

Fundfire

MoneyVoices: No Bear Market for Advisors

Column published on Sep 11, 2008



*Guest Columnist: **Mark Elzweig** is president and founder of the executive search firm Mark Elzweig Company, LTD.*

Deals for top advisors are likely to remain in the stratosphere even as top brokerage firms post tens in billions of losses. Or maybe I should say recruiting deals are holding up for top advisors *because* Wall Street is still reeling from the subprime mortgage crisis.

Advisors with large pools of client assets are one of the few reliable profit centers left on Wall Street. They are also the major lifeline to the burgeoning high-net-worth business, a fact that has major implications for money management marketers.

So even as Wall Street jettisons staff and freezes new hiring, major wirehouses are wooing top performers with deals that exceed 200% of trailing 12 months' gross commissions – just as they did in the days of the bull market. They need to do that both to compete and to offset the bruising their reputations have taken over the past 18 months.

Demographics are also boosting the value of the elite financial advisory community. According to **Cerulli Associates**, more than half of all advisors are more than 50 years old. Younger people aren't signing up in droves to replace the aging populace. Cerulli reports that fewer than one-fifth are under 40. That has translated into a drop in the total number of advisors to 298,000 in 2007 from 304,000 in 2004.

Further, building a successful fee-based business – today's preferred format - is a long, hard slog. It requires individuals who are able to attract large pools of assets that the stock jockey of yesteryear simply didn't need; his ratio of commissions to assets was many times higher than the 1.5 ratio required today. Firms prefer to hire advisors with large pools of assets relative to the gross commissions that they generate. This increases the likelihood that their clients are making money and will follow them to new firms. In other words, their franchises are solid.

A change in the business model is further creating a talent drain. The trickle of major firm advisors opting to go independent or set up their own RIA continues to accelerate. No longer is independence the career path of smaller producers – in the \$250,000-\$300,000 range – who couldn't get any respect from major firms. This year, a number of multi-million dollar teams have checked out of wirehouse-land. New players are wooing them with not just competitive cash and equity deals, but with a shift in culture.

Astute SMA marketers and key account people can piggyback off advisor firm changes; high-end teams or top advisors can provide entree quickly and effectively into the due diligence fortress and home office. For the foreseeable future, I expect wirehouses to offer aggressive packages to advisors with at least \$500,000 in commissions and \$50 million in assets. One caveat: If the bear market is prolonged and continues to drive down firm revenues, advisors with less than \$1 million in gross commissions or those with less than \$100 million in assets may see their deals pared back. But for the moment, the recruiting stance on the Street is as aggressive as it gets.