



GUEST COLUMN
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Death of a Salesman

At the very peak of the bull market Harold Evensky, who coined the term "wealth management," by writing a ground-breaking book by that title, said "asset management will soon become commoditized just as trading has become." Now, in the aftermath of plague and famine, it seems he might have been right.

Corporate scandals, conflicts of interest, and dismal investment performance--that has actually retracted the growth of global private wealth to under \$27 trillion--has had a profound effect on investor behavior. The *Spectrem Affluent Investor Index*, which measures investor attitudes, declined to its lowest point this month, indicating "investors are cautious to bearish about the outlook of the economy."

A recent Spectrem poll found that "after the ravages of the severe bear market...only two-thirds of respondents indicate that they are satisfied with their primary advisor. Only one in four gave their advisor excellent marks."

An interesting observation is that the behavior of the ultra-HNW investor often forecasts the subsequent behavior of the HNW segment. With that in mind, it seems significant that "almost 40% of ultra-HNW households now turn to independent advisors who are not affiliated with a brokerage firm, mutual fund company, insurance company or bank."

Finally, we see that the HNW investor is becoming increasingly focused on receiving support from his primary advisor in areas far beyond investment management. Private client groups are forced to react to these pressures and, in analyzing their varied personalized blends of frantic repositioning, several recurring themes can be identified. First, there appears to be a strong movement to utilization of model portfolios with ever-shrinking input from individual portfolio managers, ostensibly freeing the PMs to tend to the overall needs of the client.

Next, the initial cautious steps toward enhancing proprietary product offerings by including select outside managers had rapidly deteriorated into a stampede toward open architecture.

Finally, we have seen private client groups actually renouncing their former mantra as investment managers and re-focusing on the ability to serve the clients comprehensive needs.

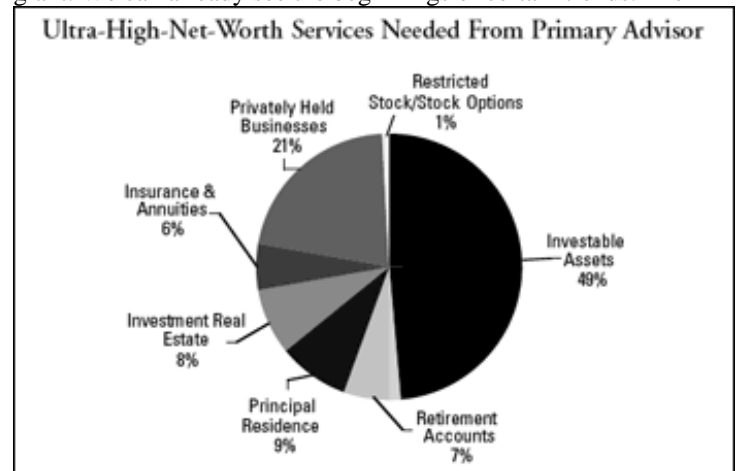
In this quickly changing world of defrocked asset management companies and neutered portfolio managers, perhaps the group most profoundly affected has been the HNW sales force who, in many cases, is no longer simply

selling the asset management products of their respective institutions. Their quiver of AIMR compliant arrows has been mysteriously replaced by nebulous and vacillating phrases and comprehensive promises that their siloed institutions are currently unable to keep.

Four years ago, 8% of the HNW sales force was able to produce over \$1 million annually in new recurring asset management revenues. Our recent survey indicates that this number has declined drastically to closer to 5% (mirroring the institutional decline of wallet share). Furthermore, there has been a significant movement of top producers from traditional platforms to the growing ranks of independent advisory firms.

These advisory firms are nimble, ultra-client centric, and able to offer purely neutral pro-active advice and solutions; addressing the left as well as the right side of the pie-chart. It will be interesting to see if these firms can maintain their sharp client-focus after the inevitable consolidation that has begun with Lydian's acquisition of Windermere Investment Advisors.

But in praising the effectiveness of David's sling, let us not forget that Goliath had certain advantages in being a giant. We can already see the beginnings of certain trends. The



large international money centers are emphasizing the power of their balance sheets and the strength of their capital markets. Certain regional banks have either created strategic alliances with independent advisory firms or bought them outright, as SunTrust has done with AMA.

So what will the sales stars of the future look like after this fluid landscape has congealed? It seems likely that they will appear less like the traditional road-warriors of the past and more like the multi-faceted, client-centric, product-neutral "ombudsmen" that Jamie McLaughlin, president of Mellon NY, has long predicted.

Naturally, this begs two final questions. Who invited these difficult, talented people to our confused and lugubrious party? If the answer appears that they were invited by the client, then only one question remains: where do we find them?