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WEALTH-MANAGEMENT PERSPECTIVE ON BOA-MERRILL DEAL

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With its jaw-dropping plan to acquire Merrill Lynch, Bank of America is poised to supplant UBS as the world's biggest wealth-management provider. For firms in competition with a private-client behemoth encompassing Merrill's retail-brokerage force, Bank of America's U.S. Trust complex, First Republic Bank and about half of asset manager BlackRock, industry observers see challenges and opportunities in roughly equal measure.

Last evening Charlotte, N.C.-based Bank of America, the biggest retail bank in the U.S. by deposits, agreed to swap about \$50 billion of its stock for New York-based Merrill, the world's biggest retail brokerage by assets under management and number of advisors.

If completed today instead of early in 2009 as the companies expect, the merger would create a retail-brokerage business with more than 20,000 advisors and \$2.5 trillion in assets under management, and an investment-management line -- combining Bank of America's \$589 billion in assets under management with a 50% stake in New York-based BlackRock's \$1.4 trillion in assets under management -- with about \$1.2 trillion to play with.

"It's an opportunity for RIAs to pinch up-market advisors who may be heading for the door" as a result of the merger, says **Dan Seivert**, CEO of the Los Angeles-based investment-banking and consulting firm **Echelon Partners**.

This view hinges on the notion that a significant number of Merrill's 16,000 or so advisors -- especially fee-based practitioners, who constitute a clear majority of its broker force, according to Merrill -- will jump ship rather than work in an environment dominated by the less flexible and more tight-fisted mores of a big bank.

Culture clash

As an industry participant who asked not to be identified puts it: "Merrill guys won't want to be part of [Bank of America because] it would be like working for the government."

The official line out of Merrill is different. Speaking at a press conference this morning, its CEO John Thain said that Merrill brokers, eager to get a crack at Bank of America's affluent bank-channel customers, are nearly unanimous in their enthusiasm for the deal.

This universal approbation seems unlikely to Marcie Burton, head of marketing at Partnervest Financial Group, a Santa Barbara, Calif.-based wealth-management platform provider to about 70 fee-based advisors, and, for about six years in the 1980s, a second-generation Merrill broker. In her view the Bank of America- Merrill deal is likely to make Merrill brokers "who have considered going independent look at that option much more closely" -- to the benefit of support firms like Partnervest.

Burton's point is that brokers and retail bankers don't speak the same language, according to Burton. "Banks have a fundamentally different view of the client relationship and what should be done with their assets than brokers," she says. "Banks make money from deposits; brokers make money by bring in [assets under management]."

And the broker's focus on investing assets rather than processing deposits engenders a more client-centric and -- in the fee-based realm especially -- consultative approach, adds Burton.

But John Galvin -- president of Clearbrook Financial, a Princeton, N.J.-based investment-platform provider to wealth managers, family offices and small institutions, and a former head of Merrill's Consults separately managed account (SMA) distribution program, thinks talk of the fundamental incompatibility of bank and brokerage is overblown.

Wiley competitors

"Ah, bank culture! -- that's always the line," says Galvin, who owns stock in Merrill. "Citi, a bank, owns Smith Barney, and you don't hear complaints about 'bank culture' from over there; Wachovia, a bank, bought Prudential Securities, and it also has A.G. Edwards, and that seems to be going OK. The point is smart people understand what's necessary to compete in different segments of the business."

In any case, adds Galvin, talk of a Merrill-Bank of America merger has been kicking around for nearly a decade. Until now though, market and economic conditions didn't lend themselves to an easy pass from regulators for such a deal.

"This is a good deal for Merrill employees and investors, and good timing for it too," says Galvin. "With Lehman going bankrupt, you have to figure that the shorts' next target was going to be Merrill."

Still, Galvin agrees with Burton in thinking the merger will send more Merrill brokers to independent firms than would otherwise make the move.

But, along with opportunities for rivals big and small to nab high producers, Bank of America's takeover of Merrill is likely to "increase competition for wealth-management boutiques as some of the advisors start up their own firms," says Seivert.

Though going from a wirehouse like Merrill to independent RIA status is a daunting move, sophisticated transition-management programs offered by RIA custodians like Schwab, Fidelity and Pershing and hybrid RIA-brokerage platforms like those of Partnervest and Houston-based US Fiduciary make it more feasible.

In its last two quarters, Merrill's Global Wealth Management (GWM) division, which is headed by Robert McCann, was the only profitable part of the company, which has suffered from steep losses due, as with so many other financial-service companies, to having made what amount to bad bets in the U.S. mortgage market.

On the table

McCann will helm a new Bank of America-owned wealth-management entity called Merrill Lynch Wealth Management spanning Merrill's GWM, San Francisco-based First Republic (which Merrill acquired in 2007) Bank of America's U.S. Trust (which Bank of America acquired, and combined with its home-grown private bank and family-office units, in 2007). U.S. Trust's CEO Frances Aldrich Sevilla-Sacasa is expected to lead the non-brokerage bits of the business.

The merger is likely to result in redundancies at the margins of its combined wealth-management business, however. For instance Bank of America's separately managed account (SMA) platform could be shunted aside by Merrill's much bigger SMA complex, says Alois Pirker, a senior analyst with Aite Group, a Boston-based research and consulting firm.

In turn, Merrill's ultra-high-net-worth Private Banking and Investment Group, could be absorbed by groups under the U.S. Trust banner.

In general, the disappearance of Merrill as an independent entity suggests that "no firm is off the table" in this environment and that "the standalone investment bank, even one with a retail brokerage, is dead," says Pirker.

And that ratchets up the likelihood of Zurich-based UBS, another broad-based financial-service firm that's been battered in the mortgage-asset crisis, ending up -- entirely or in parts -- on the auction block.

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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