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NEWS RELEASE

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Wealth Management Market "Very Mature"

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NEW YORK - A new report is ruffling feathers in the wealth management industry by suggesting that the market for managing money for wealthy Americans is past its prime.

The \$5.4 trillion U.S. wealth management market is "very mature," having already reached 85% of its growth potential, according to the study, conducted by Cerulli Associates Inc., a Boston-based research firm.

"The natural cycle of wealth is actually a downward destructive cycle," argued Benjamin Poor, a senior analyst for Cerulli and author of the controversial report, "Private Wealth Groups."

Erosion expected

As new generations of families with more than \$1 million in investible assets divvy up the family fortune, such factors as the breakup of family businesses, inflation and estate taxes will lead to a continued "erosion of wealth," he said.

The potential for less-than-stellar performance of the equity and fixed-income markets also could limit asset growth among current and potential clients of advisers, Mr. Poor added.

Predictably, his pessimistic forecast is being met with sharp disagreement from executives in the wealth management industry.

"I think it's an unsubstantiated claim that defies intuitive logic about wealth creation," said Jamie McLaughlin, New York-based managing director for Lydian Wealth Management Co. LLC, a Rockville, Md.-based subsidiary of Palm Beach, Fla.-based Lydian Trust Co. "What we see is an immature market that is highly fragmented and has plenty of growth left."

"They are absolutely missing the point," said Jon Parker, Western-region president of Boston Private Financial Holdings Inc. "The transfer of wealth between generations is driving the market, and there's a huge opportunity to assist that newly created wealth."

In fact, inherited wealth tends to get dispersed and spent within two or three generations, said Robert Garrison, president of Houston-based Sanders Morris Harris Group Inc., which owns wealth management firms around the country. But created wealth is growing very rapidly, he added.

"Companies who are managing that wealth are currently in a very fragmented market that is likely to see consolidation, but we think it's far from mature," said Mr. Garrison.

In addition to wealth creation from generational transfers, many wealth management professionals cite the impending liquidation of businesses owned by baby boomers as another catalyst for continued growth in wealth management.

A study released last month on wealth management trends by the Washington-based Corporate Executive Board Co.'s VIP Forum forecast that retiring business owners will transfer or monetize more than \$3 trillion by 2010.

Other recent studies of the wealth management industry have also painted optimistic scenarios.

A report on world wealth released last year by New York-based Merrill Lynch & Co. Inc. and Paris-based Capgemini Group, for example, forecast an annual 10% domestic growth rate for affluent individuals with more than \$1 million in investible assets.

And a report released last year by Manhattan-Beach, Calif.-based 3C Financial Partners LLC predicted a 50% increase in global high-net-worth investor assets over the next five years, which would bring the total to \$44 trillion.

The United States and Canada's share of that market is expected to grow by more than 30%, according to the report, offering "a huge opportunity for high-net-worth product and service providers." But the Cerulli report's finding that profit margins are coming under pressure in private-wealth groups does ring true for many in the industry.

The report noted: "High-net-worth and ultrahigh-net-worth investors require keeping expensive experts in areas such as tax planning, philanthropy and estate planning on the payroll. Worse still, ultrahigh-net-worth investors have the power to negotiate very low fees, which further cuts into the private manager's profitability."

What's more, "compliance, compensation and technology expenditures devour budgetary resources and reduce margins," the report stated. "There is pressure on pricing," Boston Private Financial Holdings' Mr. Parker said. "You're seeing more requests for additional services and a cap on some fees."

Genuine pressure

"The pressure on margins is very real right now," said Lydian Wealth Management's Mr. McLaughlin. "Clients are demanding more staff commitment, which is driving up expenses, but they're not willing to pay for it. It's hurting the top line, and there needs to be a push-back."

One solution is for wealth management firms to charge more for offering trust expertise and investment products such as private-equity deals, said Sanders Morris Harris Group's Mr. Garrison.

"If you can deliver good services and sophisticated products," he said, "you will have sticky assets, which is critical to margins."

According to the Cerulli report, private-wealth firms are making impressive progress when it comes to nailing down clients. "Retention rates of 95% or better," the report stated, "make private-wealth management an attractive business for the properly prepared provider."

Cerulli interviewed approximately 30 executives at private-wealth firms in March and April.

ABOUT ECHELON PARTNERS

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