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NEWS RELEASE

BABY BOOMER RETIREMENTS PROVIDE OPPORTUNITY FOR MANAGED ACCOUNT FIRMS

Opportunity Knocks For Managed Acct Firms

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Originally Published By Thomas Coyle, Fund Fire

Managed account firms stand poised to cash in on the impending wave of Baby Boomer retirements. Now is the time for the industry to knuckle down and focus on the needs of the investor. That was the central message of the Money Management Institute's (MMI) annual conference, held in Boston this past week.

Operating and distributing managed accounts have always been high-touch functions. Managers face the painstaking tasks of building, running and reporting on them. Advisors have to take the time to explain what they are, and how clients might benefit from owning one. But to capture the benefits of an impending demographic shift, managers and advisors will have to be more cognizant of client needs and nimbler in responding to those needs.

"Get the focus right," says Chip Roame, one of the presenters at the conference. A managing principal at Tiburon Strategic Advisors, Roame advises the managed account business to focus on capturing assets by serving the "life-event" needs of the baby-boom generation. By his measure, baby boomers are now between the ages of 39 and 59. In other words those baby boomers who haven't got an early jump will be retiring over the next two decades or so. That's likely to trigger what Roame calls "liquefaction" as boomers sell their businesses, cash out of executive compensation programs and turn non-taxed retirement plans into taxable vehicles.

"Understanding consumers' rapidly changing needs may become the biggest challenge," Roame said in his presentation. "[Multiple-style accounts] and [unified managed accounts] are a great step toward addressing consumer needs, but they are just a step in the right direction, not the end-all."

In Roame's view, the future leaders of the managed account industry will understand and meet the needs of a client base that is as finicky as it is vast. In that light, the value of customization is more in offering choice than in the benefits of actual implementation. After all, says Roame, less than 20% of managed accounts ever get customized. Baby boomers are also better informed about investing than their predecessors, and so require better proofs of a recommended investment's benefits. And, because of what Roame calls the generation's "limited attention span," boomer-centric financial planning needs to be a "process, not a product."

And that process will have to go beyond advice about strictly financial matters. Boomers want help with life events such as their children's education, their own retirement and their advance into old age. Along the way, their focus will shift away from wealth accumulation and center more on wealth preservation. Success in the managed account industry will go to advisors who respond effectively to the life-event needs of their clients, says Roame — and the managers and sponsors that can support effective responses will share in that success.

"Go teach brokers how to capture IRA rollovers," was Roame's advice to conference attendees. An ad hoc poll of the audience to find out how many firms offered IRA-centric marketing materials elicited just four hands.

Peter Cieszko, Citigroup's head of U.S. retail asset management and co-chair of the conference, says the financial service industry faces "a phenomenal 20-year run on the back of the baby boom and the liquefaction crowd." But he added that those opportunities can only be seized by those who are prepared to do so. "I look at Citigroup and say there's a lot more we should be doing about it," he says. "It's money that's moving and it's up for grabs."

Even without a huge demographic nudge from the baby boom, managed accounts still have plenty of potential in terms of market penetration. "Of the 108 million households in the U.S., 52 million have \$20,000 or more in investable assets," Dan Seivert, a managing principal with 3C Financial Partners, tells *FundFire*. "Of that segment, only 675,000 own managed accounts." That compares with the 55 million households with mutual funds.

Penetration of managed accounts among advisors is still slim, agrees Paul Hatch, director of managed accounts at Smith Barney. However, he says, 90% of advisors who don't do any managed money business today agree it is the future of the industry. The trouble is "they say the same thing every year!" Hatch jokes. "They don't know how to do it!"

Part of the solution, Hatch argues, is more pre-packaged products. Multiple-style accounts and unified managed accounts are movements along that road, in that they have built-in asset allocation and rebalancing.

"Ignorance is the biggest challenge we all have," concurs Allen Williamson, president, managed assets at Nuveen Investments. There is a lack of advanced training for advisors, he says. "I view multi-discipline accounts as a huge part of the solution," he says.

ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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