

JPMORGAN UNVEILS BEAR STEARNS UNIFIED ACCOUNTS

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The collapse and takeover of Bear Stearns by JPMorgan in March temporarily delayed the retail brokerage's roll-out of a new unified managed account platform that had begun weeks earlier. Now, the former Bear Stearns private client division has introduced the new platform to branch offices across the nation in a campaign that wrapped up last month.

The tale appears to be a bright spot for the legacy Bear business in an otherwise dismal 2008. Bear disappeared as an independent company when the acquisition closed on May 30, but JPMorgan has elected to keep the Bear Stearns name on the division that now has 326 advisors who oversee about \$8 billion in client assets, according to JPMorgan's second-quarter 2008 financial report. The Bear advisor tally is down from 500 at the end of 2006, and it had lost dozens of high-profile advisors in the weeks around the March 16 takeover announcement.

Early results for the new UMA platform are promising, says John Hyman, head of advisory services at the brokerage, who stayed aboard along with other top executives of the unit.

"We are seeing flows," he adds. "It's really early, of course. We're seeing a lot of proposals being generated and we are opening accounts."

UMAs consolidate various managed account investment vehicles – such as separately managed accounts (SMAs), mutual funds, and exchange-traded funds (ETFs) – into a single custodial account. Many of the other big brokerages have launched UMAs, and regional brokerages such as Hilliard Lyons also have started to get in the game.

The UMA's launch appears to be another endorsement of the brokerage after incentive packages JPMorgan offered earlier this year to keep senior Bear staff and advisors on board.

"This makes it clear that JPMorgan is going to invest in Bear Stearns, and it's a signal to the marketplace and their advisors that they're open for business big time," says Randy Bullard, executive v.p. at Placemark Investments of Wellesley, Mass., which is serving as overlay manager for the new UMA at Bear. "The [Bear unit] has the potential to be a big-name, big-revenue, high-end, fee-based consultancy, and the UMA program can be a significant element in helping them anchor themselves."

Still, JPMorgan had little reason not to launch the UMA because it ties into a major industry trend, says **Tyler Resh**, principal at Echelon Partners, a consultancy in Manhattan Beach, Calif. "I don't think there is any reason that JPMorgan would put a wet blanket on this initiative, since it sounds as if the initial investment has been made," he adds.

The green light for the UMA, however, doesn't indicate how or whether JPMorgan intends to integrate the Bear unit into its larger wealth management structure. JPMorgan had already made clear that the brokerage would operate independently by having the Bear executives who had led the unit – Steve Dantus and Barry Sommers– report directly to James "Jes" Staley, CEO of JPMorgan's asset management group, bypassing JPMorgan's wealth management division.

Now, a JPMorgan spokesman would only say that the UMA platform was “developed exclusively for Bear Stearns,” declining to specify whether any plans are afoot to expand the UMA to the rest of JPMorgan, which includes a private bank for clients with more than \$25 million and a private client unit for those with \$1 million to \$25 million. The private bank has \$196 billion in client assets and the private client unit has \$60 billion.

Bear's UMA has an investment minimum of \$250,000, and clients of the brokerage average \$5 million in assets per account. JPMorgan's only other UMA appears to be a down-market program with \$50,000 investment minimums that it launched in June for advisors at the 3,150 branches of its Chase retail banking affiliate.

Hyman says the Bear UMA was carefully designed to be flexible enough to meet complex investment needs.

“We started working on this in detail a year or so ago,” he says. “I've been on this side of the business for years and we've seen the evolution from separately managed accounts to the MDP and the MDA. Those are products that we had frankly steered clear of, but the UMA intrigued us.”

The Bear UMA has 55 to 60 SMAs and 110 mutual funds, ETFs, and exchange-traded notes, and that roster is set for now, Hyman says. The program is designed to be extremely flexible for advisors, who Hyman says will tap into the brokerage's “robust asset allocation engine” and not be limited to pre-formed models for client portfolios. It also will offer features such as tax management, account rebalancing, and customization for client investment preferences, which Placemark will oversee as overlay manager.

Placemark's Bullard says the Bear program may get particularly strong usage of more sophisticated tools such as transition management of client portfolios. That helps advisors “unwind” client accounts that have large single-stock positions, charting a strategy to sell the stock over time and diversify the assets into managed accounts while limiting the capital gains in the transactions. “The higher-end features are going to be more valuable just given the higher demographic of the Bear clients,” Bullard adds.

Bear is using its own due diligence team to select managers, and about half of them had already been on its existing SMA platform. “Two or three years ago, it would have been more work to convince the managers to participate, but there is more acceptance now,” Hyman says. “The managers have looked at it and they can understand the merits of it...It's a business that's here to stay. Some of them even see it as a business risk not to participate.” Bear had reported about \$5.2 billion in SMA assets in the first quarter to Cerulli Associates, down from \$6.1 billion in the previous quarter, though that drop somewhat mirrored the rest of the SMA industry, which has suffered declines caused by the equity markets downturn this year. That Cerulli first-quarter report also listed Bear as having \$4.3 billion in assets where the advisor acts as portfolio manager. Even with the UMA launch, the Bear unit is expected to have lost managed account assets because of the advisors who left this year.

JPMorgan has not released second-quarter statistics on the Bear unit's SMA business.

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Daniel Seivert

Managing Director

dseivert@echelon-group.com