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Investors taking closer look at boutique firms

Atlanta Business Chronicle - by Janet Jones Kendall Contributing writer

While many major Wall Street firms are still reeling from the economic collapse, another segment of the investment world is looking to take advantage.

Registered independent advisers are growing in number — and in market share, according to several recent studies, and those advisers are bullish about their future.

A study released in July by Charles Schwab & Co. Inc. found that 84 percent of independent advisers are looking to grow their business "aggressively" or "moderately" in the next five years despite the economy and the slow growth numbers it dictated in the past year.

"Our 2010 study is a clear indicator that independent advisers are focused on growth, and based on how these firms have performed despite a difficult past few years for the markets and economy, that the independent adviser model continues to prove its appeal to customers," said Scott Slater, **Schwab Advisor Services** business consulting managing director.

The upheaval on Wall Street in the last two years, with failing brokerage houses, bank bailouts and high-profile mergers and acquisitions, is driving clients from large firms to independent advisers, said Tom Heald, vice president of **Eads & Heald Investment Counsel** in Sandy Springs.

"Clients have been scarred by recent financial events and certain common practices by larger, national firms such as expensive and possibly unnecessary products, high commissions and lack of customer service," Heald said. "Combined with the financial meltdowns, clients are taking a closer look at boutique, independent firms despite the state of the economy."

Breaking away

Smaller firms are not only benefiting from clients who are leaving major firms but from wealth managers who are leaving as well, whether they be ones who were laid off during downsizing at major firms or those who left on their own to take advantage of the increasing amount of money flowing to smaller firms.

In the first six months of 2010, Schwab Advisor Services brought in $8 billion in new assets from so-called "breakaway" advisers — advisers who left major firms, Slater said. That number was up 60 percent from the same period in 2009.

"Independent firms are forming as brokers that leave major brokerage firms set up their own shop," Heald said. "They bring with them many of the clients that they served at their prior place of employment. [Certified public accountants] and attorneys that have left large firms have also set up business as wealth management firms and they too try to bring over former clients from their prior place of employment."

According to **Cerulli Associates** in Boston, the number of brokers at major firms who serve individual clients fell below 55,000 — a 14 percent drop — in the three-year span ending in December 2008.

In the same time period, the number of registered investment advisers grew 29 percent to 33,000.

There are plenty of upsides to being an independent adviser, Heald said, including having fewer conflicts of interest and more direct client contact.

"Independent advisers tend to be more customer-centric and the relationship between adviser and client is much more personal," he said. "Independent advisers also tend be more flexible, whereas larger firms are often stuck with 'canned' solutions. In short, independent advisers can offer more customized, personalized solutions from start to finish."

There are downsides, too. More than half of independent advisers tell Schwab that devoting staff time to marketing and business development is a barrier to their growth, Slater said.

The successful independent advisers will be the ones who serve a niche market segment and bring a depth of knowledge to their clients, keep up with education and professional training and keep client service their No. 1 goal, Heald said.

Challenging times

Despite the optimism of independent advisers shown in the Schwab survey, this is a difficult climate in which to grow an investment firm of any size, Heald said.

"Many clients and prospective clients are suffering from one or two issues — anger and fear," he said. "The stock market has suffered two major collapses in the last decade. The Internet bubble burst in 2000 and, more recently, the housing bubble burst, which brought down both the stock market and real estate values. Investors have made modest progress, if any, in building their wealth through the stock market over the last 10 years. The big brokerage firms in large part failed to protect the assets of their clients. Now, the brokerage firms are losing clients, assets and brokers but many of the clients are going to the sidelines."

Still, Heald said he believes the long-term future for independent advisers is bright.

And he's not alone.

Cerulli projects that by 2012, the share of investment money managed by independent advisers will rise from 19 percent to 23 percent, while the major brokerage firms will lose market share — falling from handling 48 percent of the money to 41 percent.

"We think the independent investment advisory market is going to continue to grow exponentially," Slater said.

Large firms failed their clients in the last decade, and those clients aren't likely to forget that soon, Heald said.