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Crisis an opportunity for smaller money firms

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John Lester is UBS Financial Services' Colorado market manager.

If every upheaval creates opportunity, this year's winners may be the smaller investment firms that have been overshadowed by Wall Street.

"We've had more calls than normal from people who are considering switching investment advisers or leaving wire houses," said Fred Taylor, a principal at **Northstar Investment Advisors** LLC in Denver.

"Wire houses" -is a term used to describe large national and international brokerage firms. In a pre-Internet age, they had the advantage of a private network to transmit financial news.

But their dominance has been shaken in recent months, as a worldwide credit crisis and exposure to toxic subprime mortgages devastated longtime Wall Street giants. Among them, Lehman Brothers has gone bankrupt, **Merrill Lynch** has been acquired by **Bank of America**, and **A.G. Edwards**/Wachovia is being acquired by Wells Fargo. **Smith Barney**, which is owned by Citigroup, has been consolidating divisions and closing offices.

That makes advisers and their clients nervous.

"People are uncertain, particularly at the wire houses, who's going to own them ... and whether the brokers are going to stay at those firms," Taylor said.

A September survey by Prince & Associates found that 70 percent of affluent investors — those with at least $1 million in liquid assets — say they want to fire their brokers.

Bad press spurs some advisers to seek a new umbrella.

Ryan Diachok, who heads business development for Denver-based independent broker/dealer **Geneos Wealth Management Inc.**, said he was receiving an "unprecedented" number of calls from advisers looking to switch firms.

"We're getting the most calls from AIG advisers," Diachok said. "Their name has just become toxic."

Some brokers may decide to switch models, leaving the commission-based broker/dealer one behind to become fee-based registered investment advisers (RIAs). Brokers typically work for wire houses and receive commissions on trades, while RIAs charge fees based on a percentage of client assets under management.

San Francisco-based **Charles Schwab Corp.**, which provides custody and brokerage services to independent financial advisers, may benefit from the shakeout.

“We’re talking to more people than we ever have before,” said Ed Turner, the Englewood-based regional vice president for Charles Schwab Institutional. “This environment will likely spur more change, in terms of people switching their model or switching employers, than any ever before.”

In 2007, Schwab Institutional signed up 114 new advisers, who brought with them roughly $9 billion in client assets. This year, Schwab added clients with more than $9 billion in new assets in the first half alone, Turner said.

“Most brokers will probably stay inside the commission-based model, but there will be people who will decide to become independent RIAs or join an existing registered investment advisory firm,” Turner said.

Ben Valore-Caplan is one of those people. He left Swiss bank **UBS** in August to launch Syntrinsic Investment Counsel, a six-person firm based in LoDo.

“We tried to think, ‘what is the best way to serve our clients for the next 20 years?’” Valore-Caplan said. “One option was to stay at our [previous] firm. Another option was to take a pretty decent check - — probably $4 million to $5 million — to go to another firm. With all the turmoil, we were getting a lot of calls from headhunters ... The third option was to go independent.”

Although he thought seriously about all three, “being independent was far superior, and worth the business risk,” Valore-Caplan said.

Despite — or because of — the turmoil, wealth management is one area that many major players are eager to beef up, because they see it as a source of stable earnings.

When Bank of America bought Merrill Lynch, BofA CEO Ken Lewis called Merrill’s 17,000 financial advisers the “crown jewel” of the company.

Meanwhile, Swiss bank UBS is rapidly expanding its wealth management business in the United States, particularly in Colorado.

“The best time to grow is when you’re in the environment we’re in today,” said John Lester, UBS Financial Services’ Colorado market manager.

UBS has 190 advisers in 10 offices across Colorado; the plan is to increase that number to 240 by the end of 2009, Lester said.

It will add offices, as well. UBS recently completed a 10,000-square-foot expansion of its Lone Tree office, and is shopping for new space in Cherry Creek. It will begin an expansion of its downtown Denver offices in November, and expects to complete a 2,500-square-foot expansion of its Fort Collins office in early December.

It’s holding a lease on space in Greeley that it plans to develop soon, and is considering establishing an office in Grand Junction, Lester said.

“Frankly, I’m out of space,” he said.

Sean Henderson joined the Lone Tree office in September. Henderson, who formerly worked with Smith Barney, said he was attracted by UBS’ strong emphasis on nonproprietary private wealth management.

“I only do things in the best interest of the client,” Henderson said. “You have to have a culture that appreciates that, where the No. 1 goal is taking care of the client.”