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The Wirehouse Boutique

An emerging model is attracting breakaway brokers seeking both equity and familiarity.

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When breakaway broker Robert Sayler defected from Morgan Stanley on a Friday afternoon in the spring of 2008, he left a 14-year wirehouse career behind him. Hours later, the 47-year-old advisor had hung up a new shingle: SeaCrest Wealth Management.

His phone and e-mail systems were up and running. Pens, paper and file folders had been placed neatly in his desk. The just-delivered fridge and coffee maker were at the ready as was a new full-time assistant, supplied — like everything else — by SeaCrest. Health and dental insurance? Check. Trading platform? Check. Equity ownership in the RIA? Double check.

The migration of advisors from wirehouses to the independent channel has given rise to alternative business models — such as SeaCrest and the high-profile upstart HighTower Advisors — that are helping breakaway advisors like Rapid City, S.D.-based Sayler make the leap.

“What you’re seeing is a resurgence in financial advisor-centric organizations. The advisor gets all this stuff — they don’t have to pick out what color office chair they want. It’s all provided by the organization. So they get some of the benefits of independence but they’re not getting all of the other responsibilities and the difficulties that come with it,” observes Bing Waldert, director at Cerulli Associates. “It eases that jump.”

Waldert expects the emerging boutique-style firms will thrive as smaller organizations — not as large national firms.

“You’re not going to have a thousand, two thousand or five thousand advisors and retain that small boutique feel. You’ve ultimately only got space for so many advisors. It’s definitely something we’re watching,” he said.

One other model that’s getting a close look by breakaway brokers for much the same reason: the traditional regional firm. Waldert puts RBC Dain Rauscher, Janney Montgomery Scott and Robert W. Baird on his short list.

A new study by TowerGroup expects the big play by breakaway brokers to occur between now and the end of 2010 with between 7,500 and 9,000 advisors, representing up to 14 percent of all wirehouse brokers, considering a switch to an independent model. Up for grabs: $500 billion to $800 billion in client assets. TowerGroup looks for the majority of movement to happen late next year as the markets and the economy stabilize.

The report’s author, Sean Cunniff, TowerGroup’s research director of brokerage and wealth management, said advisors are defecting for four primary reasons: the desire to gain greater control of their business; the need for enhanced personal wealth; damage to the large-firm business model; and the restructuring of the brokerage business.

At this point, Cunniff believes the independent broker-dealer and RIA models are holding their own — with neither demonstrating dominance. But, with the RIAs gathering assets at a faster rate than their wirehouse counterparts, he does expect the shift toward RIA fee-based business to continue.

As for its appeal to the advisor, the transparent RIA platform has much going for it.

“Obviously, the P&L around running their own RIA for a fee-based part of their business is appealing because they’re calling their own shots and capturing all the top-line revenue,” notes Chris Winn, principal and co-founder of MainStay Consulting Group and AdvisorAssist, which provides guidance to brokers on the move. “These are key drivers. The critical point is [that] uncertainty like we’re seeing today is usually a trigger that prompts people to go down a path they were already thinking of. It basically opens up the window and gets them thinking strategy: What must I do to retain my best clients? What’s best for me?”

And increasingly, according to John Shields, Winn’s business partner, advisors are asking this key question: Aren’t there RIA firms out there I can plug into?

"There's a lot more interest in larger, already established RIA practices," he says. "In the past, because of the nature of the RIA, it hasn't typically been fertile recruiting ground. But now you've got firms looking to establish more of a national presence. With all the new choices emerging, you're seeing additional traffic and discussion."

Back to the Future?

When former Morgan Stanley management executives Ed Sullivan and Rick Sanchez formed Purchase, N.Y.-based SeaCrest Wealth Management in June 2008, they aimed to create a firm that fosters "the spirit of independence" yet allows its advisors "to be part of something."

SeaCrest is actively recruiting brokers from wirehouses, seeking financial advisors with approximately $300 million to $600 million in revenues and anywhere from 10 to 15 years of experience. The advisors — there are now 16 across the country — receive back office support and oversight, complete ownership of their book, no overhead costs, an equity stake in the firm and payout increases of anywhere between 50 percent to 100 percent over what they were getting at the wirehouse. At the moment, the typical SeaCrest advisor does 65 percent to 75 percent of business in fees, the rest in commissions. SeaCrest, meanwhile, takes a percentage of the advisor's revenues.

Sullivan, most recently managing director and executive vice president with Morgan Stanley's Global Wealth Management Group, casts the firm as a throwback to better days on Wall Street.

"Alternatives used to exist in the traditional broker-dealer world, but it's much more limited right now. The marketplace is wide open. We're trying to bring back the boutiques that existed on the Street in the '50s, '60s and '70s. There were older boutiques and a lot of great regional broker-dealers — Tucker Anthony, Advest, those kinds of firms — where the chairman knew all the advisors at the firm," says Sullivan. "Today, wirehouses are … global empires. I think a lot of people are looking for alternatives and we'll fill that niche for some."

SeaCrest, affiliated with Charles Schwab Institutional, hopes to add 40 to 50 advisors a year. Eventually, Sullivan expects the firm to experience an equity event, whether it's an initial public offering or some other form of equity conversion.

Chicago-based HighTower Advisors, launched last fall by former Wall Street titans Philip Purcell and David Pottruck, has a similar business model but its ambitions are focused on superstar brokers — folks like JPMorgan Securities advisor Richard Saperstein who moved his $10 billion book of business to the start-up in May. HighTower chief executive Elliot Weissbluth could not be reached for comment.

Industry expert Chip Roame, managing principal of Tiburon Strategic Advisors, says SeaCrest and HighTower and the firms that will likely follow them are employing the same basic strategy. "It will feel like your firm, but we'll handle all the infrastructure. On top of that, we'll give you a high payout, offer you equity in our company, take this buggy down the road and go public one day. There's huge upside in being a stakeholder," he says. "And if I'm a wirehouse broker, two of my biggest issues they just solved: I didn't want to deal with the operational crap and I did want the equity."

While the concept isn't unique, Roame says the current market environment could push the resurgent business models into positive territory.

As Roame puts it: "Every few years, someone new emerges and is going to swoop up all the breakaway brokers. What is unique is that we've got the perfect storm going on in the wirehouses. We may look back and see that SeaCrest and HighTower succeeded where others have failed. It was a cool offer at exactly the right time."

A Good Fit

SeaCrest Wealth Management's Rapid City office — composed of Robert Sayler and two other former Morgan Stanley advisors — has the distinction of being the first pin on the firm's national map.

After studying other independent alternatives, Sayler says it wasn't a difficult decision to jump on as SeaCrest's inaugural office location.

"It was the best fit. Pretty much for anybody that's spent a career with a wirehouse, the biggest concern involves the regulatory and compliance side of the business. We're used to having our I's dotted and our T's crossed. Folks familiar with doing that are leading this effort," notes Sayler, who has $70 million in assets under management.

The office on Fifth Street has worked out well with a client retention rate hovering at close to 90 percent. Sayler says the technology platform has performed admirably and that Schwab has opened up a world of no-load funds and other products that weren't necessarily available at his previous corporate home. "There's absolutely nothing we're lacking here that we had at Morgan Stanley," adds Sayler, who first investigated the independent channel out of curiosity after watching the wirehouse industry begin to teeter.

And at mid-life, "the excitement of learning more and more about how the business really works, from top to bottom," is a real motivator. The equity ownership, Sayler adds, is "hugely" exciting. "It puts us in the frame of mind that the sky really is the limit."

Across the country, in Purchase, N.Y., former Merrill Lynch broker Charles Winston joined SeaCrest in mid-January. At 43 and with nine years in the industry, Winston has $40 million in assets under management and a keen hunger to see that asset number grow.

Winston left Merrill because he felt the brand had been tarnished, and he said frankly: "I didn't like getting 40 percent of everything I brought in. You do an awful lot of work for not a lot of benefit." The fact that he had four managers over eight years didn't help the equation.

At his asset size, Winston said it would have been foolish to go completely solo. “The group here understands the business inside and out. They ran it, right? This kind of model will be huge — and I think you are going to see new ones develop going forward,” he adds. “At least I hope so.”

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