Schwab, Pershing Grow Breakaway RIA Assets

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The flow of client assets following advisors from the wirehouse brokerage world to the independent channel continues to rise, based on 2008 data released by **Charles Schwab & Co.** and the **Bank of New York Mellon**’s **Pershing** unit. Both Schwab and Pershing, which are asset custodians that support the creation of new independent registered investment advisor (RIA) firms, say the new asset totals probably don’t reflect the fallout from the financial markets freefall that started last September.

Schwab and Pershing both reported that their new RIA totals include an increased number of big producers making the leap to the independent world. The other big custodians in play for advisors going independent – **Fidelity Investments** and **TD Ameritrade**– report they do not have full-year 2008 data available.

Schwab finished 2008 with 123 big brokerage advisors forming or joining RIAs, slightly edging the 114 from 2007. The big difference was in assets, with last year’s total topping $13 billion, compared to the $9.2 billion of 2007 and $6.9 billion in 2006. A big contributor in 2008 was **Gurtin Fixed Income Management**, formed by a former Morgan Stanley advisor who went independent with more than $5.2 billion in assets.

The overall breakaway trend was a bright spot for Schwab in 2008, which had predicted it would bring in $2 billion less in assets than it did. The inflow of wirehouse advisors was also part of the reason that Schwab’s assets on its separately managed accounts (SMA) platform have held steady for most of the year, finishing 2008 with $34.5 billion. New RIAs account for $5.3 billion of the $5.7 billion in net new SMA assets on that platform.

Pershing added 14 breakaway advisors forming RIA firms, but that base had a total of $4 billion in assets, reflecting the custodian’s stated objective to focus its independent advisor services business on big producers with a wealthier clientele. The Pershing tally for 2008 includes two large RIAs formed last year, one a four-person **Merrill Lynch** team with $1 billion in client assets that created **LLBH Group Private Wealth Management** in Westport, Conn., and the other a three-member team with $550 million in assets that left **UBS Financial** to launch **Syntrinsic Investment Counsel** in Denver.

Industry observers have widely predicted an outsized wave of wirehouse advisor exits stemming from the recent market troubles. Still, it remains to be seen whether a significant spurt of such advisors will form RIAs sometime this year or whether other factors might keep the breakaway trend growing at its recent pace. Those factors include the retention bonuses that big brokerages undergoing corporate transitions are offering to keep advisors in place as well as the possibility that some advisor outflow may be siphoned off by more aggressive hiring from other corners of the independent channel.

The recent market turmoil should at least result in a longer-term increase in the flow of wirehouse advisors into the broader independent channel, says **Daniel Seivert**, CEO and managing partner of **Echelon Partners**, a consultant and investment bank in Manhattan Beach, Calif. Echelon tracks those flows, and Seivert says the tally of breakaways today runs at about 500 to 750 individuals annually out of the larger universe of 55,000 to 60,000 advisors.

The increase probably won't materialize in the short term, however. "Investor clients have been through so much that to take them through a transition to another [wealth firm] might be viewed as risky by advisors," Seivert says. "Once the dust settles, we could potentially see a doubling or tripling of the base amount of breakaway brokers."

While Schwab expects this year and next year's breakaway tallies to reflect the ripples of the recent turmoil, even those moves may take a few months to take shape, says **John Furey**, director of strategic business development for the company's unit handling advisor services. "It's not a light switch when these things happen," he adds. "Advisors are not going to make a rash decision."

But Furey says there already are signs that advisors may come over in bigger chunks, including a pipeline of 1,100 advisor teams with $140 billion in assets that have begun transition discussions with Schwab. That total includes $45 billion in assets at advisor firms that have gotten pretty far into the process, which Furey says typically runs about 18 months from the initial inquiry and two to six months for the actual transition.

Furey also says he expects Schwab to step up its recruiting for wirehouse advisors in the $500,000-revenue range, a segment that in many cases is being squeezed out of the big brokerages as they tilt their compensation rewards toward larger producers. A lot of those advisors might be candidates to join existing firms instead of starting their own, and Schwab is stepping up efforts to help RIAs in that recruiting effort, he adds.

Despite the promising signs, certain factors might challenge the RIA option for the attention of breakaway advisors, including more competition from other independent-sector firms. "The people leaving definitely have a lot of options," Seivert says, citing competitors such as **LPL Financial** and **Raymond James Financial**, which provide services to advisors through independent contractor relationships, as well as independent wealth management boutiques and broker-dealer firms.

Another limiting factor could be a byproduct of all of the turmoil facing the large brokerages that have been sold or are merging – a list that includes Merrill, **Morgan Stanley**, **Smith Barney**, and **Wachovia Securities**. All of those firms have announced or are expected to roll out retention bonus packages, which could be attractive to the advisors at a time when their client asset totals have been chopped down by the financial markets collapse.

Fidelity only has data through the third quarter, when it reported 59 breakaway advisors joining with $9 billion in assets, well above its tally for all of 2007, when it attracted advisors with $3.5 billion in assets, a spokesman says. Fidelity reports that a new hybrid platform offering services to advisors with both fee-based and commission-based business attracted 104 advisors with $13 billion in assets since its June launch, though it did not break out the numbers between the two types of revenue.

TD Ameritrade did not provide data but a spokeswoman says about a third of its net new RIA assets came from breakaway advisors