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Morgan Stanley's **Magic** p. 26 / On Why Clients Should **Fire** Their Advisors, p. 65

# Registered Rep.®

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AMERICA'S TOP 100 RIAS

## RIA FIRMS ARE CASHING IN ON WALL STREET'S FOLLY.

John Krambeer's RIA has been winning wirehouse clients burned in the ARS mess.

# REFERRAL MADNESS

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# ASSET-GATHERING

**In the last 6 months, John Krambeer's RIA has convinced a number of former wirehouse clients to give his firm their business. These new clients represent a very healthy $100 million in assets.**

# MACHINES

**INDEPENDENT REGISTERED INVESTMENT ADVISORS (RIAs) ARE ENJOYING A LITTLE SCHADENFREUDE OVER THE PROBLEMS PLAGUING WALL STREET FIRMS.**

By Halah Touryalai

Photographs By Bryce Boyer

**In the first half of 2008,** Camden Capital Management, a fee-only RIA in El Segundo, Calif., added $100 million to its growing pot of client assets. By the end of the year, John Krambeer, Camden's president, reckons the firm will reel in another $50 million or so. Get this: Every single dollar of that total belongs to a "breakaway client"—the RIA industry's pet phrase for investors who have come to them from the wirehouses.

Camden Capital isn't the only RIA benefiting from the woes of Wall Street this year (just check out the asset growth of our "America's Top 100 RIAs" list beginning on page 47). Investment advisors at RIAs across the country say the balance sheet turmoil roiling big-named Wall Street firms has resulted in a boost to their own businesses. Even wirehouse reps have admitted to this magazine in no uncertain terms that the torrent of bad news—the breakdown of risk management, a science at which they have professed to be experts—has bruised their brands and left them embarrassed.

"We see RIAs gaining market share even more rapidly in this environment than they normally do," says Barnaby Grist, managing director of business consulting at Schwab Institutional. Industry consultants say Wall Street's blunders—the auction-rate securities fiasco was the icing on the cake—provide RIAs with the opportunity to differentiate themselves by touting their fiduciary status. While its hard to put a precise number on the volume of assets flowing from wirehouses to RIAs, Grist says the majority of the $20 billion in net new assets Schwab Institutional collected during the first quarter came from new clients (as opposed to new assets from old clients). And Schwab's "Independent Advisor Outlook survey," which was sent out in January of this year to over 1,000 investment advisors with a cumulative $231 billion in assets, found that 38 percent of advisors' new clients came from full-service brokerage firms in 2007.

According to Fidelity's 2008 "Institutional Wealth Services RIA Metrics" study, RIAs have realized average asset growth over the past three years of 55 percent, with 28 percent experiencing growth of more than 100 percent. Meanwhile, the RIAs on our Top 100 list averaged 85 percent growth in assets between 2006 and the first quarter of 2008. "When things are going well in the market, client money isn't shifting around. It's typical in volatile markets that RIAs tend to grow at a much faster rate in the number of clients, assets and referrals," says Scott Dell'Orfano, executive vice president of Fidelity's Institutional Wealth Services. "This is when RIAs tend to stand out." (Of course, RIAs are growing off of a much smaller base than wirehouse firms; wirehouses have roughly six times the client assets that RIAs do, according to Tiburon Strategic Advisors.)

## BREAKING AWAY

Krambeer, Camden's founder, is the archetypal example of the RIA growth phenomenon. The $100 million in new assets Camden has snared have come from friends and family of existing clients. "As a firm we're still succeeding while the market is going down. In the midst of everything that's been going on in the markets, a lot of our clients' friends are calling them and asking what they're doing with their money," Krambeer says. The next few steps are easy: Clients refer their friends to Krambeer, who is then able to explain his fiduciary status to them and his plans for long-term investing. He says almost all of his new clients this year came to him because they got caught up in the auction-rate securities fiasco on the wirehouse side, and were looking for a way out.

In fact, one $20-million client who joined Krambeer's firm this year from Smith Barney still has about 10 percent tied up in auction-rate securities (ARS). "He was a referral from one of my larger family clients. We've been trying to get his money out for three months, but it's locked up. Nobody told these clients what auction rates were," Krambeer says. Such scenarios create opportunities for Krambeer—and others like him—to swoop in and save the day. "We don't have the magic wand to get those assets back, but we are communicating with these clients every day and making sure they understand what's going on. I talk to the trading desks, I reach out to money managers and, of course, to the client." In the meantime, he's building new investment policies for these clients with the money that they have already moved to his firm. "It's a rough time on the Street right now, but with that comes opportunity for me. Money is moving," Krambeer adds.

Of course, it's not just investors who are "breaking away" from the wirehouse firms. Wirehouse advisors are also sizing up the RIA allure. Schwab is leading the race for such "breakaway" wirehouse advisors. In 2006, the San Francisco-based custodian brought on 60 RIAs from wirehouses; the next year it upped that number to 114 wirehouse refugees (with $9.2 billion in client assets). And 2008 isn't looking too shabby either: Grist says Schwab brought on a record-breaking number of new RIAs in the first quarter. "We're running at more than double the pace than last year. Not only that, but the new RIAs are larger," he says.

That's for certain. Earlier this year, one of Morgan Stanley's top teams left to start its own RIA with Schwab. Lead by Bill Gurtin, Gurtin Fixed Income had worked at Morgan for nine years. Gurtin's team brought $5.2 billion in client assets with it, making it the largest RIA ever to join Schwab. It didn't hurt that Gurtin's team had already been acting in an RIA capacity: As discretionary asset managers for their clients, they were held to the fiduciary standards of the Investment Advisers Act of 1940—the legislation that governs all RIAs. As a result, they couldn't invest in any products or securities from Morgan Stanley's inventory, so they did their own trading. And they didn't have to worry about unloading Morgan proprietary products.

Gurtin started his career in the private client services practice at Goldman Sachs in 1985 where he managed fixed-income investments. From there he moved to Merrill Lynch and then Morgan Stanley in 1999, where he managed high-grade fixed-income portfolios exclusively for high-net-worth and ultra-high-net-worth individuals. In February 2008, Gurtin launched his independent Schwab-affiliated RIA, Gurtin Fixed Income, and managed to bring over almost 100 percent of his assets within three months.

"Morgan Stanley talks about its recruiting success, but we've just moved over a $5 billion dollar team from them," says Grist. "Schwab has multiple billion dollar RIAs."

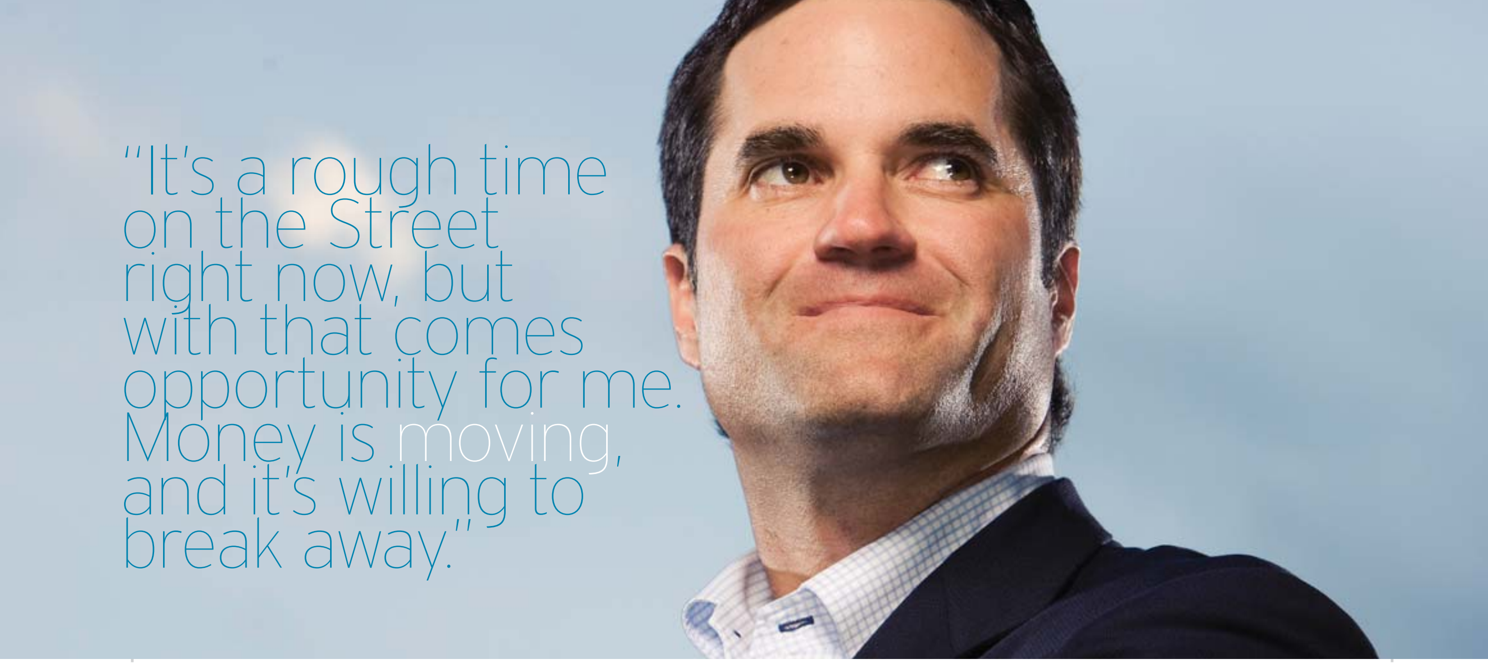
Then there's Bill Spiropoulos, president and CEO of CoreStates Capital Advisors, an RIA in Newtown, Pa. He's added both breakaway clients and brokers to his firm. In fact, CoreStates has hired four wirehouse guys in the past six months. A former wirehouse advisor himself, Spiropoulos launched his investment advisory practice two years ago. Between December 2006 and December 2007, CoreStates saw assets under management jump 145 percent. And, in the first quarter of 2008 alone, assets jumped 33 percent. The vast majority of those new assets, about 80 percent, came from clients who joined CoreStates from a full-service brokerage firm, says Spiropoulos. "It's been a grand slam," he says.

Fidelity Institutional Wealth Services is not doing so shabbily in the breakaway game either. In 2007, 60 registered reps dropped their Series 7 licenses to register as RIAs with Fidelity. That's up from 40 who did so in 2005. Jack Callahan, president of IWS, says he expects the number to jump to 80 in 2008. "The increase in new RIA practices over the past few years has been unprecedented, and we expect that trend to continue. We've helped sole practitioners with books in the tens of millions of dollars, as well as billion dollar teams, establish successful RIA practices," he says.

## RIA DEALMAKING FEELING THE PINCH

Despite their successes grabbing assets and advisors, RIAs say they are facing some new challenges these days. As in any shaky market, they are having to spend a lot more time reassuring clients. Founders Financial Network, an

One survey—albeit funded by Schwab—found that 38 percent of advisors' new clients came from full-service brokerage firms in 2007.




RIA in Cupertino, Calif., with $600 million in assets under management, for example, is dealing with clients more frequently as of late. Bob Kresek, founder and managing partner, says the firm is spending twice as much time with clients since the start of the year. "We usually meet with clients each quarter, but now we have some form of communication with our clients every two weeks," he says.

Across the industry, executives at RIA custodians say investment advisors on their platforms are doing more client handholding than ever before. "Every one of our advisors says they've never been busier. They're spending a lot more time communicating and educating," says Fido's Dell'Orfano. RIAs are worried too about the falling market's impact on their performance. According to Schwab's "Advisor Outlook" study, the percentage of advisors who believe it will be "very or somewhat difficult" to achieve clients' investment goals in the current market environment is up to 70 percent compared with 27 percent of advisors who felt the same way last summer. Not only that, but about 18 percent of responding advisors' clients needed reassurance in the last six months that they would meet their financial goals. That's up from 12 percent in July 2007, and 15 percent in January 2007

All this worrying and handholding may help in the short term, but the extra time spent comforting nervous clients can have a negative impact on a firm. "Every ounce of energy is spent making sure clients have peace of mind. RIAs are dealing with the present and not the future," says Mark Tibergien, CEO of Pershing Advisor Solutions. "The biggest impact that has is that RIAs are distracted from focusing on things like growth and business development."

One indicator of the distraction is a slowdown in merger-and-acquisition activity among RIAs. Principals of RIAs have less time to think and plan out a possible buy or sell strategy, consultants say. After three years of record breaking deal activity in dollar volume terms, the first quarter of 2008 showed a dramatic slowdown. "We're back to 2006 levels of M&A activity," says David Devoe, director of mergers and acquisitions at Schwab Institutional. A total of 10 RIA mergers and acquisitions were completed through March 20, 2008, representing assets of about $14 billion. Twice as many deals were done over the same period last year, while the total for the year reached 80 deals representing $101 billion in assets, according to data from Schwab Institutional.

Devoe says the slowdown is directly linked to the impact the sub-prime market catastrophe has had on the cost of capital and access to debt. "It puts a huge constraint on buyers," he says. Those buyers include banks—they've been among the biggest acquirers of RIAs over the last few years, according to Devoe. "Banks are now pulling back on their acquisition strategy," he says.

Another category of RIA acquirers, holding companies, may also feel the heat of the slowdown. "We expect M&A volume to be down for the year for the RIA industry. Focus Financial may do less in terms of the number of deals. It would be very optimistic of us to say we're going to do the same as we did last year," says Rudy Adolf, CEO of Focus Financial Partners, with over $27 billion in client assets among its 14 RIA partner firms.

However, while M&A deals are slowing in the RIA space, Adolf says he's getting a surprising number of calls from wirehouse reps interested in becoming a Focus partner. While Focus was initially developed to acquire fee-only fiduciary RIAs, Adolf says he's not hanging up on those wirehouse reps looking for a way out. Of course, a wirehouse rep joining Focus would need to take on the role of a fee-only fiduciary advisor—a transition Adolf says Focus can facilitate. "We will be a player in the space of getting wirehouse people to become RIAs," he adds.

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