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NEWS RELEASE

Schwab Says RIA Transitions Are Up So Far This Year

August 4, 2009

Originally Published By Thomas Coyle, Family Wealth Report

In a compelling sign that the vaunted increase in wirehouse-to-RIA migration may actually be underway this year, Schwab says it transitioned 74 teams to its RIA-support platform in the first half of 2009 -- 58% more than in the first six months of 2008.

Schwab won't provide a precise breakdown, but it says the most of the teams joined new or established RIAs from full-service brokerages with additional movement from independent broker-dealers, banks, insurance agencies CPAs and law firms. On a quarterly basis, the firms came in at about the same rate: 38 in Q1 and 36 in Q2.

Just before the downturn started to make itself felt in mid 2007, nearly 30,000 independent RIAs managed a total of \$2.4 trillion in assets, according to **Echelon Partners**, a Los Angeles-based investment-banking and consulting firm. But there are another 270,000 advisors providing fee-based investment advice from other channels. A mere trickle from this stream to RIA status -- say, one in a hundred every year -- would amount to a comparative torrent of new RIAs, says Echelon's CEO **Dan Seivert**.

Prior to the last two extraordinary years about 300 brokers a year left the five wirehouses -- Merrill Lynch (now part of Bank of America), Morgan Stanley and Citigroup's Smith Barney (now partners in a private-client joint venture), Wachovia.com Wachovia Securities (now part of Wells Fargo) and UBS Financial -- to establish RIAs, according to Echelon. A roughly equal number would affiliate with independent broker-dealers.

Smaller books

And, despite transition support from specialist outsourcers, custody providers and other vendors to the space, moving from a full-service environment to independent RIA status is a complicated and exacting process that can take up to a year to complete.

Still, there are compelling reasons for some advisors to establish independent investment advisories. A big one -- especially for baby-boomer brokers with another 10 to 15 working years in them -- is the chance to build a business that can eventually be sold -- in preference to retiring with a gold watch and a few years of step-down payouts on a book of business that may have been decades in the making.

In addition, far from raising concerns about a lack of affiliation with larger institutions, some new-minted RIAs say high-net-worth clients equate independence with advice that's unfettered by home-office dictates and, these days especially, free from the stigma of poor corporate oversight, write-downs, battered share prices, bailouts, government-mandated mergers and the appearance, however unwarranted, of bug-eyed greed on the part of top-floor executives.

Though national brokerages have improved retention incentives for their top producers in recent months, the largesse hasn't been extended to brokers with comparatively small books. And these "bottom half, bottom quartile producers" are likely to fuel a larger-than-usual exodus from the wirehouses to independence this year and for as long as the downturn lasts, according to Douglas Dannemiller, a senior analyst with Aite Group, a Boston-based consultancy and market-research firm.

"Are we talking about a sea change here?" asks Dannemiller. "No, but we are talking significant numbers quite likely involving the third- and fourth-quartile brokers who get transitioned out of the wirehouses occasionally anyway -- they're the ones who are moving; and though their books may be small for the wirehouses, they're significant in light of earning better payouts and being able to more money in the context of an RIA." At the end of 2008, Schwab's Advisor Services division provided custody, trading, accounting, portfolio-management and other support services to approximately 5,500 RIAs with about \$477.2 billion in client assets; a 20.3% decline in assets from the end of 2007. Its biggest rival, Fidelity's Institutional Wealth Services custodied more than \$290 billion in end-client assets for more than 3,500 fiduciaries on 31 December 2008. -FWR

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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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