Echelon Out to Help Wirehouse Brokers Break Away

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If the big brokerage houses are looking to channel their ire at losing business to former employees who go independent, then they might want to nose around the Manhattan Beach section of Los Angeles. That's home to **Echelon Partners**, an investment banking and consulting firm that's out to help brokers make the most of their books of business even if it means upping stakes.

Or the wirehouses might set to work fixing the things that prompt top brokers to leave in the first place. "Maybe they should be making changes for the long run," says Echelon's CEO **Dan Seivert**.

Thumbnail

If anyone knows how big the "breakaway broker" phenomenon really is, they're not saying. Seivert figures that the five wirehouses -- Merrill Lynch, Smith Barney, Morgan Stanley, Wachovia Securities and UBS Financial -- have, collectively, about 55,000 active brokers and lose, on average, about 5% of this headcount a year.

Of these 2,750 or so brokers who leave their firms every year, about a quarter jump ship to other wirehouses, a quarter wash out of the business altogether (or move into management or something else within the firm), a quarter retires and the last 25% goes independent, according to Seivert's thumbnail sketch.

That's about three brokers going independent every workday of the year.

Of this breakaway 700, Seivert thinks that 45% start RIAs, 10% join existing RIAs and the rest -- another 45% -- join independent broker-dealers.

Whatever the exact numbers of brokers who break away in the run of a year, their books add up to a tidy pile. In 2005, $30 billion in assets moved from the wirehouses to the independent RIA channel, according to Schwab's RIA custodian, Schwab Institutional. With around $13 trillion in client assets, the independent advisory channel -- independent RIAs together with independent, fee-based registered reps -- was the fastest growing distribution channel in the financial service arena in 2004, according to Tiburon, Calif.-based market research firm Tiburon Strategic Advisors. Fee-only independent brokers set the pace for the number of new practitioners, RIAs led in terms of asset growth.

Money

There are probably as many reasons for breaking away as there are former brokers who have made the leap. A desire to work in an atmosphere unfettered by pre-determined product rosters and rigid reporting lines comes near the top of the list.

But the biggest catalyst for this exodus is the fact that a successful Wall Street-firm broker faces is a comparatively lousy payout when it comes time to retire. Some wirehouses let brokers sell their books internally, or kick in with diminishing disbursements over a couple of years, based on the broker's take in the last year. But those paydays don't compare with the open-market potential of their practices.

Seivert says that a practice with $500 million in assets could go for $10 million.

Enterprise valuation case study		
A practice with $500 million in assets		
Variables	**Details and assumptions**	

Assets	$500 million
Average fee	80 bps (range 50 bps to 100 bps)
Revenues	$4 million
EBITDA Margin	36% (range of 15% to 50%)
EBITDA	$1.44 million
3 Year CAGR	20%
Valuation Multiple	7 (range of 4 to 24 depending on scale, growth, and many other factors)
Enterprise value	$10.1 million

But for a wirehouse broker to get that, or anything like it, he has to leave, either to set up his own RIA or join an existing RIA or independent broker-dealer. Echelon -- formerly **3C Financial Partners**, by the way -- helps advisors sort through these options, including identifying the best time to break away.

If the decision is made to establish a new RIA, Echelon can aid in getting the business up and running by helping it zero in on market segments and tailor investment offerings and support technologies.

Then, at a later stage in the advisory's lifecycle, Echelon is ready to help RIAs sell their businesses outright by developing appropriate marketing materials, evaluating prospective buyers and marketing the practice to them, negotiating deals and bringing transactions to an end.

Lighten up

Of course the major RIA custodians and some of the bigger investment-platform providers are set to help brokers make a bid for independence, and mainly at no charge.

Schwab Institutional and Fidelity's RIA Group offer sophisticated consulting practices aimed directly at breakaway brokers and extending through the life of their RIAs, covering everything from marketing and technology to business brokerage. Pershing's Advisor Solutions unit has been ramping up its consulting services for the past few years, and TD Ameritrade Institutional seems to be gearing up for a similar push.

The problem with advice from these sources -- according to Seivert anyway -- is that it comes with a bias toward establishing an RIA. Echelon's mission is to help advisors weigh their best options, even if the assessment points to joining another brokerage or staying put for the moment.

But if it comes down to leaving, "breaking away doesn't have to be as heavy as it's made out to be," says Seivert. "People leave firms for many different, often very good, reasons. In that sense it's not a divorce; it's more like transferring colleges."

Here's a **brochure** on Echelon's breakaway-broker and RIA consulting services.

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