Rules changing for the money management game | Richmond BizSense

July 22, 2009 by David Larter

The business of managing people's money is getting a shakeout in Richmond.

With major stock indices off nearly 40 percent, all sorts of clients are reevaluating their advisors, and that has meant opportunity for firms that can land new clients without letting go existing ones. But it also means more pressure to lower rates, which could leave a lasting effect on the local industry and make it less profitable for years to come.

Several financial advisors at smaller firms across Richmond say that they are seeing an increase in inquiries from clients who used to invest with larger firms – and who felt they got burned when the market plummeted. (Financial advisors would say that resulted from a failure to manage expectations.)

There are no statistics on how many clients change hands, nor do wealth managers and financial advisors actively advertise their successes or market-beating records.

But in interviews with a dozen advisors, those at smaller firms say they see the change as an opportunity to lure away clients from the bigger investment houses. And they are surprisingly upbeat considering the down market.

Still, that opportunity comes at a cost. Like almost every business these days, customers expect lower prices, and in the wealth management game, that means lower fees. Advisors typically charge clients a percentage of their overall money under management.

"Certainly firms that have seen heavy losses are cutting fees in order to keep clients," said Steve Cooke, an advisor and partner at Heritage Wealth Advisors. "Also, firms that are trying to win clients will cut their fees."

But Cooke said his firm is not lowering fees to get clients in the door.

Tom Tullidge, a managing director at Cary Street Partners, said that some clients had been asking for lower rates. His firm has been examining those requests on a case-by-case basis.

"Flat rate is 1 percent on the first $1 million," he said. "After that, the fees start to become more negotiable."

The Wall Street Journal reported at the end of May that: " *The battle on Wall Street for top-producing stockbrokers is turning into a gold mine for some of their clients.*

In an effort to keep valued retail-brokerage customers from following their financial advisors out the door, Morgan Stanley, Smith Barney and other firms are offering some clients discounted commissions on trades or waiving account-management fees.

While the details vary by firm and customer, some clients are being told they won't pay any fees for two years if they stick with the firm, according to people familiar with the situation."

Locally, the smaller firms are gunning for clients from the big firms, such as Merrill Lynch and Wells Fargo Advisors, formerly Wachovia Securities.

In part, that's because local clients are less loyal to Wachovia Securities now that the firm moved and then gobbled up by Wells Fargo in a shotgun wedding.

"Registered investment advisors have seen a huge wave of money from places like Merrill Lynch and Wachovia," said Dave O'Brien, an investment advisor who runs O'Brien Financial Planning in Midlothian. "We've been growing at a significant pace because investors are getting it – that it costs them less to work with me than the big firms."

"There has been some momentum in investing, but if you look at the sheer amount of money that is on the sidelines right now, things are still slow,"

Clients aren't the only ones moving. When Wells Fargo Advisors took over Wachovia Securities, brokers were not given retention bonuses, prompting some advisors to leave the firm.

"There was some initial shock, and I know some brokers were disappointed, and there was some attrition but not undue attrition," said Tony Mattera, a spokesperson for Wells Fargo Advisors. "I think most of our advisors understood the situation."

Mattera also said that Wells Fargo Advisors had been doing record hiring and that he had not seen a mass exodus of clients from Wells Fargo. He has seen an upsurge in clients seeking advice from Wells Fargo advisors.

"I think what we are seeing is a barbell effect," Mattera said. "People are putting their money in smaller firms, yes. But they are also starting to go back to the bigger, more trusted names in the industry as well. So I think it's really the middle-of-the-road guys that are getting squeezed out right now."

Still, the smaller firms in town say that while investors are hesitant to dive back into the market, the ones who are putting their money back in are moving it to the smaller firms because of the more personal touch.

"If someone wants to know what I'm doing with their money, they can drive over to Cary Street, shake my hand and ask me themselves," said Bill Davis from Thompson Davis & Company.

Davis said that with bigger firms, even though someone might have an advisor in town, that advisor is selling a financial product, such as a mutual fund. Those products are determined by people at headquarters.

Tullidge said that Cary Street Partners has seen more business because of people moving away from larger firms.

"We've definitely been getting the benefit of that," he said. "I think people are frustrated with the one-size-fits-all approach of the bigger places. They're not selling advice. That is what we do."

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