

## WEALTH MANAGEMENT LETTER

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### **Wirehouses Dominance of SMAs Continues to Wane**

By John Churchill

Wirehouse brokers continue to dominate the separately managed accounts business, but other players continue to chip away at that dominance, according to the Money Management Institute (MMI).

Wirehouses are now home to 65.9 percent of separate-account assets, but the big brokerages houses have lost share in each of the last four years. In 2000, wirehouses had a 72.4 percent share of the market, Washington-based MMI said.

Gaining ground are third-party vendors, whose share has risen to 11.7 percent from 7.1 percent in 2000, and independents, who have gained a full percentage point to 9.1 percent.

A former Merrill executive said SMA-asset runoff at wirehouses is understandable. He said wirehouse brokers sell managed accounts "like they would a product," instead of treating them like the complex process that they are. Such brokers tend to farm out asset-allocation and asset-manager analysis tasks to support staff, shortchanging SMA customers who think they will be getting ongoing attention from their brokers.

At Merrill, for instance, "Consults [Merrill's SMA platform] is not really a service -- it's just another product," the executive, who now works at Schwab, asserts.

Assets in SMAs have grown 11 percent annually over the past four years, according to MMI. This year they've grown by 7.2 percent to \$535 billion and are expected to reach \$615 billion before year's end. This represents a 23 percent increase since 2003.

There's little mystery about why the wirehouses currently dominate the business.

"They got in years ago -- EF Hutton and then Smith Barney for instance -- and have laid the groundwork," says Matt Schott, an analyst at TowerGroup, a Boston-based research firm. "Then there's the sheer size of their distribution capability, the size of their sales forces."

Another factor is that there's the extensive training required with SMAs -- an expensive issue more easily handled by firms with deep pockets. Brokers who want to sell SMAs need a Series 65, and then accustom themselves to the demands of the program and the generally greater involvement it requires, says Schott.

However, Barry Mendelson, founder of Capital Market Consultants, a Shorewood, Wisc.-based practice-management consultancy, says the number of sophisticated SMA users is still relatively small and opportunities will abound for advisors who can convey their experience, knowledge and comfort with SMAs. He predicts that those advisors willing to spend the most time with clients will ultimately win in the SMA business.

"Quarterly meetings serve as measures of accountability in the eyes of the client," he says. "If they're well done it's a chance to build trust, and, ultimately, get more of the assets and then referrals."

The wirehouse stranglehold on the market can make it tough for newcomers to make headway. Nonetheless, a variety of players have been able to do so in recent years - - most notably the third-party vendors, known as turnkey asset-management programs (TAMPS).

Arlen Oransky, associate director for membership at MMI, says that if her organization's membership rolls are any indication, interest in managed accounts is at an all-time high. MMI membership is up 90 percent since 2001, and firms from the banking and insurance industries are now entering the fray in larger numbers.

Schott believes the SMA market will continue to grow, but he sees such growth as a sign of larger movement.

"This is going to evolve into a much broader managed-money concept, with SMAs being supplemented with hedge funds, mutual funds, ETFs and more," he says.