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**CARPE DIEM...  
SEIZE THE DAY!**

**Responding to Unprecedented Competitive  
Opportunities**

**David Pottruck, Co-Chairman  
HighTower**

**BofA Fights Ex-Merrill Brokerage  
Chief's Move to UBS** (Wall Street Journal)

**Bad Apples At Morgan Stanley** (Forbes)

**Citigroup Moving to Shed Smith  
Barney Brokerage** (CNBC)

**Morgan Stanley Announces CEO  
Succession Plan** (Fox Business News)

# Making Lemons

LAURA HEARN IS A PRIVATE CLIENT ADVISOR FOR RMB CAPITAL MANAGEMENT in Chicago, which manages about \$1.2 billion in assets for wealthy families around the country. Even though her firm's clients significantly outperformed the S&P 500 in 2008, their double-digit losses last fall sparked an increase in concerned phone calls.

"The advisors at our firm were on the phone all day every day calming investors," she told me. "In early 2009 when the market did not recover as anticipated, the call volume got even heavier and panic turned into anger."

Listening to this part of Hearn's tale, I thought of the losses and disappointments that so many of us are going through right now: not just vanished wealth but salary cutbacks, job losses, home foreclosures, shrinking business revenue, credit starvation, and on and on. Amid all this trauma and turbulence—and often because of it—some people have been able to create positive change in their own lives and the lives of others. Whether you call this process creative destruction or making lemonade when life hands you lemons, these stories are immensely inspiring. Hearn is one of them.

**Despite the downturn, creative destruction could be the best thing that ever happened to you**

BY OLIVIA MELLAN

The next day Hearn contacted a local community homeless shelter that needed help preparing brown-bag meals. In January, her firm implemented a program called *Winners Making Dinners*. On the last Thursday of every month, RMB Capital Management volunteers bring food items to work and make lunches for the shelter.

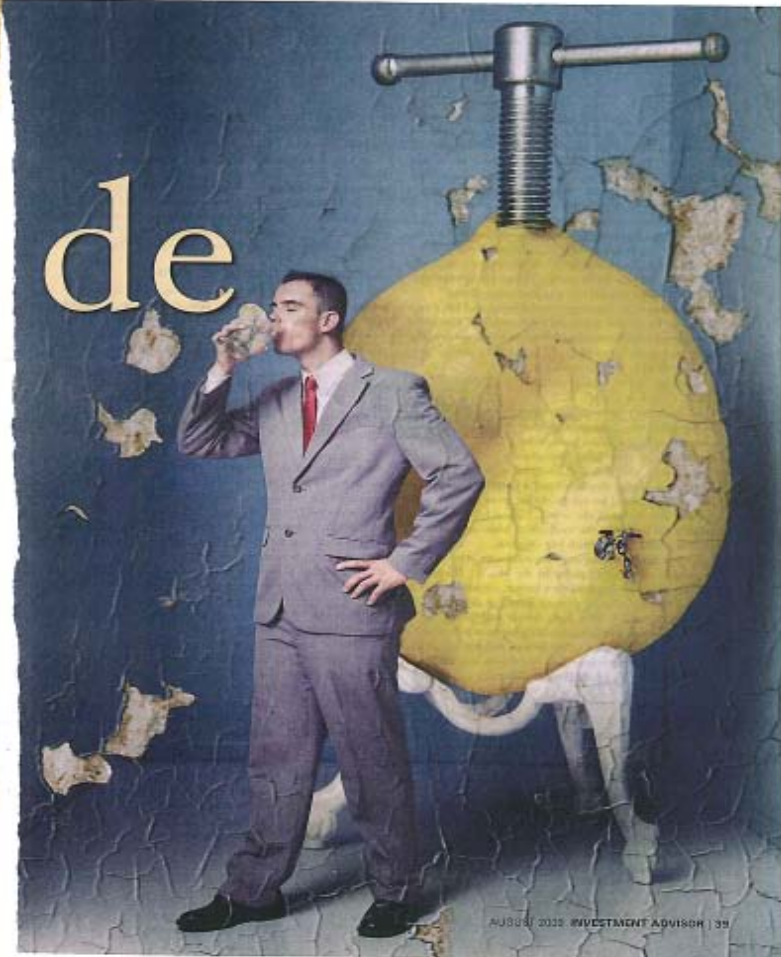
#### DISRUPTION AS A CATALYST FOR CHANGE

The program has been a great success on many levels. Hearn says, "At every *Winners Making Dinners* workshop, we are reminded of the people who do not have any assets to be allocated. We are reminded that some people don't have the basics. We are reminded that we, as a firm, need to slow down, take some time to appreciate our lot in life, and keep it in perspective."

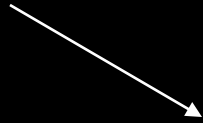
Disruption as a catalyst for change. Amid widespread anxiety about the future, stories like Laura Hearn's may inspire more of us to make lemonade out of the lemons in our lives. In fact, many people are reassessing their goals and choosing work that is more personally meaningful. Since they have less to lose (or have already lost it), why not take the risk?

Dan Winans, CEO of Special Kids Financial in Phoenix told me about a friend of his who devoted

# de



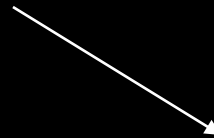
Citibank



Shearson



Schwab



HighTower

**“Consumers’ Opinions  
of Financial Firms  
Drop to  
All-Time Lows.”**

Source: WSJ May 26, 2009

**“The big firm brands, once a huge asset, are now tarnished because the economic crisis has exposed the excesses of Wall Street.**

**As a result, these brands are seen as a liability by their advisor employees.”**

**“70% of financial institution clients believe that financial institutions act in their own best interest, not client’s.**

**Further, 60% of financial institutions agree they are acting in their own best interests, not client’s.”**

Source: IBM

**“Cost cutting  
at brokerages  
is in  
full swing...”**

Source: TowerGroup

# **‘Wail’ Street Woes as Jobs Disappear**

(NY Post)

## **Layoffs Expected to Decimate Wall Street Ranks** (ABC News)

**35,000 jobs will go at Bank of  
America** (Boston Globe)

**Fed calls for overhaul of financial regulatory system**

(USA Today)

**Obama administration seeks to regulate large  
financial corporations** (LA Times)

**Treasury Seeks Consumer Allies for  
Wall Street Revamp** (Bloomberg)

**Obama Introduces Sweeping Financial Overhaul** (NPR)

**“WIREHOUSES ARE LARGE  
COMPLEX ORGANIZATIONS  
WITH MYRIAD RULES.  
MANY ADVISORS FEEL STIFLED  
OR RESTRICTED  
BY COMPLIANCE RESTRICTIONS  
OR PROCEDURAL ISSUES.”**

Source: TowerGroup

**“47% of RIAs  
believe that compliance  
is the greatest challenge  
facing them currently. The  
challenge is especially acute for  
Dually Registered advisors.”**

Source: Cerulli Report 2007

**“The outperformers  
will be the firms that embrace  
transparency  
and follow the sensible money,  
rather than seeking inflated returns  
through unsustainable practices.”**

Source: IBM

**“In total, Cerulli expects just more than \$800 billion to be transferred as a result of advisors changing firms in 2009.**

**Wirehouse firms are expected to suffer the greatest losses with a net loss of \$188 billion to other channels.”**

**“With their expanding advisor  
forces,  
Dually Registered (\$62 billion)  
and  
RIA (\$50 billion)  
channels are expected to be  
the greatest recipients  
of transferred assets.”**

Source: Cerulli Report 2009

**“Though much has been made  
of the ‘demise’  
of the wirehouses,  
these firms are still the largest forces  
in advisor-assisted distribution,  
controlling approximately  
half of the market  
with nearly \$4 trillion in assets.”**

# Facts and Trends Worth Noting

# 1. How many FAs are there, where are they, and how has this changed over the past 4 years?

	<u>2008</u>	<u>4-Year CAGR</u>
IBD	99k	Almost Flat
Wirehouse	55k	Slightly Down
Insurance B/D	70k	Almost Flat
Regional B/D	36k	Slightly Down
Bank B/D	16k	Slightly Up
RIA	18k	Up 5% CAG
Dually Registered Advisors CAGR		15k      Up 20%

Source: Cerulli Report 2009

## 2. Average assets per advisor varies dramatically by type of advisor.

<b>CHANNEL</b>	<b>AVERAGE ASSETS Per ADVISOR</b>
Bank B/D	\$11,085,064
Wirehouses	\$71,945,561
Regional BD	\$31,957,615
Insurance BD	\$4,018,729
Independent B/D	\$13,701,492
RIA	\$40,789,819
<b>Total</b>	<b>\$26,717,029</b>

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar.

### 3. Where are the FAs with the Big and not so Big Books of Business?

Advisor's Assets Under Management	Bank	Wirehouses	Regional	Insurance	IBD	Dually Registered	RIA	All Advisors
≥\$1b	3.5%	<b>4.0%</b>	0.0%	1.2%	0.6%	<b>4.0%</b>	<b>4.5%</b>	1.9%
\$500m to <\$1b	1.8%	<b>3.6%</b>	1.7%	1.2%	1.3%	<b>5.3%</b>	<b>3.9%</b>	2.1%
\$250m to <\$500m	3.5%	<b>15.3%</b>	5.2%	2.4%	2.9%	<b>13.3%</b>	<b>11.2%</b>	6.4%
\$100m to <\$250m	<b>21.1%</b>	<b>34.5%</b>	<b>23.3%</b>	<b>14.3%</b>	<b>10.4%</b>	<b>21.3%</b>	<b>23.6%</b>	19.2%
\$50m to <\$100m	19.3%	20.7%	23.3%	10.7%	25.2%	16.0%	11.8%	19.8%
\$25m to <\$50m	21.1%	11.6%	21.6%	19.9%	23.3%	91.3%	13.5%	18.7%
<\$25m	29.8%	10.2%	25.0%	51.2%	36.2%	30.7%	31.5%	31.9%

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar.

# 4. Where are the Wealthy or not as Wealthy Clients?

Channel	Client Net Worth					All Advisors
	>\$10m	\$5m-\$10m	\$1m-\$5m	\$250k-\$1m	<\$250k	
Bank	0.0%	7.0%	4.1%	4.8%	9.9%	5.4%
Wirehouse	40.0%	25.6%	30.1%	17.8%	9.0%	20.2%
Regional	23.5%	15.8%	10.7%	11.2%	9.5%	11.2%
Insurance	0.0%	16.8%	15.9%	20.8%	29.6%	20.4%
IBD	13.3%	12.8%	23.7%	37.0%	39.1%	32.6%
Dually Registered	14.0%	12.1%	6.6%	3.7%	0.7%	4.5%
RIA	9.1%	9.8%	9.1%	4.7%	2.2%	5.7%

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar.

# 5. What is the mix of Revenues by Size of Client?

Advisor Revenue Source	Client Net Worth					All Advisors
	>\$10m	\$50 - \$10m	\$1m - \$5m	\$250k - \$1m	<\$250k	
Commission Only	0%	3%	6%	14%	28%	14%
Fee-and-commission mix	31%	17%	25%	36%	45%	33%
Fee-based	48%	64%	48%	40%	23%	40%
Fee-only	21%	16%	20%	10%	4%	13%

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar.

## 6. More than 60% of All Advisors, across all channels offer which services?

Services	All Advisors
Asset Allocation	98%
Retirement Income Planning	94%
Retirement Accumulation Planning	93%
Insurance (Life, Health, Disability, etc)	87%
Estate Planning	85%
Education Funding	83%
Employer Benefits Retirement Planning	71%
Investment Manager Due Diligence	69%
Cash Management/budgeting	62%

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar.

# 7. How Happy Are FAs Where They Work Today?

	Advisor's Current Channel							All Advisors
	Bank	Wirehouse	Regional	Insurance	IBD	Dually Registered	RIA	
Happy with my current firm, do not plan to switch	28.9%	26.5%	38.2%	31.7%	36.4%	44.4%	75.6%	35.8%

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar.

## 8. Which Channels Will Grow Or Contract From These Expected Shifts?

CHANNEL	Experienced Advisors Joining Firms	Experienced Advisors Leaving Firms	Gain or Loss of Experienced Advisors	Percent Gain or Loss
Bank	3,332	3,116	217	1.3%
Wirehouses	8,007	9,192	-1,184	-2.2%
Regional	2,877	4,670	-1,793	-5.0%
Insurance	4,037	10,430	-6,393	-9.1%
IBD	14,622	13,723	899	.9%
Dually Registered	4,355	696	3,659	24.8%
RIA	5,987	1,391	4,596	24.7%

Sources: Securities Industry and Financial Markets Association, Investment News, Financial Planning, Bank Insurance market Research Group, National Regulatory Services, Standard and Poor's Money Market Directories, Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar.

# Trends and Perspectives

**Four reasons advisors choose to leave full-service firms: “First, advisors want more control over their business. Second, advisors want an opportunity to create long-term wealth.**

**Third, many of the former advantages of working at a wirehouse no longer exist.**

**Finally, many advisors are no longer welcome and are encouraged or forced to move.”**

**“Everybody is listening,” has become the standard response from recruiters when interviewed about who they are having success speaking with.**

Source: Cerulli Report 2009

“Since the advent of the Internet and the increasing power of personal computers, independent advisors have been able to virtually replicate the technological capabilities of wirehouses at a reasonable price.”

**“New RIAs face a daunting array of tasks such as choosing technology, designing benefits programs, hiring staff, and ensuring that they are in compliance.”**

Source: TowerGroup

- Fidelity
- Schwab
- JP Morgan
  - Pershing
    - LPL
- Hightower
  - NFP
  - Others

**Cerulli “often sees advisory firms evolving when their assets under management reach approximately \$100 million. However, firms are often forced to evolve once they have already grown past this point and realize they cannot manage their existing clients and asset level.”**

Source: Cerulli Report 2007

# What do I need to do to...

- Accelerate my growth?
- Do a better job for my clients and myself?
- Have more fun?
- Unlock the full range of my professional potential?

# What about ...

- The fear of change?
- Will I fail?
- Will clients follow me?
- Can I succeed in this new situation?

**So, having reviewed all this, what do  
I recommend you do?**

# **Recommendation #1:**

**Run your team or your practice with an advisor and client centric culture.**

**Settle for nothing less.**

## **Recommendation #2:**

**Demand that you and your colleagues have a voice in how the firm is run.**

**“The other defining characteristic of these advisor-centric firms, is an advisor’s elevated degree of flexibility in how to run their business as they see fit.”**

## **Recommendation #3:**

**Embrace and leverage “open architecture” that truly offers the best investment products for your clients, not just those who agree to revenue sharing arrangements.**

**“Top advisors are reluctant to be locked into any type of proprietary arrangements lest even the perception of possible impropriety affect their practice.”**

## **Recommendation #4:**

**Communicate with your clients like never before.**

**Whatever you have been doing is probably not enough.**

**“Come to the conversation curious.”**

Source: Emily Scott Pottruck

**Better communicating  
also means better listening.**

## **Recommendation #5:**

**Find a way to offload some of the things that are eating up your time and turn yourself into a marketing machine.**

**“Specifically, 48% of financial advisors spend an average of less than one hour per week on their marketing efforts. Another 37% spend only between one and five hours.”**

**“Financial advisors have found that 45% of seminar attendees request a follow-up appointment.”**

“The decline in trust is pandemic.  
The largest client segment is  
**‘conflict of interest avoiders’** –  
clients seeking unbiased financial  
services.”

Source: IBM

# **Take Away #1**

**Demand more from where you are,  
or consider other options.**

**Your deserve a place where your  
practice and your life will thrive.**

# **Take Away #2**

## **Three “Non-Negotiables” and Two “Must Do’s”**

- 1. Demand an Advisor and Client Centric Culture**
- 2. Demand a Voice**
- 3. Demand Authentic Open Architecture**
- 4. Communicate More With Your Clients**
- 5. Turn Yourself into a Marketing Machine**

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