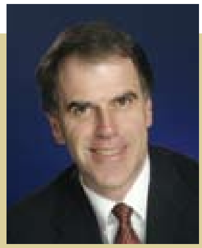
ADVISORS IN MOTION

Options abound for advisors looking to make a change to a new firm or new business model.

During the ongoing market crisis, many financial advisors are evaluating their career paths and exploring options for making a professional transition. The most successful advisors have more choices than ever before. Despite a tumultuous year for Wall Street firms, the wirehouses continue to attract and retain top-producing advisors. At the same time, regional and independent broker-dealers are reporting noticeable gains in their recruiting efforts. Finally, a small but growing number of advisors are establishing their own RIAs. Among the key decisions facing advisors interested in making a move are which business models to pursue, which firms to associate with and how to successfully navigate the logistics of managing operations, compliance and client relationships during a career change.

Following the Money

In a recent survey, *Advisor Migration: The Changing Landscape of Retail Distribution (July 2009)*, Cerulli Associates presented its ongoing research of which distribution channels are seeing the most gains in terms of attracting financial advisors. "The move toward independence among financial advisors is still a driving factor in the industry, though it sometimes gets overstated," says Scott Smith, a senior analyst for Cerulli Associates. "When a billion-dollar advisory team leaves a wirehouse to establish itself as an RIA, it's certainly a newsworthy event, but it's only part of the story." Smith expects the wirehouses to continue to see some attrition to RIA shops, as well as independent and regional broker-dealers. However, he also expects the wirehouses to fight hard for their top producers.



"Because we control many of our costs, we can theoretically keep up to 65 cents on every dollar of revenue we produce."

—Paul Capeloto

Indeed, wirehouses are increasingly focused on retaining their top producers, while boosting performance expectations among their rank-and-file advisors, Smith says. "The wirehouses are definitely trying to raise the bar, offering the highest levels of financial incentives and support to advisors who have the potential to generate $500,000 or more in annual revenue," he says. "For advisors with annual production levels of $300,000 to $400,000, many wirehouses have dropped payouts to 20%, which would seem to signal they expect these advisors to increase their production or pursue career paths somewhere else."

To retain the "best of the best," wirehouses are offering base payouts of up to 50% to 60% for some million-dollar producers, notes Smith. "I think the industry is pulling back from some of the highest transition deals, such as offering signing bonuses of 300% of GDC payouts for a top-producing advisor to switch firms," he says. "But we're still seeing individuals receive bonuses in excess of 200% to move firms." And once advisors have made a move, he notes, those who have accepted large upfront payments to change firms tend to be contractually obligated to remain at their new firms for seven to nine years.

Whether an advisor or advisory team chooses to move to a new wirehouse or switch models comes down to what's right for that individual or group. Here are four examples of how and why people made the move.

Changing Wirehouses

Paul Capeloto worked for Smith Barney as a financial advisor for 19 years. In 2008, Citigroup—which fully owned Smith Barney at the time—began to receive a considerable amount of negative publicity. As a result, investors and clients alike expressed concerns about the firm's financial health. In January 2009, Citigroup announced plans to sell a 51% stake in Smith Barney to Morgan Stanley. The combination of events led Capeloto and his team to consider relocating their advisory practice. His team, which consists of three other advisors and two support staff, explored a variety of independent models, as well as other traditional brokerage firms. After weighing all of their alternatives, the entire team resigned from Smith Barney in February of 2009 and joined Wachovia Securities.

At Wachovia Securities (now Wells Fargo Advisors), team members say they enjoy greater control over the revenue they earn. They note that the first 25% of all revenue produced by the team goes to Wells Fargo Advisors for the various services they provide. The remaining 75% of revenue goes to the team, which is responsible for paying its own assistants, as well as the rent on its office space. "Because we control many of our costs, we can theoretically keep up to 65 cents on every dollar of revenue we produce," says Capeloto. At the same time, the team continues to benefit from the support of a larger firm by leveraging existing technology systems and participating in group benefit plans. Teresa Dougherty, a spokesperson for Wells Fargo Advisors, describes the compensation and employment model enjoyed by Capeloto and his team as a "hybrid" that combines elements of being an employee with elements of being an independent business owner. She notes that this particular hybrid model is generally only available to top-producing advisors at Wells Fargo Advisors.

Based in Bellevue, Wash., Capeloto's team serves high-net-worth individuals, with accounts ranging from $1 to $10 million. "We tend to measure account size by household—including retirement and other accounts—with a typical client keeping at least $2 million in combined assets with our team," he adds. Like many advisors in transition, Capeloto and his team were worried about how many clients would follow them to their new firm. Ultimately, however, the majority of his clients embraced the move. "About 95% of the clients and 85% of the assets we wanted to take with us followed us to our new firm," says Capeloto. He adds that Wells Fargo is a well-known, popular brand in the Pacific Northwest, making it easier to attract new clients. "When changing firms, identifying the right culture was essential," says Capeloto. "Wells Fargo Advisors has turned out to be a good match for the clients we serve."

Finding Opportunity in a Regional Firm

Lindley Rawlins worked for Morgan Stanley (previously Dean Witter) for 30 years. In 2008, she began reporting to a new regional manager, who required her to relocate from the Greenwich, Conn., office to the Stamford office. While Stamford is less than a 20-

minute drive from Greenwich, most of Rawlins' clients were based in Greenwich and she loudly protested the move. "I have a very face-to-face practice and I was suddenly seeing much less of my clients when I moved to Stamford," she says. "My clients live and work in Greenwich, so I felt I needed to stay there to best serve them," she adds. In January 2009, she left Morgan Stanley and joined Edward Jones, establishing the firm's first branch office in Greenwich. "I knew that I didn't want to work for another big wirehouse, but I also didn't want to go independent," says Rawlins. "Edward Jones has turned out to be a great fit for my needs."

Rawlins has a broad mix of clients, including a number of women who are divorced or widowed. Her average account size is about $350,000, with some accounts much larger and some much smaller. "One thing I like about Edward Jones is that they don't punish you for having smaller accounts," she notes. "The big firms have gotten to the point where if clients have less than $100,000, they're typically sent off to a call center," she adds. "While I naturally try not to have too many small accounts, I'm much happier to be at a firm where I can make those decisions," she adds. Rawlins is still in the process of moving client accounts to her new firm, but expects that she will eventually bring over 80% of the clients and 90% of the assets that she has targeted for transition.

When choosing investments for clients, Rawlins tends to concentrate on basic securities—such as stocks, bonds, mutual funds and CDs—which are all easily accessible on Edward Jones' investment platform. "Morgan Stanley has a lot to offer ultra-high-net-worth clients, but my clients don't necessarily need alternative investments," she says. Edward Jones is a more retail business, which suits her client base well. For example, she notes that Edward Jones' research reports are typically two-pages long (which her clients like and can easily digest), in sharp contrast to the institutional-style research reports available at Morgan Stanley (which can be up to 90 pages in length). To date, she has received only positive feedback from her clients about the move. "My clients really like the fact that I'm back in Greenwich and they stop in to see me all the time," she concludes. "It's these highly personal client relationships that I enjoy most."

Joining an Independent Broker-Dealer

Janet Wilson worked for Merrill Lynch for 12 years. Following Bank of America's acquisition of Merrill Lynch, she noticed a change in culture. Merrill Lynch began a series of layoffs, including some of the firm's most experienced client associates. As a result, she felt morale among many of the firm's advisors and administrative staff was dropping. She was also interested in changing her compensation structure. "I spent a lot of time creating highly detailed financial plans for my clients and wanted to charge an hourly or fixed fee for those services," says Wilson. "After much consideration, I decided that joining an independent broker-dealer would offer me the best chance for achieving my goals." Having researched 18 different firms, Wilson finally settled on Commonwealth Financial Network, an independent broker-dealer that she feels caters to a more mature and seasoned group of financial advisors.

In March of 2009, Wilson resigned from Merrill Lynch and joined Commonwealth as an independent contractor and business owner. Based in Mobile, Ala., Wilson opened Commonwealth's first office in her region. Many of her clients are retirees who have worked for large manufacturing plants over careers that spanned 35 to 40 years, with average account sizes ranging from $500,000 to $1 million. "My clients often have a large 401(k) rollover, Social Security and a spouse who has not worked outside of the home," says Wilson. "My job is to help them generate secure income for life, while making sure they don't outlive their money." Other clients include high-net-worth individuals, 401(k) plans and nonprofit organizations.

"After much consideration, I decided that joining an independent broker-dealer would offer me the best chance for achieving my goals."

—Janet Wilson

In her new practice, Wilson is able to charge a consultation fee, similar to a CPA or attorney, for financial planning services. In addition, she has the flexibility to occasionally take on smaller accounts, which Merrill Lynch actively discouraged. "I think most advisors understand that you can't build a business with smaller accounts, but I did not like being told who I could and could not work with," she says. Wilson notes that many of her previous clients are seeking her services and have followed her to her new broker-dealer. She adds that the transition team at Commonwealth provided her with exceptional support during her move. "My only regret is not having made the move sooner," she concludes. "My clients all tell me that I look younger, happier and more relaxed."

Establishing an RIA

Ben Valore-Caplan worked for UBS for eight years. Serving primarily institutional clients, he and his team were among an elite group of advisors at UBS who were authorized by the firm to offer endowments and foundations a truly fiduciary relationship. With account sizes that generally ranged from $5 to $100 million, they were able to provide institutional clients with a relatively transparent fee structure, as well as the option to custody assets away from UBS. "Our team was largely independent, relying on little from UBS other than human resources, operational support and a relatively positive brand association," notes Valore-Caplan. By the spring of 2008, however, UBS was dealing with massive write-downs and tax evasion issues related to offshore accounts. "Our institutional clients were expressing disappointment in the firm and asking us to consider other options," he says.

As the team began considering their choices, they asked themselves, "What's the best way to serve our clients for the next 20 years? And what's the best fit for who we are and how we do business?" In August of 2008, Valore-Caplan and his team, which includes two other advisors and two support staff, left UBS to establish their own RIA, Syntrinsic Investment Counsel LLC. They feel the move offers a number of advantages to both the team and its clients. "Our current compensation model is extremely simple," says Valore-Caplan, noting that his clients pay the firm a fixed fee every year as a dollar amount, an asset-based fee, or some combination of the two. "Some of our clients have increased their allocation to cash over the last nine months and it doesn't impact our bottom line because we're not paid based on the product or allocation choice," he adds. Valore-Caplan says he enjoys being able to make investment recommendations without the compensation conflicts he believes exist in many parts of the industry.

> "Some of our clients have increased their allocation to cash over the last nine months and it doesn't impact our bottom line because we're not paid based on the product or allocation choice."
>
> —Ben Valore-Caplan

His newly formed RIA has multiple custodial relationships, with most assets held at Pershing Advisor Solutions and Schwab Institutional. Both Pershing and Schwab provided significant transition assistance during the start-up period, coaching the firm through the transition process. "As a business owner, you have to deal with HR, negotiating leases and sorting through a broad range of vendor contracts, so it's clearly not for everyone" he adds. However, he reports that he thoroughly enjoys being an entrepreneur. His team was able to move more than 91% of the assets they wanted to bring with them and has signed several new clients since launching their new firm. "The first quarter of 2009 was our best ever in terms of business development," says Valore-Caplan. "We brought in six new major clients and $60 million in new assets."

Making the Right Choice

Reflecting the diversity of advisors themselves, options for establishing and managing an advisory practice continue to grow. What's more, the lines between traditional distribution channels are becoming less well defined. For example, Smith of Cerulli Associates notes that American Express has a large employee group, as well as a large independent channel. He adds that firms like Raymond James offer multiple affiliation options, while LPL Financial—one of the largest independent broker-dealers in the industry—is actively trying to grow its RIA business. "The bottom line for advisors will probably be more choices and more control over their career paths," says Smith. "In addition, as the financial markets begin to stabilize, we may see more advisors become increasingly willing to take the next steps toward making a career change." ■