tremendous opportunity."

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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