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NEWS RELEASE

NEW FIRM IN WIREHOUSE ADVISOR POACHING FRAY

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A new Chicago firm is joining a growing mix of wealth management outfits that are angling to attract wirehouse advisors who want a new practice venue without having to set up an independent shop on their own. HighTower Advisors has launched with a well-stocked roster of capital backers and employees, and aims to create a national presence for a wealth advisory model serving high-net-worth investors.

Led by Elliot Weissbluth as CEO, the firm's backers include venture capital partners, individual investors, and other industry firms. Among the backers is Envestnet Asset Management, a Chicago-based turnkey asset management program provider; Red Eagle Ventures, a San Francisco private equity firm led by David Pottruck, former CEO and president of Charles Schwab & Co.; and DLB Capital, a venture capital firm in Wilton, Conn., led by Douglas Brown, a former Morgan Stanley investment banking executive. HighTower also is reserving 25% of its overall equity for the advisors who join the firm.

Advisor teams have already come aboard, and HighTower plans to make announcements early next year, Weissbluth says. "We have several teams that have joined us at our corporate facilities in Chicago [and] our offices in New York and the Bay Area, and we have located other teams in target markets," he says. "We have a full transition calendar into [the first quarter]."

The new firm has been in the works for more than a year, but might be hitting the market at just the right time, says **Daniel Seivert**, CEO and managing partner of **Echelon Partners**, a consultant and investment bank in Manhattan Beach, Calif. The financial markets upheaval this year has caused more volatility than usual in the ranks of wirehouse advisors, who are switching among the top firms and bolting to form independent RIAs in greater numbers.

"It's a good time to be opening your doors [for this kind of business]," he adds. "It just so happens the floodgates are opening."

Seivert says advisors may respond to a model that almost offers a middle option between the big brokerages and independent firms. Other firms are also using the model or taking the same approach to attract wirehouse advisors who can bring along their practices and not have to set up their own registered investment advisor (RIA) firm.

One example is SeaCrest Wealth Management of Purchase, N.Y., where four ex-Morgan Stanley brokerage executives are recruiting wirehouse advisors to join as employees but essentially run their own shops. And a smaller player in the field is Highline Wealth Management, an RIA in Bethesda, Md., that manages \$750 million in assets and is aiming to recruit wirehouse advisors as partners. It has already started, recruiting Bill Schwartz as a partner coming out of Merrill Lynch this year, and it plans to add more next year, says Neal Simon, founder and CEO of Highline. Highline has a heavy allocation to alternative investments and its average client account has \$7 million.

HighTower is somewhat unique for a start-up firm because of its early firepower, especially in terms of capital backing, satellite offices in San Francisco and New York, and a team of experienced wealth management sector employees from Morgan Stanley, LaSalle Bank, and other Chicago-area regional brokerages and accounting firms. It plans to offer access to managed account products through relationships with Schwab, Fidelity Investments, and Envestnet, Weissbluth says.

HighTower appears to be positioning itself to attract advisors whose loyalty to the big firms has been shaken this year or those who see that same unease in their own wealthy clients. The Web site features a quote from Pottruck that states: "I definitely see wealthy families losing confidence in traditional brokerage firms and starting to seek greater transparency and a more holistic wealth management service."

HighTower plays up its similarities to the wirehouses in terms of compensation and providing office and operations support. It also highlights differences such as a full open architecture investing approach; equity stakes in the business for advisors; and a lack of conflicts of interest from pushing advisors to use proprietary products in client portfolios. The new firm's Web site also distinguishes its model from the choice of going independent: "Going independent typically does not offer upfront compensation for your assets under management. HighTower does. We are fully capitalized to acquire billions in assets under management."

"These are significant cash payments, and they're structured identically to the way wirehouses [offer bonuses]," he adds.

Weissbluth says the 25% equity stake for advisors has already been issued and spun off into a partnership in which each advisor who joins has shares. The advisors will be allotted shares in that partnership based on the size of the books of business they bring in, he adds.

Echelon's Seivert says setting a fixed allotment for advisors at 25% of the total firm's equity may become a question mark during the recruiting effort, because as new advisors join, the individual shares of each advisor in the firm will get diluted. Still, as the firm's overall value rises, so will the value of the 25%.

Other investors in HighTower include M.D. Sass – Macquarie, a Sydney-based private equity firm; Franklin Mutual Advisers, a money manager based in Short Hills, N.J.; and Offit Capital, an RIA.

One cloud that may be looming over the new firm is a legal challenge from U.S. Fiduciary, a Houston-based investment advisory outfit where Weissbluth had served as a senior officer until he left in 2006. A lawsuit filed last month in U.S. District Court in Houston naming Weissbluth, his new firm, and an employee who left U.S. Fiduciary for HighTower alleged that the defendants had breached fiduciary duties, breached an employment contract, and participated in tortious interference.

While U.S. Fiduciary initially won a temporary restraining order against HighTower, which is a rare victory in such cases, the plaintiff later withdrew that request and the entire lawsuit. Treistman says U.S. Fiduciary now intends to pursue the claim under Financial Industry Regulatory Authority (FINRA) arbitration rules.

In its court filings, HighTower denies the claims in the lawsuit. Weissbluth says HighTower has not heard anything from the plaintiffs about starting the FINRA arbitration process.

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Daniel Seivert
Managing Director
dseivert@echelon-group.com

Tyler Resh
Principal
tresh@echelon-group.com