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Breakaway Advisors Boost Schwab SMA Growth

By Tom Stabile February 12, 2010

Breakaway teams leaving the wirehouses to join the independent registered investment advisor platform at **Schwab Advisors Services** helped the custodian add $3.9 billion in net new separately managed account assets last year. The new advisors were only part of the picture, however, as existing Schwab RIAs also added client money to the SMA platform in a year when many other sponsors struggled to retain assets.

Breakaways leaving the wirehouses and other big brokerages accounted for about 10% to 20% of Schwab's net new SMA assets in 2009. That percentage was down from when they made up closer to 40% of the $6 billion added in 2008.

But the breakaway contribution was a big reason that Schwab was able to keep its SMA asset totals relatively steady throughout the market downturn at a time when the SMA industry as a whole saw tens of billions of dollars in outflows and hundreds of billions more in market value losses. Schwab had a record year in adding 172 breakaway teams in 2009, topping its previous record of 123 a year earlier.

Schwab's traction for most of last year was in the opposite direction from the rest of the SMA industry, according to data from **Cerulli Associates**. While the wirehouses all had year-over-year declines in SMA assets up through the third quarter, Schwab's platform was up by nearly 16% from a year earlier at that point. Most other brokerage sponsors were also down for the year in SMA assets.

A combination of the breakaways and existing RIAs growing their books has boosted the custodian's SMA totals despite headwinds for the industry, says **David Lindenbaum**, Schwab's head of sales and product management for managed accounts and alternatives. "I think the RIAs are gaining market share, so we're getting our share of net new assets," he says.

Lindenbaum says even when client money was exiting equity SMAs on Schwab's platform, the custodian was seeing inflows shift to fixed income SMAs. That trend itself was notable, he says, because fixed income SMAs tend to require larger account minimums than equity products.

Schwab's traction is not surprising, and the pattern is also evident at other large RIA custodians, says **Chris Winn**, principal for **MainStay Consulting Group**, a research consultant in Boston that also has an affiliate that helps advisors explore independent channel options. The other custodian market leaders are **Fidelity Institutional Wealth Services**, **TD Ameritrade Institutional** and **BNY Mellon**'s **Pershing** unit.

"Never count the wirehouses out," he adds. "But the volume of assets that has been moving, even during the [bad economy], has led to growth at the SMA programs for all of these [large custodial] platforms."

Schwab's $39.4 billion SMA asset tally at the end of the third quarter made it fifth overall behind the four wirehouses, but not far behind the two smaller programs at **UBS Wealth Management Americas** and **Wells Fargo Advisors** that are both close to $50 billion. **Bank of America**'s **Merrill Lynch** and **Morgan Stanley Smith Barney** were both in the $140 billion range at that juncture. Net flows for the SMA industry overall through the third quarter in Cerulli's data totaled $10 billion in outflows – the combination of big first-quarter outflows and small inflows for the second and third quarters.

Schwab's SMA totals include about $9 billion from its own branch advisors, with the rest coming from its RIA clients. Of the $30.9 billion in the third-quarter data that was from RIAs, about $28.5 billion was on its dual-contract Marketplace platform, where the advisor firms contract directly with managers. Another $1.7 billion was on the Select platform, which is a recommended list of managers that have gone through Schwab's due diligence process, and another $700 million is on its newer and fast-growing Access platform that offers SMA strategies to RIAs on a streamlined single-contract platform outside of its research process.

Lindenbaum says the three platforms together now have about 3,300 SMA strategies from more than 1,000 managers. The bulk is on the dual contract platform, but the single-contract platforms are growing, with Access now listing 85 strategies after upping its menu of products by 45% last year. Schwab added 455 SMA strategies overall in 2009 across all of its platforms, he adds.

Managers are paying more attention to the RIA channel because of the breakaway trend as well as the asset growth, MainStay's Winn says. Many managers are eager to maintain relationships with former wirehouse advisors, and are trying to make the transition for these teams easier by being available on as many RIA platforms as possible.

But SMA managers still must decide whether they want to build relationships with all of the RIA platforms, which in addition to the four largest custodians now includes three more recent but formidable competitors. **LPL Financial**, **RBC Wealth Management** and **Stifel Nicolaus** are all sizable brokerage players that are extending their existing SMA and other managed accounts platforms to RIAs through newer custodial arms. That means managers may need to assess joining seven platforms to reach RIAs.

Winn says the decision boils down to strategy, with some boutique firms likely to prefer an exclusive approach working with only a few providers but larger-market SMA players trying to cover a growing field – similar to the decision many managers faced about a decade ago when SMA programs were blossoming at the wirehouses.

Lindenbaum has headed the SMA and other managed accounts platforms at Schwab for a little over a year. He reports to **Peter Crawford**, senior v.p. in Schwab's investment management services unit.

Lindenbaum also is heading Schwab's efforts to explore creating its own unified managed account program. The firm currently offers RIAs access to a UMA program run by **Fortigent**, a specialty turnkey program provider, but in recent years Schwab has indicated it eventually wants to build its own program.