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## NEWS RELEASE

### LARGE FIRMS HANDLE VARIETY OF ACCTS

#### **Largest Wealth Firms Embrace Managed Accts**

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The larger an independent registered investment advisor (RIA) gets, the more they allocate client assets to separately managed accounts (SMAs). The average high-end RIA with over \$1 billion in assets under management allocates 46.8% of their clients' assets into SMAs, according to *Bloomberg Wealth Manager's* recent survey of independent financial advisory firms.

Reasons for this go beyond just having rich clients as not all high-net-worth investors should be investing in SMAs. These larger wealth managers are also lured into the SMA world by managers who tend to offer attractive fee terms to the larger firms.

(For a ranking of wealth managers with over \$1 billion in asset under management, see table at end of article.)

"As a firm gets larger it can commit more money to managers and can negotiate fees down," says Bob Wagman, president and chief compliance officer for Quintile Investment Advisors. Quintile is ranked number three by *Bloomberg Wealth Manager* for average client size.

"This isn't always true with mutual funds," he continues, "which may provide different pricing structures for different share classes, but obviously can't tailor a fee structure on a firm by firm or client by client basis."

According to the Bloomberg survey, the smaller firms in terms of assets under management invest more in mutual funds. Wealth advisors with less than \$500,000 allocate just over 50% of client assets to mutual funds and between 20% to just over 30% to SMAs.

As the firm rakes in more assets, the SMA allure grows even stronger.

"At the \$5 million and \$10 million level, fee schedules typically decrease within both the SMA and multi-style account environments," Wagman says.

Deals on fees, however, are only part of the story. The other side of it is that larger firms will tend to have richer clients who are more suited for SMAs.

"The larger firms typically attract the larger clients," says Dan Seivert, managing director of Los Angeles-based investment bank and consulting firm 3C Financial Partners.

One of the reasons for this, according to Seivert, is that customers often associate service quality with a critical mass of assets and professionals. There are just so many clients and assets a principal can handle, he says. While some may have business models that allow them to handle more, most advisors top out at 200 clients.

This is significant because, as Seivert notes, a client typically needs a minimum of four SMAs in order to be properly diversified. With account minimums ranging from \$100,000 to \$250,000 that puts the minimum for investment in SMAs anywhere between \$400,000 and \$1 million.

Nevertheless, not all high-net-worth clients should be investing in SMAs.

"A client's investment policy should be governed by the size of each allocation," says Roy Ballentine, president of Waltham, Mass.-based Ballentine Finn. His firm was ranked number one by *Bloomberg Wealth Manager* for average client size in its first year participating in the Bloomberg survey.

Ballentine points out that if a high-net-worth client has very little in liquid assets, the firm might deploy those assets entirely in exchange-traded funds (ETFs) because it is easier to build a well diversified portfolio for a small amount of capital with ETFs. But a client with the same net worth and more in liquid assets may be better suited for SMAs.

"Still," he adds, "it depends on that client's risk exposure and investment objectives."

Many advisors are offering multi-style accounts (MSAs) as a way to give investors with fewer assets the diversification of several SMAs in one account with one account minimum. A Money Management Institute survey shows that MSAs increased in number by 190% from the end of the first quarter 2004 to the first quarter 2005.

Even with the possibility of lower minimums, firms like Quintile turn to MSAs for their largest client accounts, not necessarily the smaller ones.

Wagman says that MSAs minimize redundancies, tax liabilities, transaction costs and wash sales.

Though minimums in MSAs can be as low as a minimum for a single SMA, Wagman says that Quintile tends to direct clients to MSAs generally when the clients have substantially in excess of \$1 million in investable assets that are going to be placed in public equities.

"You need enough under management to permit broad diversification by market capitalization, valuation and geography, and to trade efficiently," he explains.

## 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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