

# ***State of the Financial Services Industry & Future of Advice***

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*Barron's APIC Investment Consultant Summit  
June 4, 2009*



## Outline

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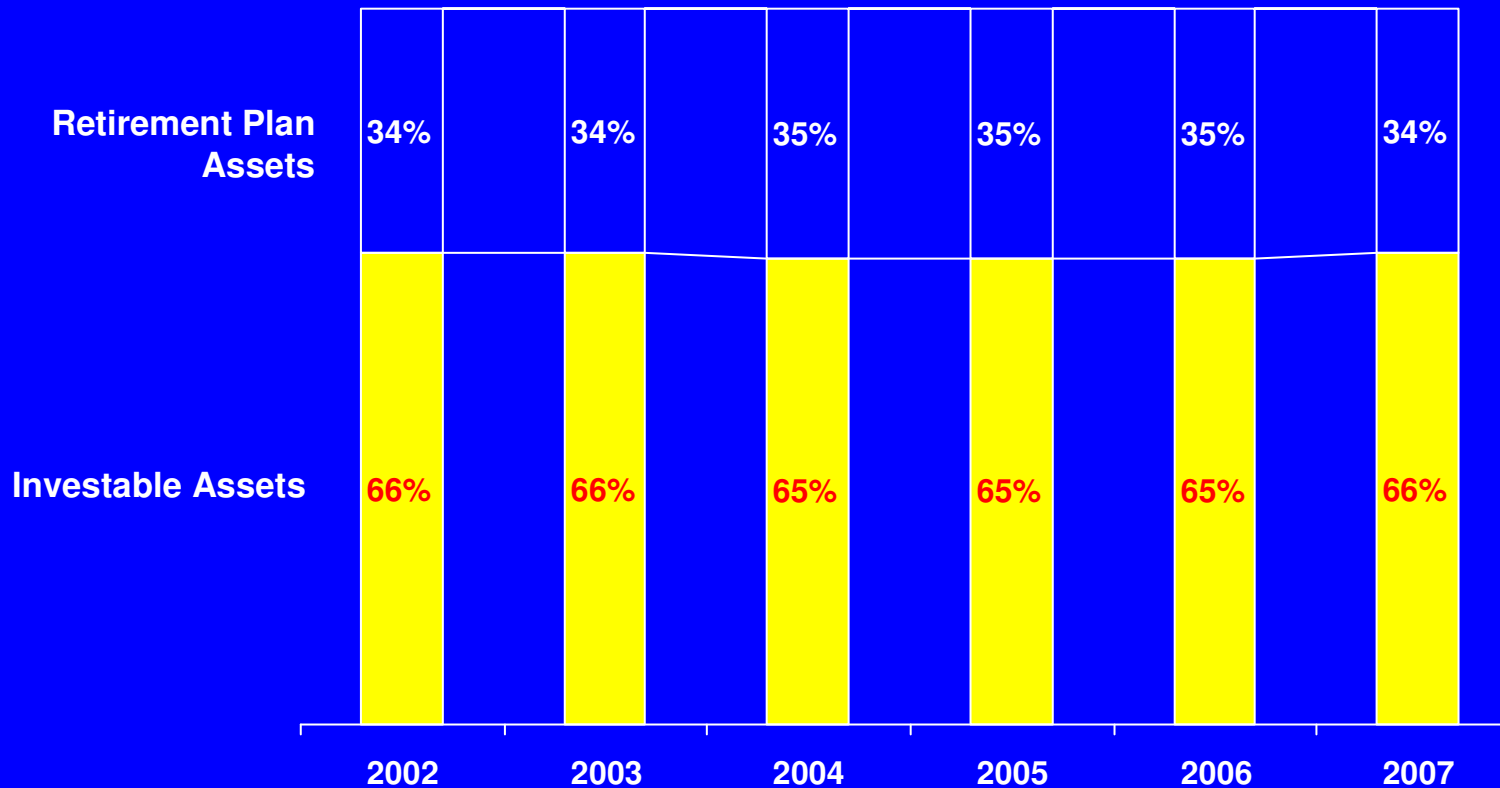
- **Important -> Year-End 2007 Recollection: Product & Channel Trends**
- **Worth Five Minutes -> The 2008-2009 Credit Crisis**
- **Critical -> 2009 & Beyond: New Industry Trends & Directions**
  - **Consumers & their New Realty Regarding Trust & Conservatism**
  - **Investment & Wealth Management Products Shifts**
  - **Channel Shifts: The Future of Advice**
  - **The Wild Card: Regulators...**



**#1: The Ratio of Consumer Household Financial Assets Had Been Relatively Stagnant Since 2002, with Investable Assets Accounting for Two-Thirds of All Financial Assets...**



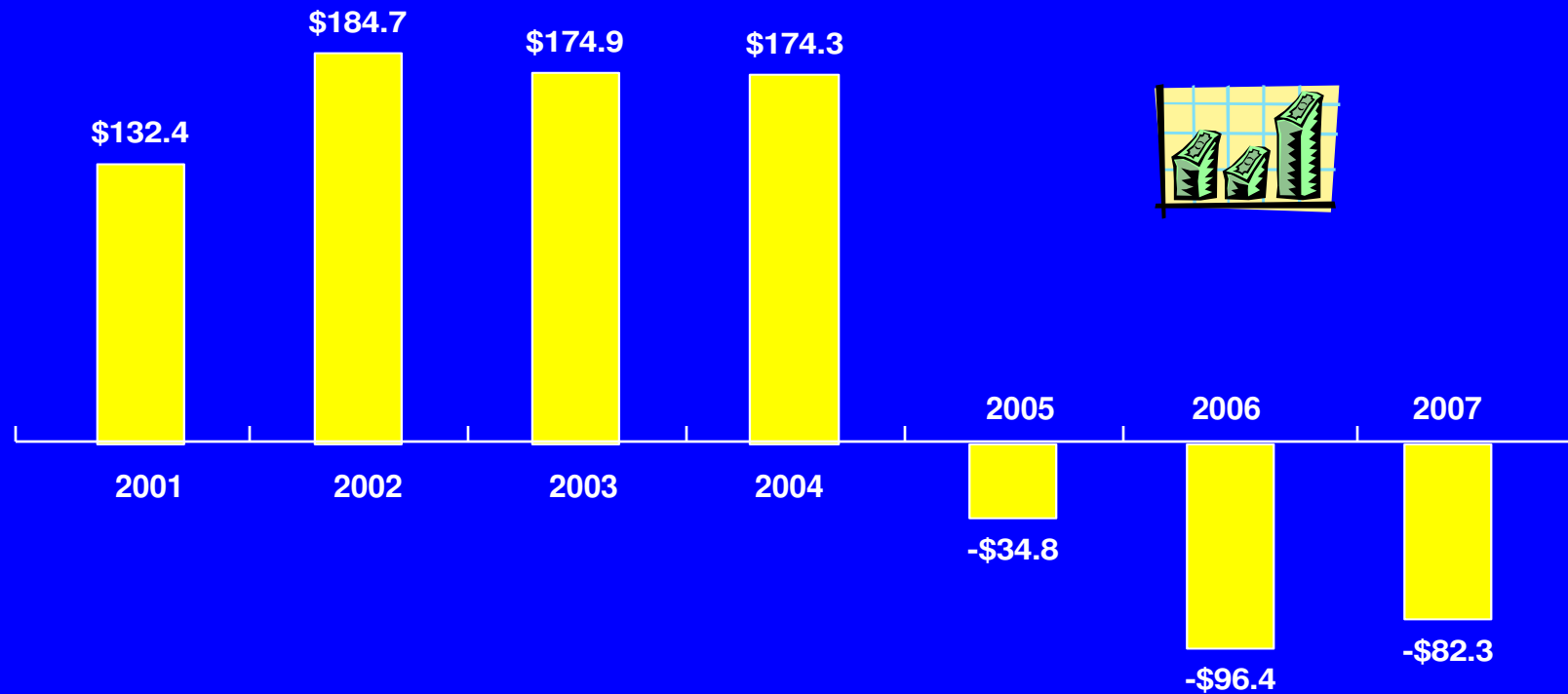
## Consumer Household Financial Assets By Asset Type



Source: 12/31/07 Federal Reserve Flow of Funds Report; 3/31/07 Federal Reserve Flow of Funds Report; Tiburon Research & Analysis

## #2: Baby Boomers were Still Not Saving the Traditional Way...

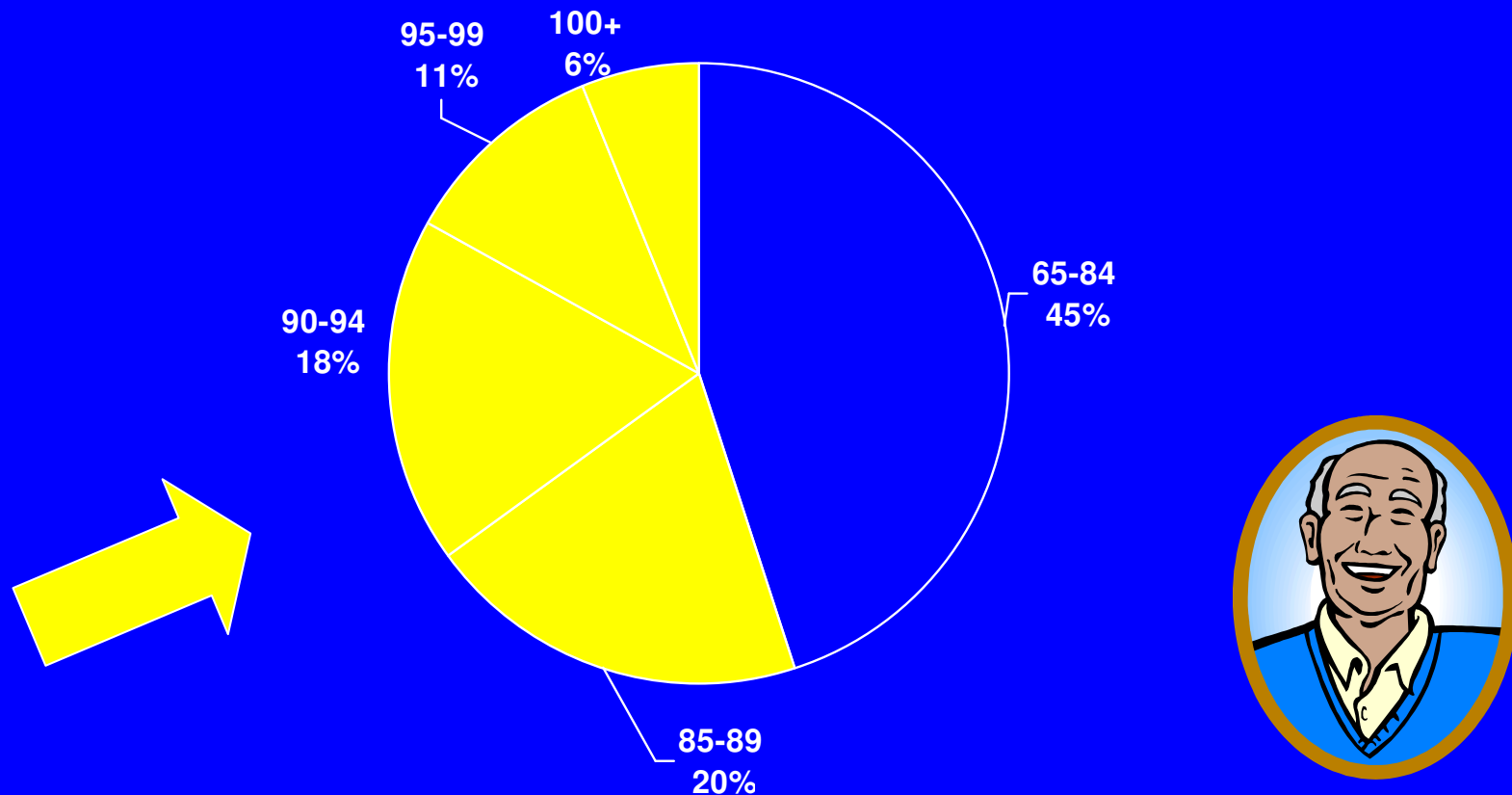
### Consumer Household Personal Savings (\$ Billions)



Source: 3/31/07 Federal Reserve Flow of Funds Report; Tiburon Research & Analysis

### #3: Longevity was Becoming a Real Problem...

## 65 Year Old Male Life Expectancy

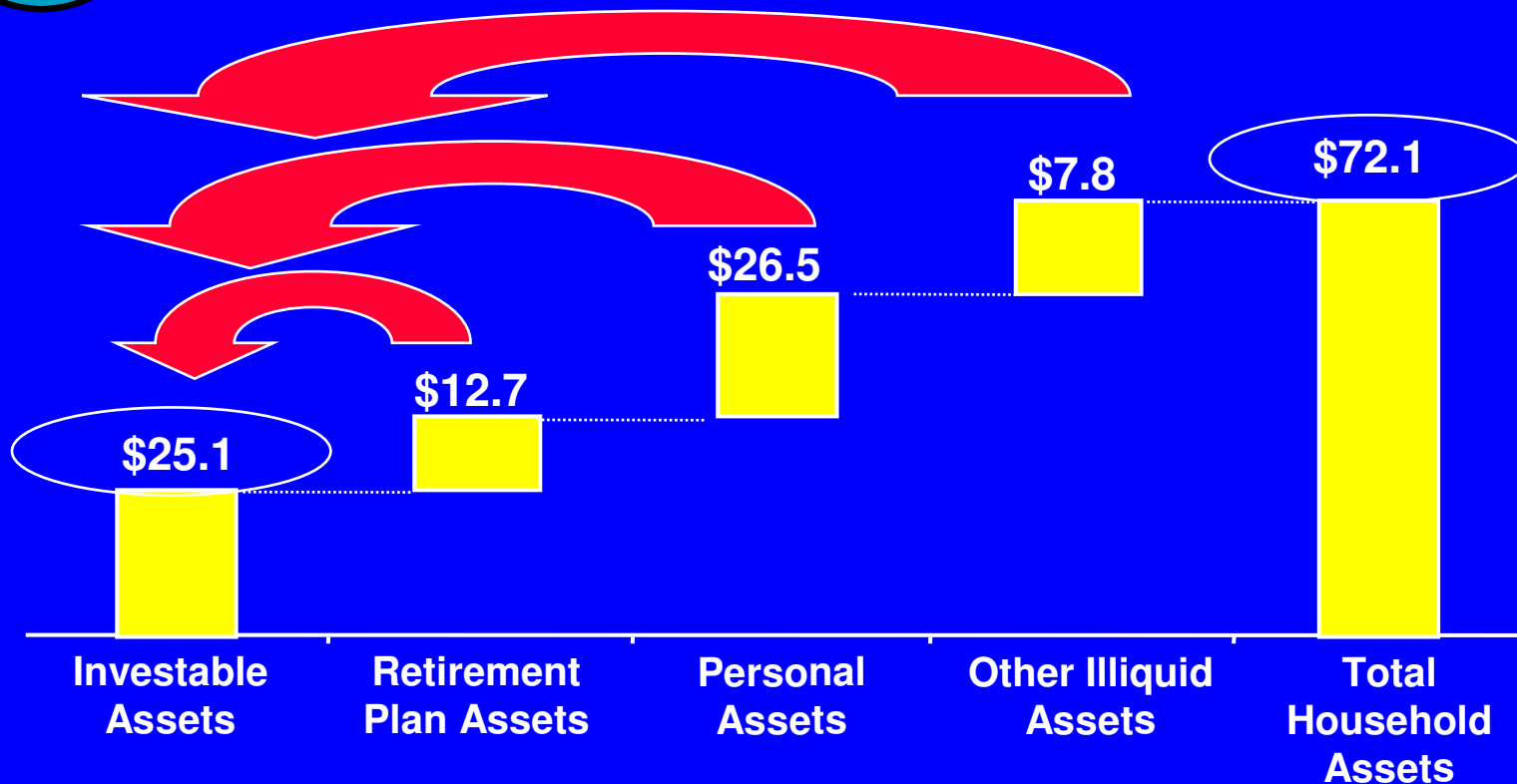


Source: 12/07 Journal of Financial Planning; 12/11/06 Investment News; 8/12/01 US Bancorp Piper Jaffray Web Site; 8/12/01 Allstate Brochure; 12/00 SunAmerica Brochure; 7/22/96 Business Week; Tiburon Research & Analysis

# #4: But Consumers, and Especially Baby Boomers, Had Lots of Assets in Retirement Plans and Houses that they Could Liquidate to Retire...



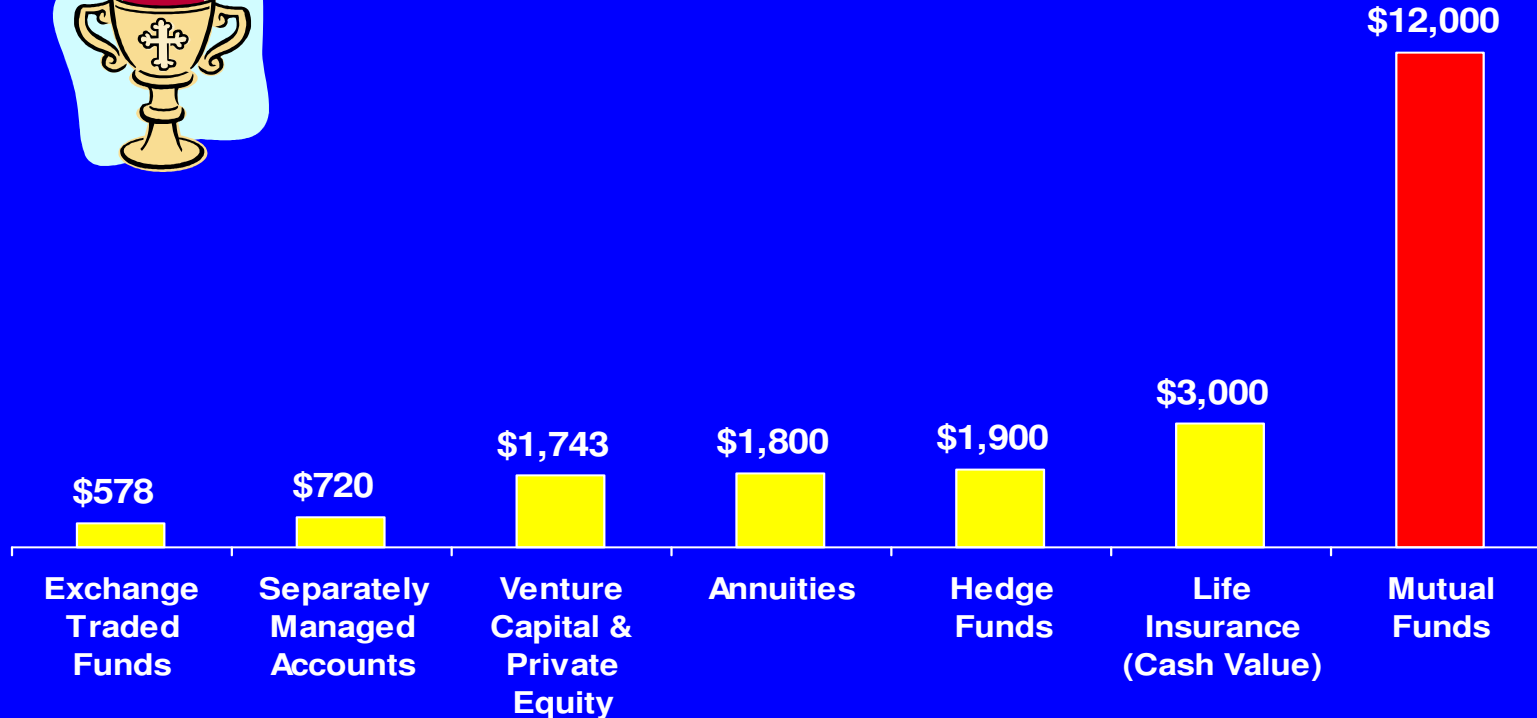
## Consumer Households Net Worth (\$ Trillions)



Source: 12/31/07 Federal Reserve Flow of Funds Report; 6/07 Fisher Investments Brochure (Federal Reserve Flow of Funds Report); 3/31/07 Federal Reserve Flow of Funds Report; 1/22/04 McKinsey Quarterly; 5/22/02 Wachovia Presentation (Doe) (Spectrem; McKinsey & Company); 5/9/02 Wachovia Presentation (Blythe); 5/9/02 Spectrem Presentation (Doe); 8/14/01 Wall Street Journal; 7/01 Registered Rep (Cerulli); Tiburon Research & Analysis

## #5: Mutual Fund were the Dominant Investment Product...

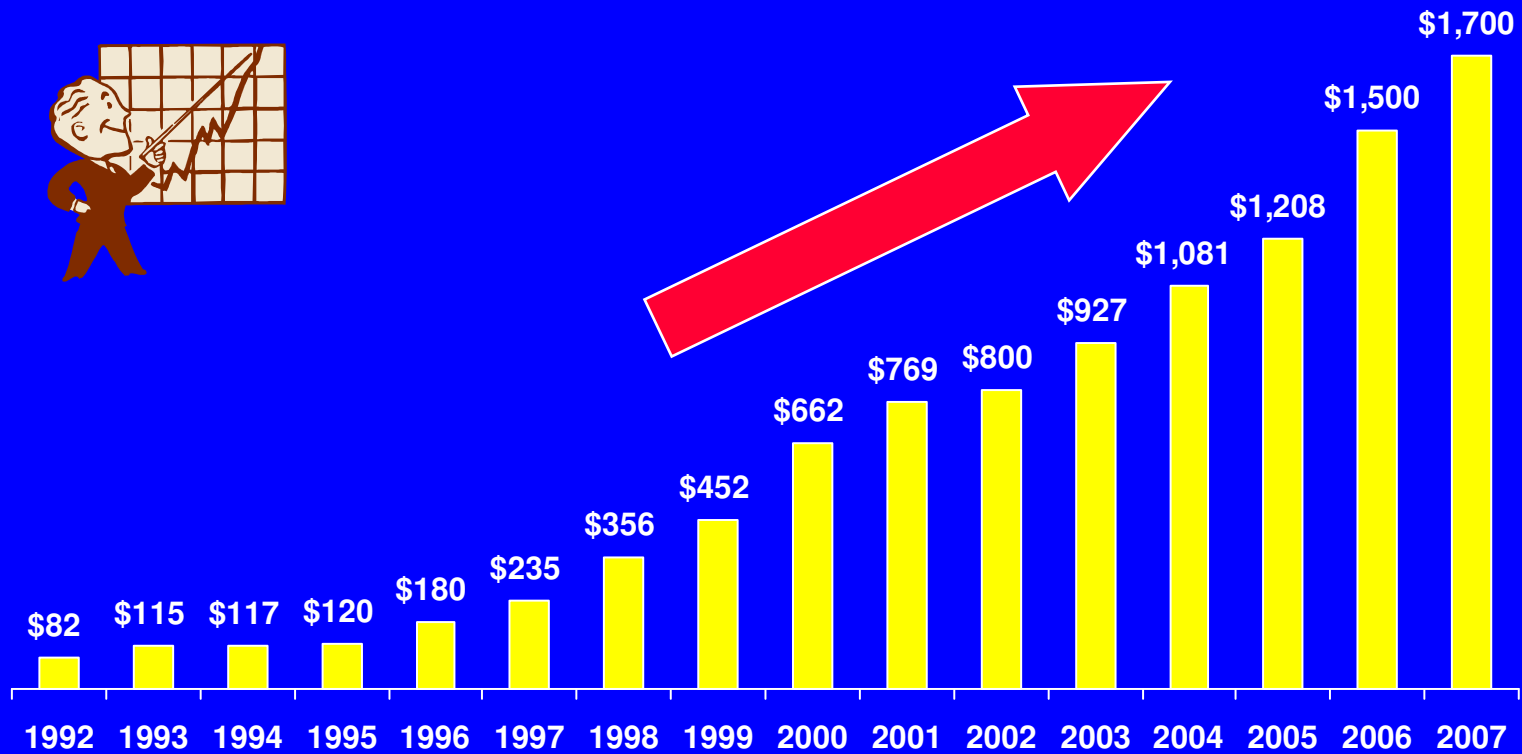
### Leading Investment Products Assets Under Management (\$ Billions)



Source: 10/14/08 Morningstar Presentation (Mansueto); 3/05 ICI Web Site; 7/19/04 Barron's; 4/04 Research (MMI); 12/15/03 Investment News (Cerulli); 7/03 Ticker; 5/27/02 Merrill Lynch Presentation (Cerulli) (Doe); 10/01 Investment Consulting News; 7/13/01 Cerulli Presentation (Strategic Insight) (Cerulli); 7/11/01 RunMoney Conversation (Jorgensen); 7/2/01 RunMoney Quarterly Report; 7/01 Financial Advisor; Tiburon Research & Analysis

## #6: Packaged Fee-Account Program Assets (Primarily at the Wirehouses) Had Grown Substantially to \$1.7 Trillion...

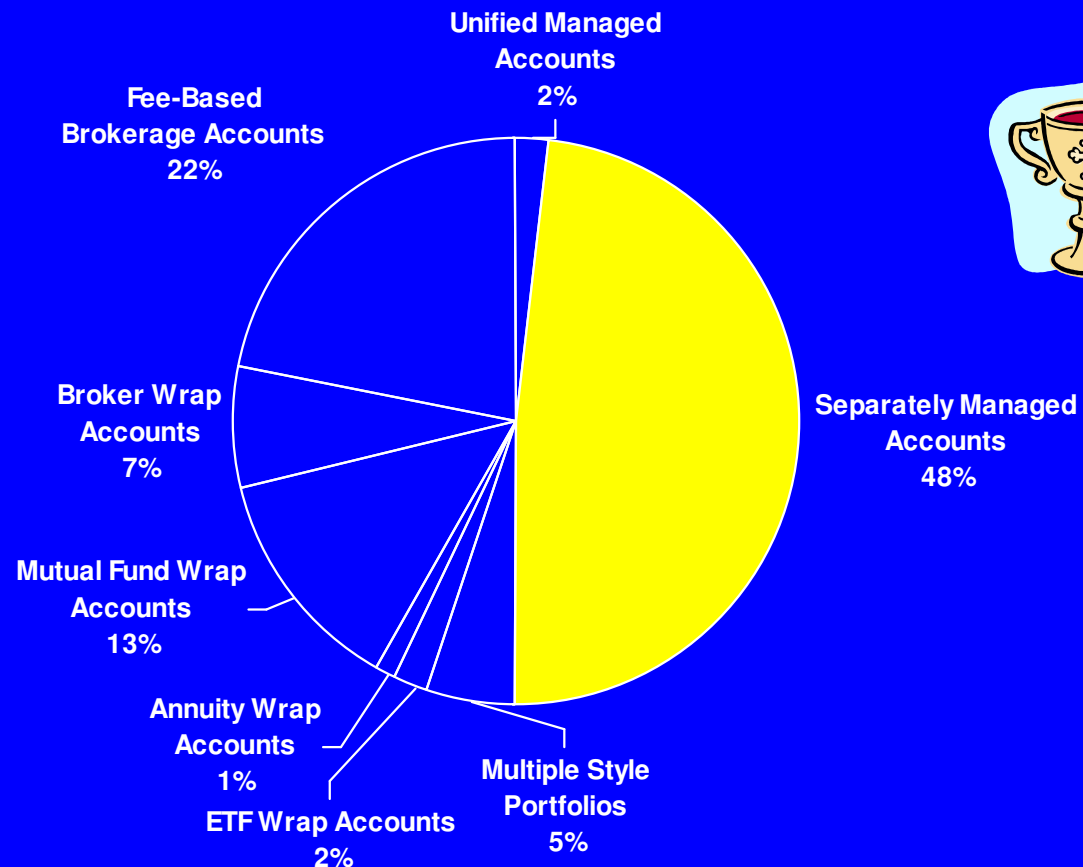
### Packaged Fee-Account Program Assets (\$ Billions)



Source: 8/23/08 Fund Fire; 8/23/05 Fund Fire; 8/12/05 Mutual Fund Daily; 5/25/04 Money Management Executive (FRC); 4/04 Research (MMI); 2/10/04 MMI Press Release; 12/15/03 Investment News (Cerulli); 12/15/03 FRA Conference Brochure; 3/27/03 Wealth Management Letter; 3/10/03 American Banker; 9/30/02 IIR Conference Brochure (Cerulli); 9/23/02 Investment News; Tiburon Research & Analysis

# #7: Separately Managed Accounts (SMAs) Had Become the Most Talked About Product...

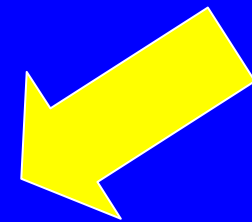
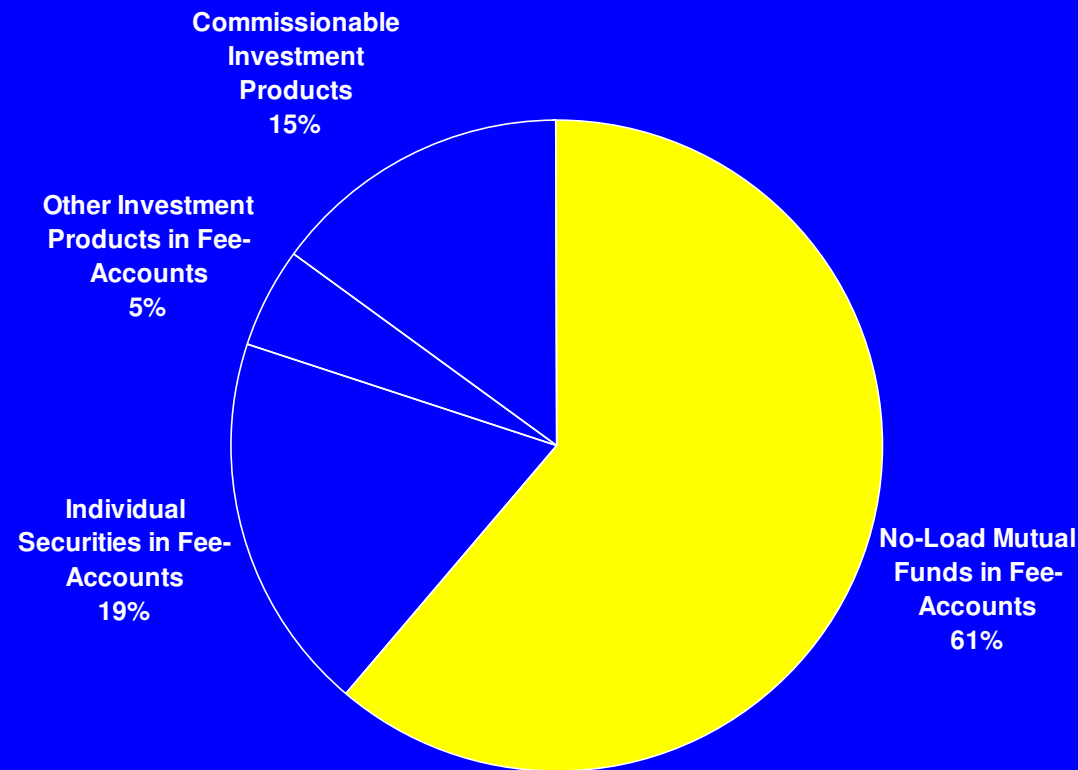
## Packaged Fee-Account Assets by Account Type



Source: 9/05 Registered Rep (MMI); 8/23/05 Fund Fire (Cerulli); 7/05 Accounting; 6/7/05 Wachovia Conversation (McElhaney); 5/31/05 Morgan Stanley Email (Altman); 5/23/05 UBS Web Site; 5/9/05 Business Week (Cerulli); 5/9/05 AG Edwards Web Site; 4/05 Registered Rep (MMI); 7/19/04 Barron's; 5/25/04 Money Management Executive (FRC); 4/04 Research; 2/10/04 MMI Press Release; 12/15/03 Investment News (Cerulli); Tiburon Research & Analysis

**#8: The Real Point Though was Open Architecture, as the Fast Growing Fee-Based Financial Advisor Market was Relying on Mutual Funds...**

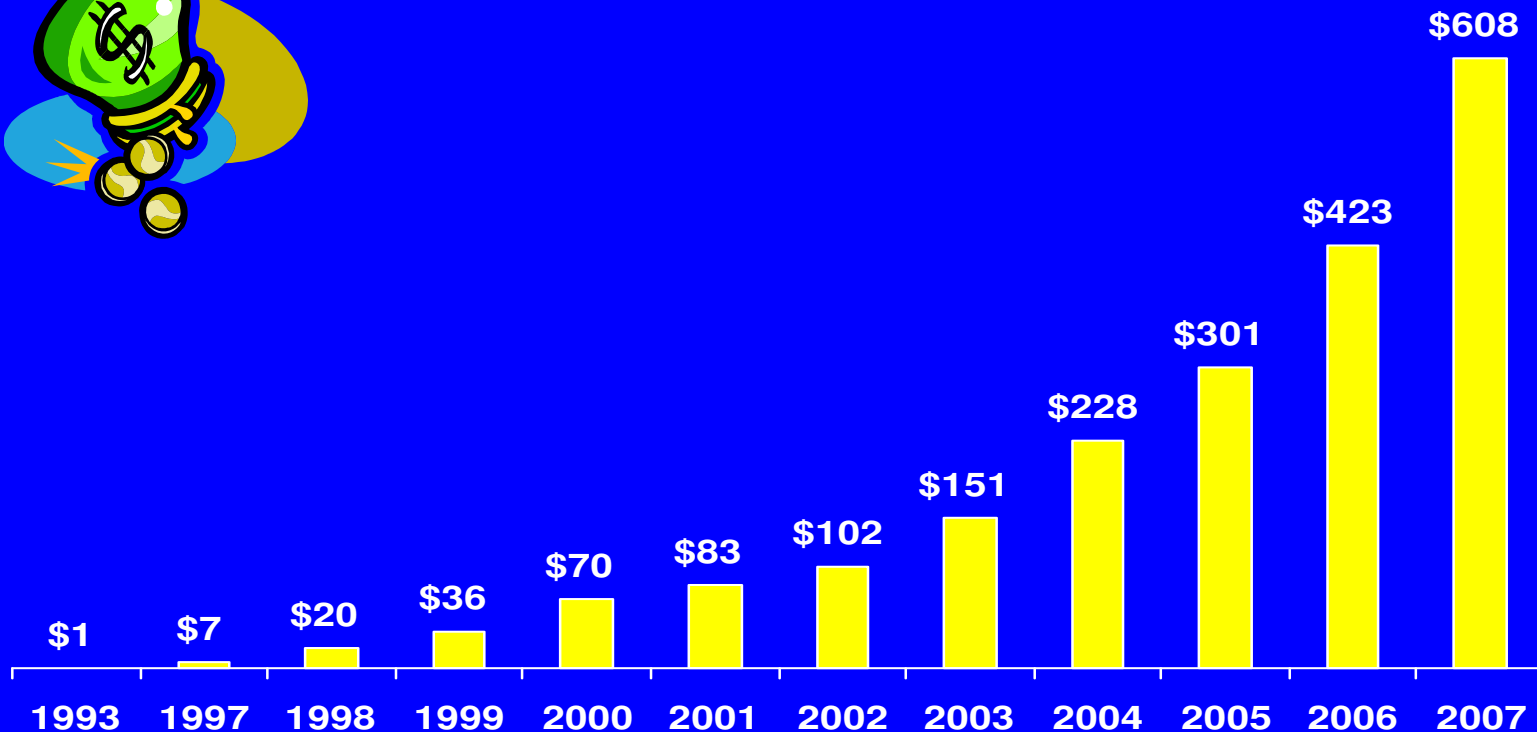
**Fee-Based Financial Advisor Assets Under Management  
By Investment Product Utilization**



Source: 5/03 Fee-Only Financial Advisor Best Practices Survey; Tiburon Research & Analysis

## #9: Exchange Traded Funds had Become the Most Significant Product Development Since Mutual Funds in the 1940s

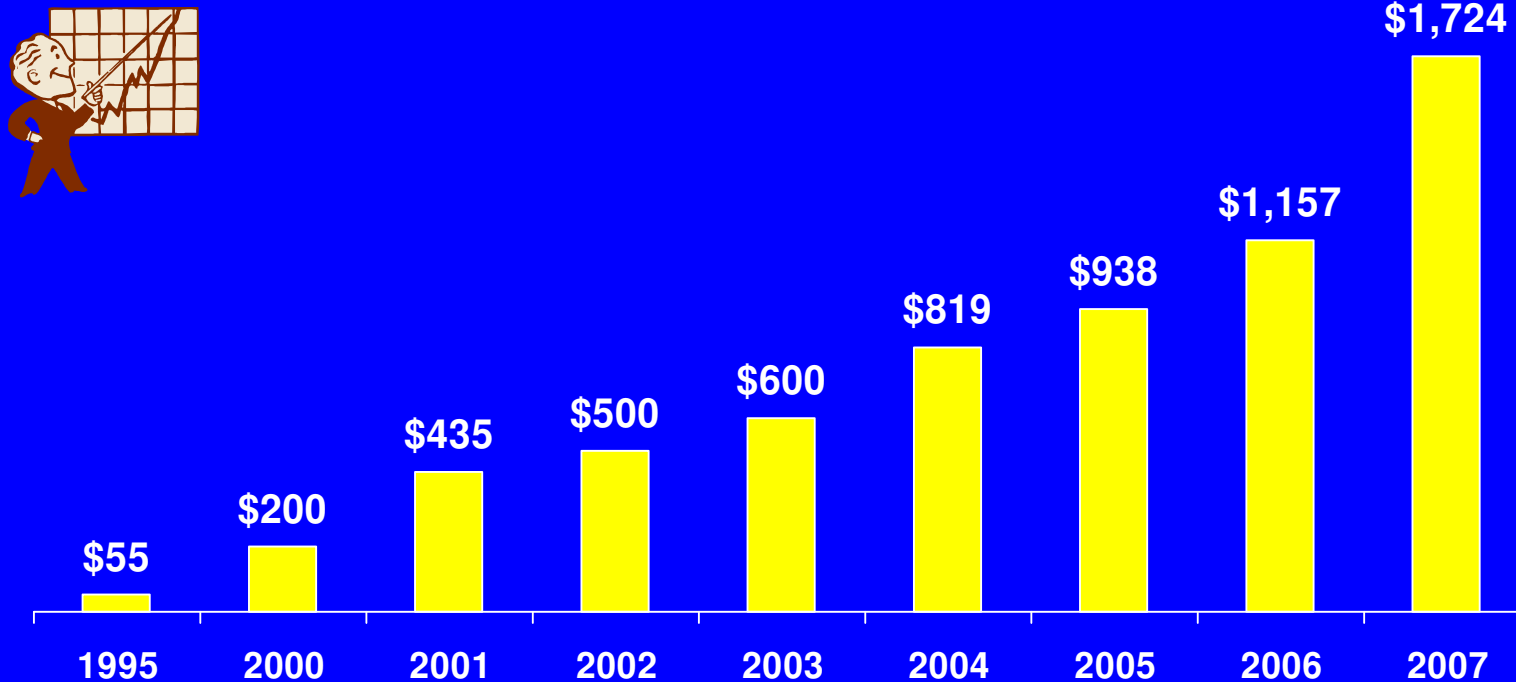
### Exchange Traded Fund Assets (\$ Billions)



Source: 10/14/08 Morningstar Presentation (Mansueto) (ICI); 1/8/07 Investment News (SSGA); 1/23/06 Ignites Email (ICI); 1/18/06 Dow Jones Email (Ryan); 12/19/05 Rydex Investments Brochure (ICI); 11/30/05 ICI Web Site; 11/9/05 Morgan Stanley Analyst Report; 10/24/05 Investment News; 10/05 Research; 9/12/05 New Millennium Advisors Presentation (Carty) (ICI); 8/29/05 Investment News (ICI); Tiburon Research & Analysis

## #10: Hedge Funds had Gathered \$1.7 Trillion Assets, More than SMAs & ETFs Combined

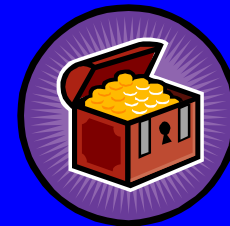
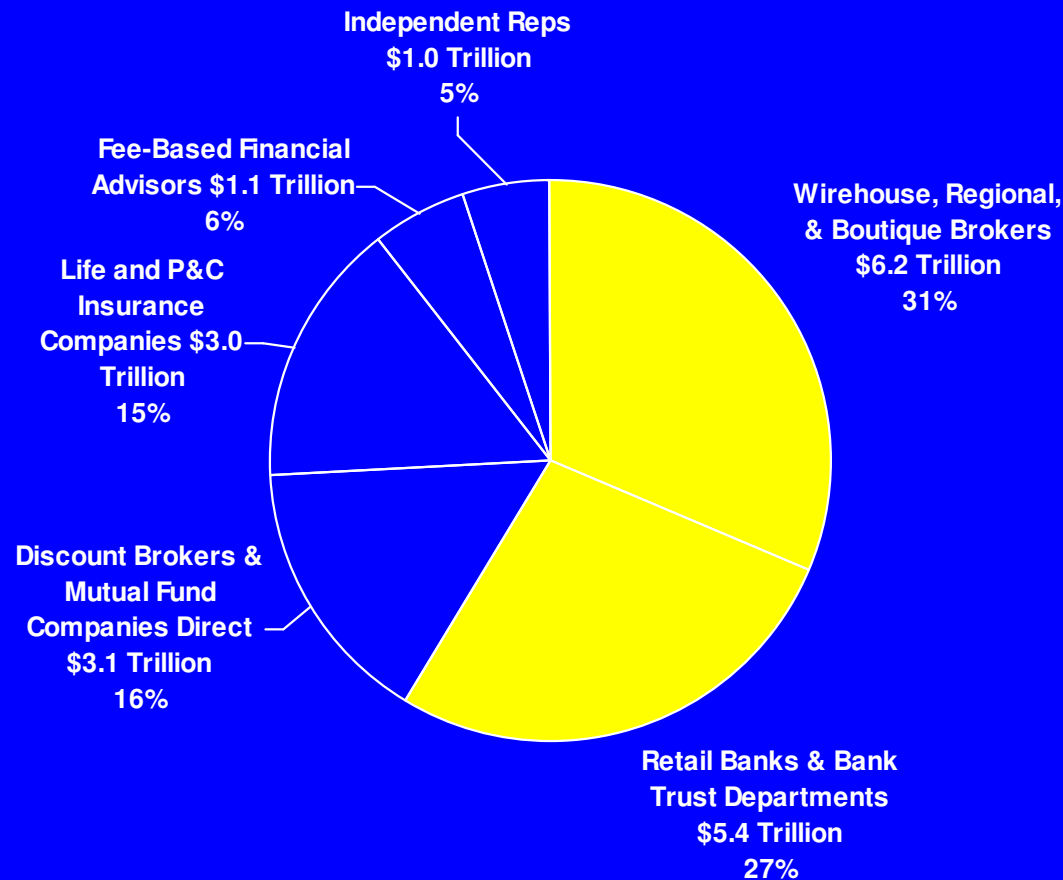
### US Hedge Funds Assets Under Management (\$ Billions)



Source: 10/14/08 Morningstar Presentation (Mansueto); 1/18/08 Hedge Fund Review (Hedge Fund Research); 7/31/07 Bloomberg Web Site (Bhaktavatsalam); 3/21/07 American Banker Online (Hedge Fund Net) ; 3/19/07 Investment News; 3/6/06 Business Week (Hedge Fund Research); 12/5/05 Money Management Executive (Hedge Fund Research); 10/15/05 Financial Times; 6/8/05 Wall Street Journal; Tiburon Research & Analysis

# #11: The Wirehouses and Retail Banks Controlled Almost Two-Thirds of All Consumer Investable Assets

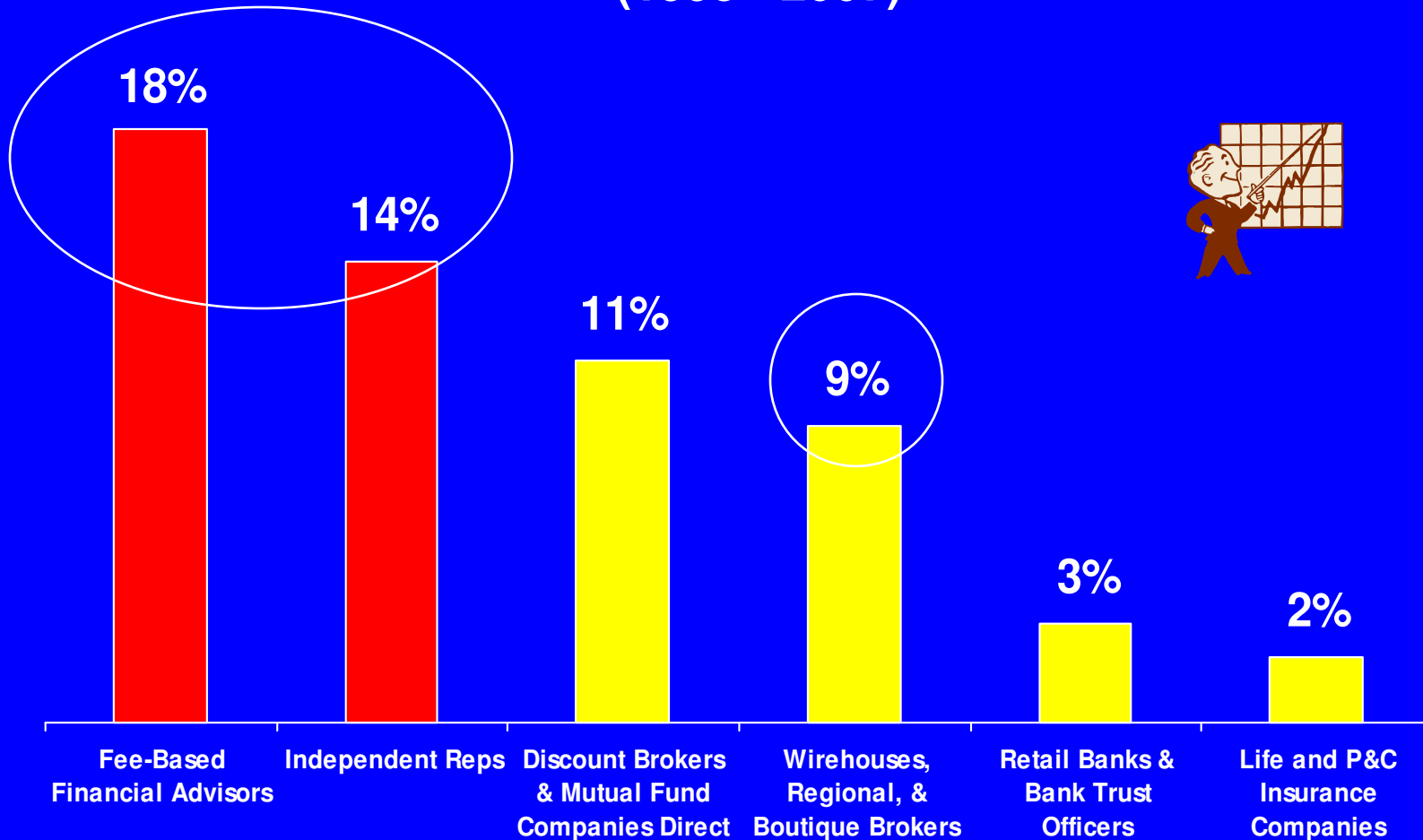
## Consumer Households Investable Assets by Market



Source: 12/07 Journal of Financial Planning; 3/02 Open Finance (Tower Group); 8/13/01 On Wall Street Web Site; 7/13/01 Cerulli Presentation (SIA); 11/6/00 Investment News (Cerulli Associates); 12/97 Securities Industry Yearbook; 12/97 S&P's Securities Dealers of North America; 7/22/97 American Banker; 6/97 Financial Planning; 6/97 Dow Jones Investment Advisor; 5/12/97 Pensions & Investments; 4/12/97 American Banker; Tiburon Research & Analysis

## #12: Many were Misrepresenting the Growth Rates of the Various Markets & Distribution Channels...

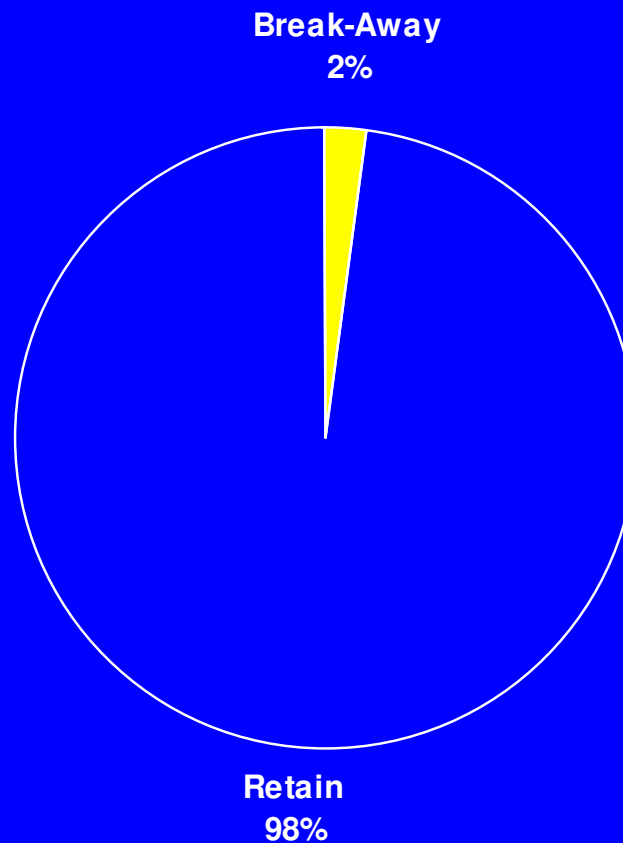
### Client Assets Annual Growth Rate by Market (1995 - 2007)



Source: 7/19/04 Federal Reserve Bulletin; 12/97 Securities Industry Yearbook; 7/22/97 American Banker; 5/12/97 Pensions & Investments; 3/97 Federal Reserve Bulletin; 12/96 ACLI Life Insurance Factbook; 11/95 Best's Review; Tiburon Research & Analysis

## **#13: And there was a Lot of Buzz (But Not a Lot of Action) Pertaining to Brokers Going Independent...**

### **Financial Advisors By Propensity to Break Away Annually**



Source: 5/07 Financial Planning; Tiburon Research & Analysis

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- **Important -> Year-End 2007 Recollection: Product & Channel Trends**

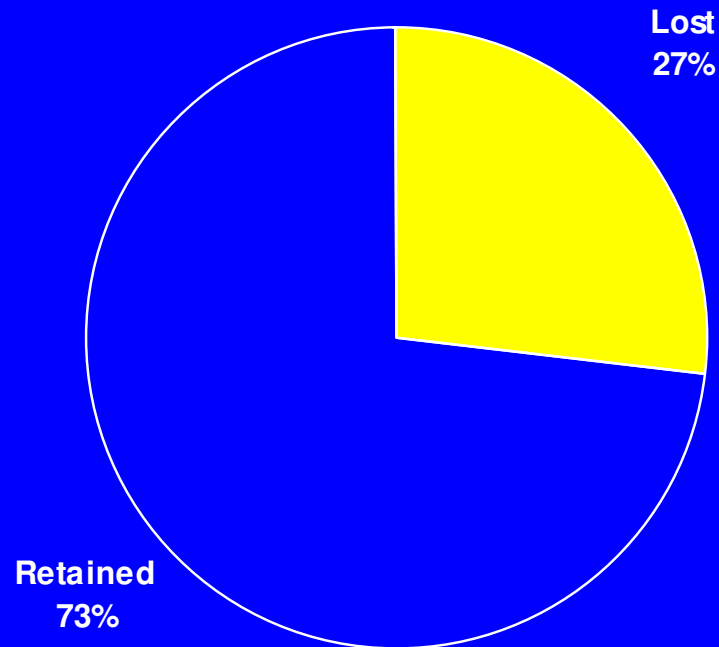
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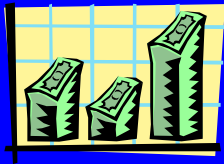
# ***#1: 401k Plan Participants Lost an Average of Over One-Quarter of their 401k Retirement Plan Savings in 2008***

## **401k Plan Participants Average 2008 401k Account Return**

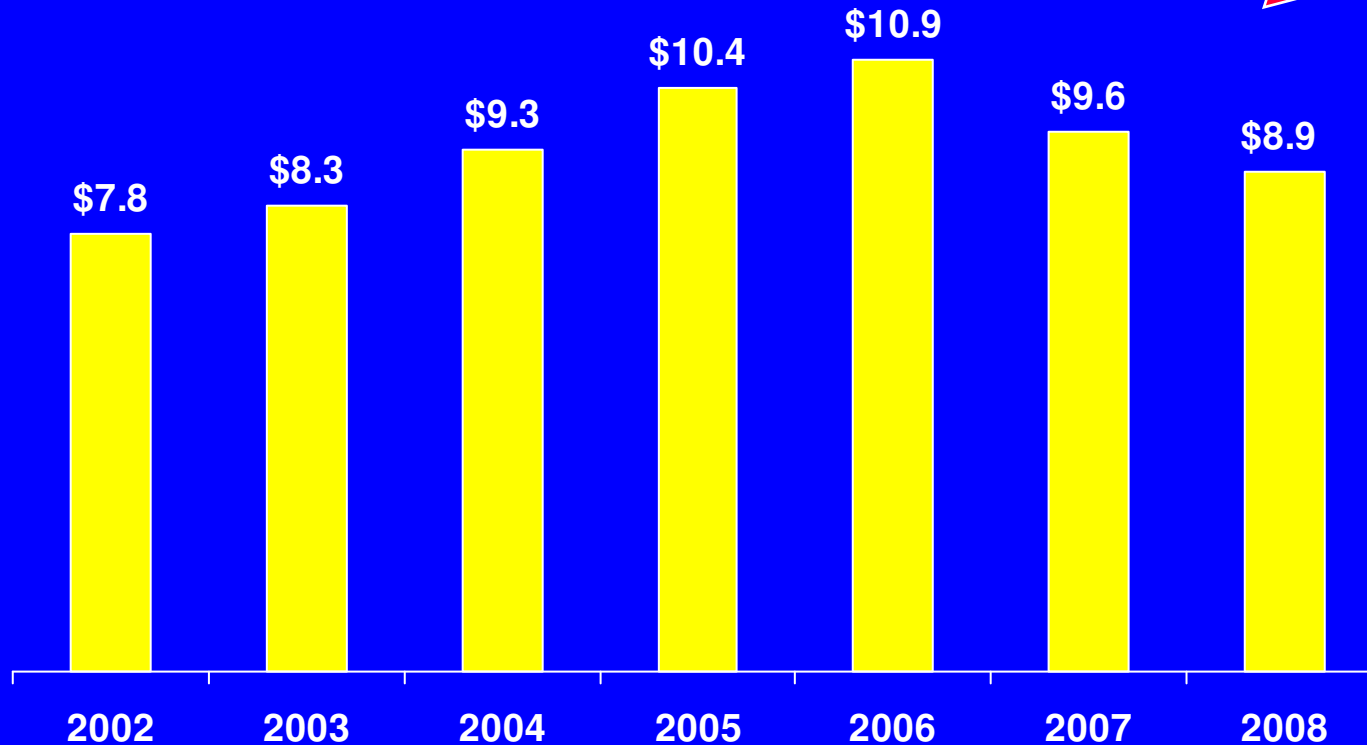


Source: 5/09 Financial Advisor (Barclays; Boston Research Group); 2/1/09 Washington Post; Tiburon Research & Analysis

## #2: Consumer Households Lost \$2.0 Trillion in Real Estate Equity Since 2006 to \$8.9 Trillion



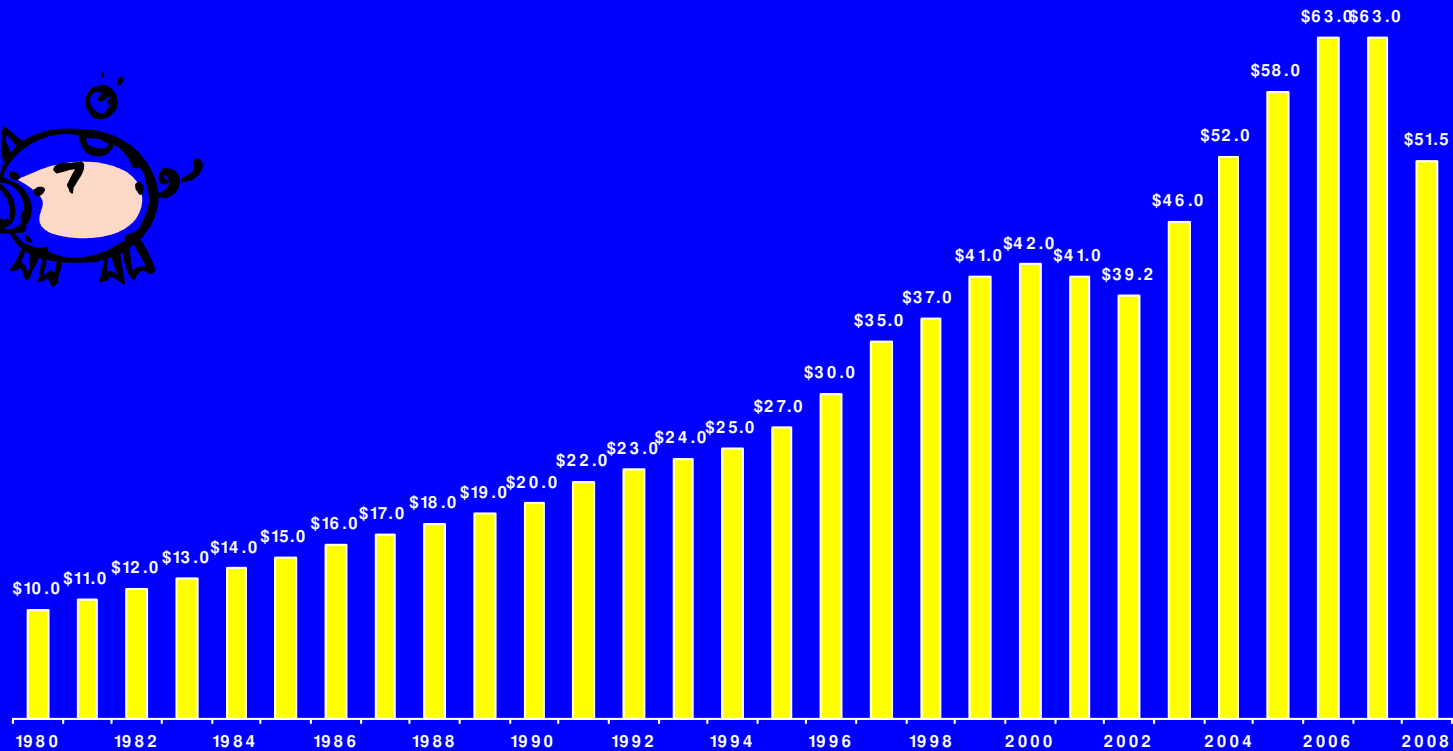
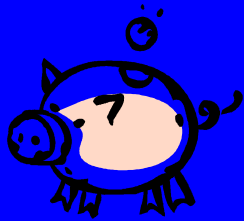
### Consumer Households Real Estate Equity (\$ Trillions)



Source: 4/09 Boomer Market Advisor (Center for Economic Research); 3/09 Journal of Financial Planning; 12/31/07 Federal Reserve Flow of Funds Report; 3/31/07 Federal Reserve Flow of Funds Report; Tiburon Research & Analysis

# #3: Consumer Household Net Worth Fell \$11.0 Trillion in 2008 to \$51.5 Trillion

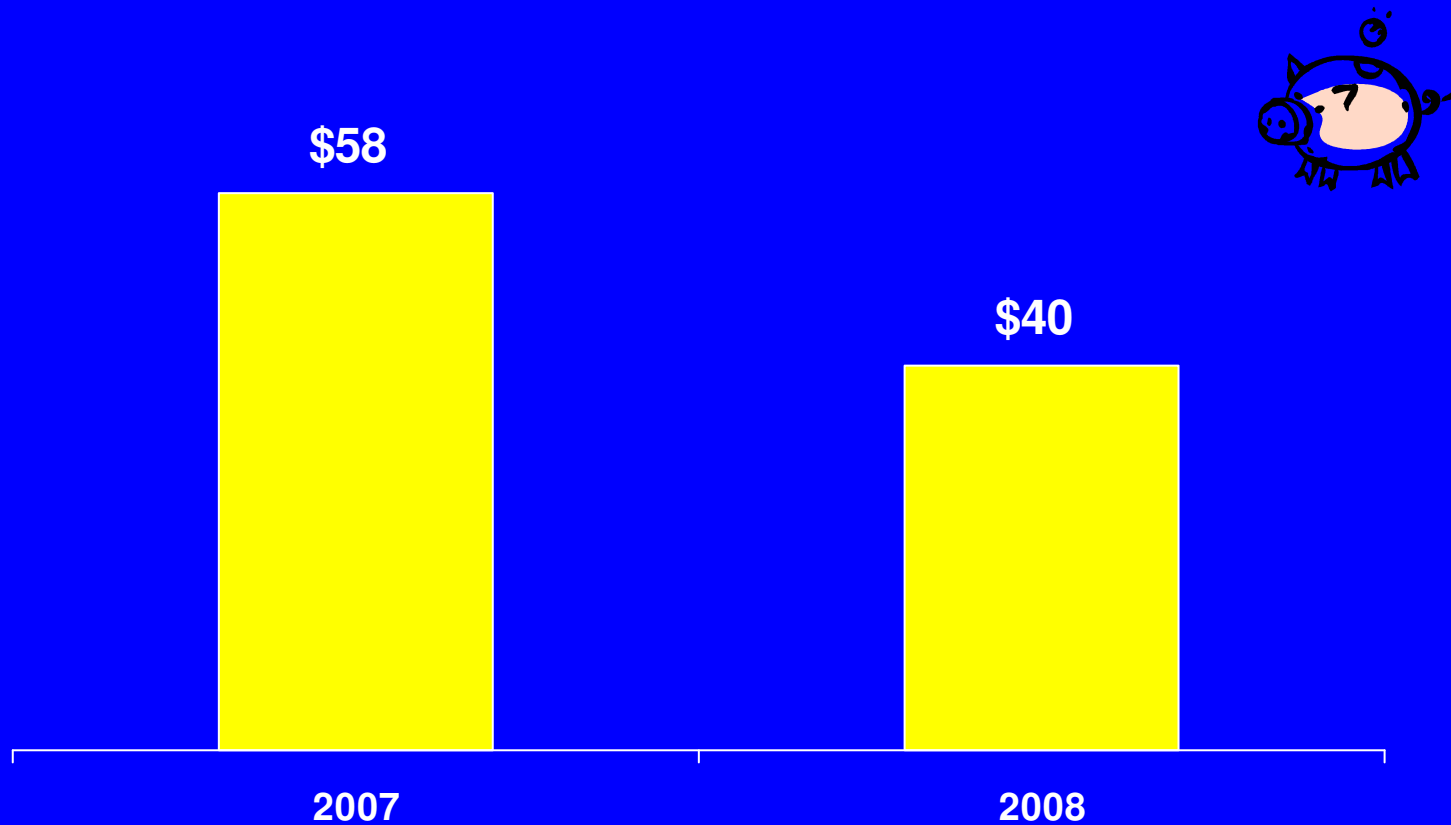
## Consumer Households Net Worth (\$ Trillions)



Source: 5/14/09 1st Global Presentation (Batman)(Pete Peterson Foundation); 3/16/09 Wall Street Journal Web Site (Federal Reserve); 3/13/09 San Francisco Chronicle (Federal Reserve); 3/13/09 Wall Street Journal (Federal Reserve); 2/4/09 TD Bank Financial Group Presentation (Drummond) (Federal Reserve); 2/09 Investment Advisor; 12/11/08 Bloomberg; 10/13/08 Fortune; Tiburon Research & Analysis

## #4: Bill Gates Lost 30% of his Net Worth to “Just” \$40 Billion

Bill Gates Net Worth  
(\$ Billions)



Source: 3/13/09 San Francisco Chronicle; Tiburon Research & Analysis

## #5: Warren Buffett Lost 40% of his Net Worth to \$37 Billion

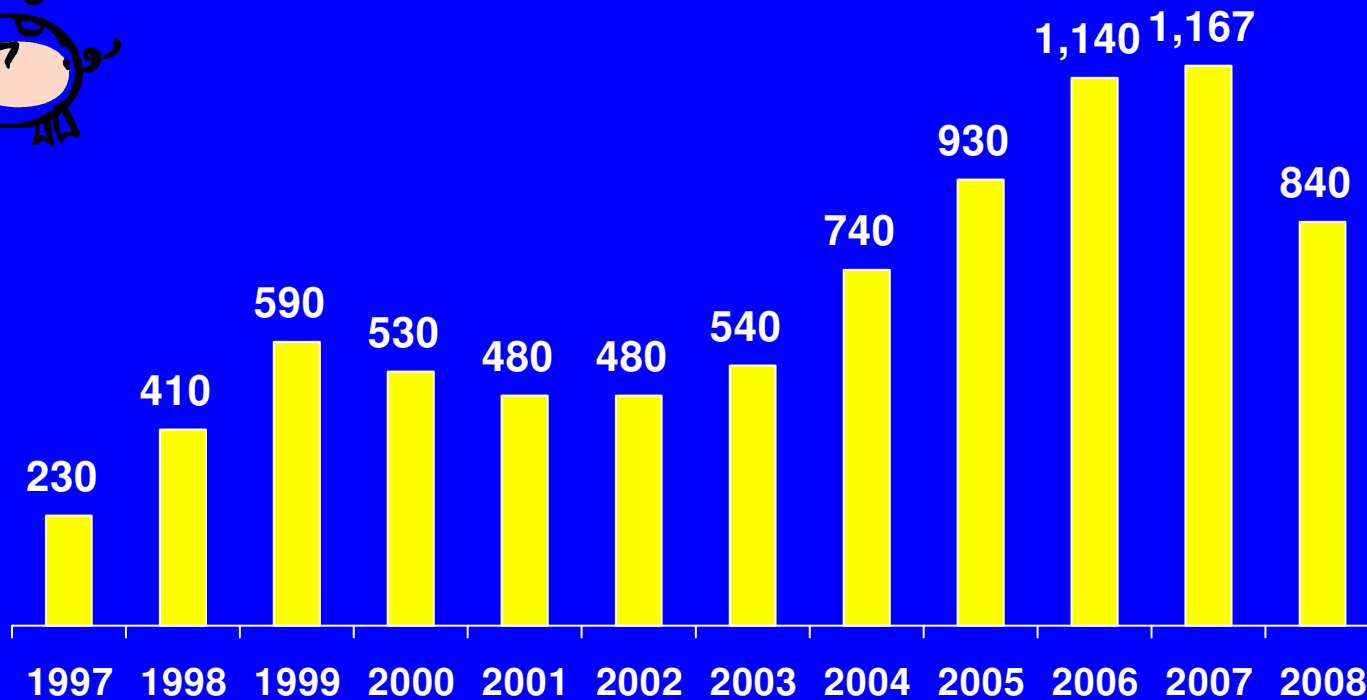
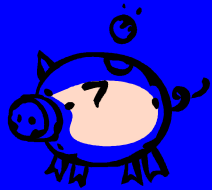
Warren Buffett Net Worth  
(\$ Billions)



Source: 3/13/09 San Francisco Chronicle; Tiburon Research & Analysis

**#6: The Number of Consumer Households with Over \$5.0 Million Net Worth is Up 350% Since 1997 But Declined 28% in 2009 to 840,000**

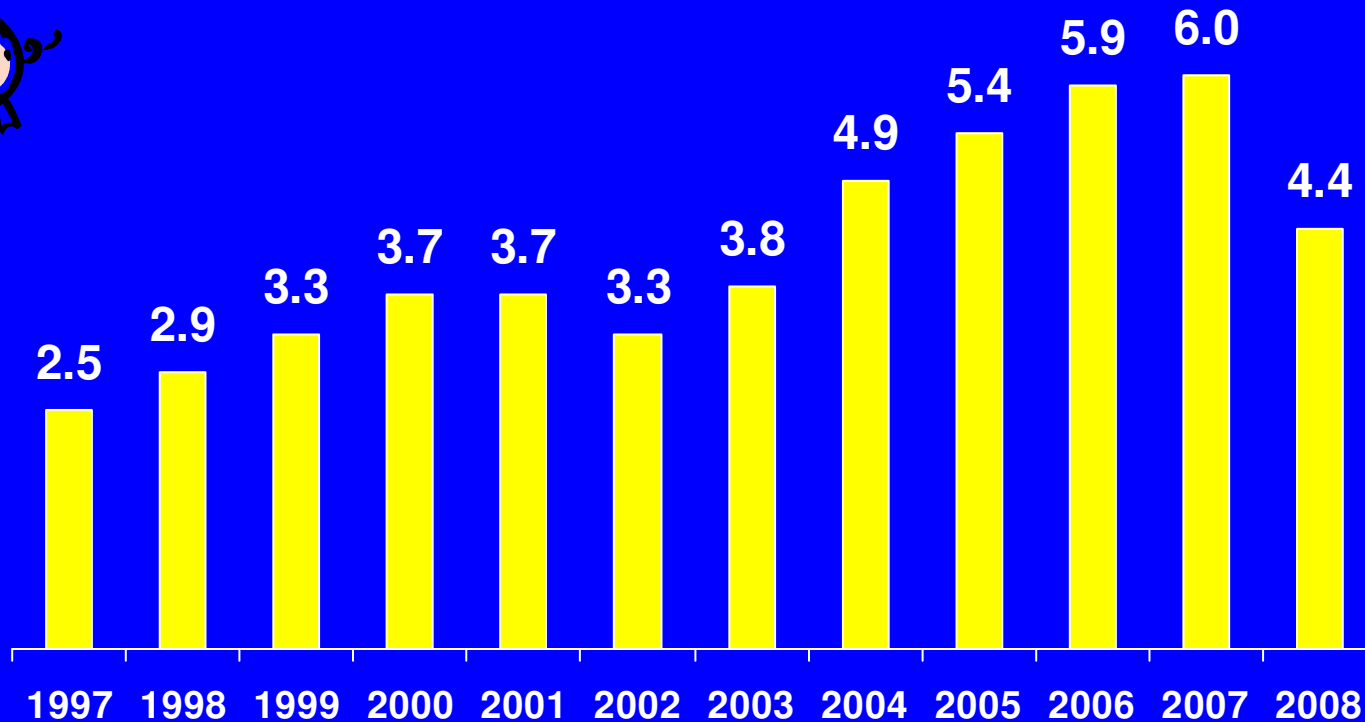
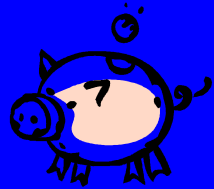
**Consumer Households  
With Net Worth of Greater than \$5.0 Million  
(Thousands)**



Source: 5/21/09 Wall Street Journal; 5/14/09 1st Global Presentation (Batman)(Spectrem); 3/16/09 Money Management Executive (Spectrem); 3/13/09 American Banker (Spectrem); 3/13/09 Financial Advisor (Spectrem); Tiburon Research & Analysis

**#7: The Number of Consumer Households with Investable Assets Greater than \$1.0 Million is Up 75% Since 1997 But Declined 26% in 2008 to 4.4 Million**

**Consumer Households  
With Investable Assets of Greater than \$1.0 Million  
(Millions)**



Source: 5/14/09 1st Global Presentation (Batman)(Spectrem); Tiburon Research & Analysis

# The Second Outcome of Recent Current Events Has Been Some Rather Dramatic Financial Service Industry Impacts

## Financial Services Industry Profitability Challenges

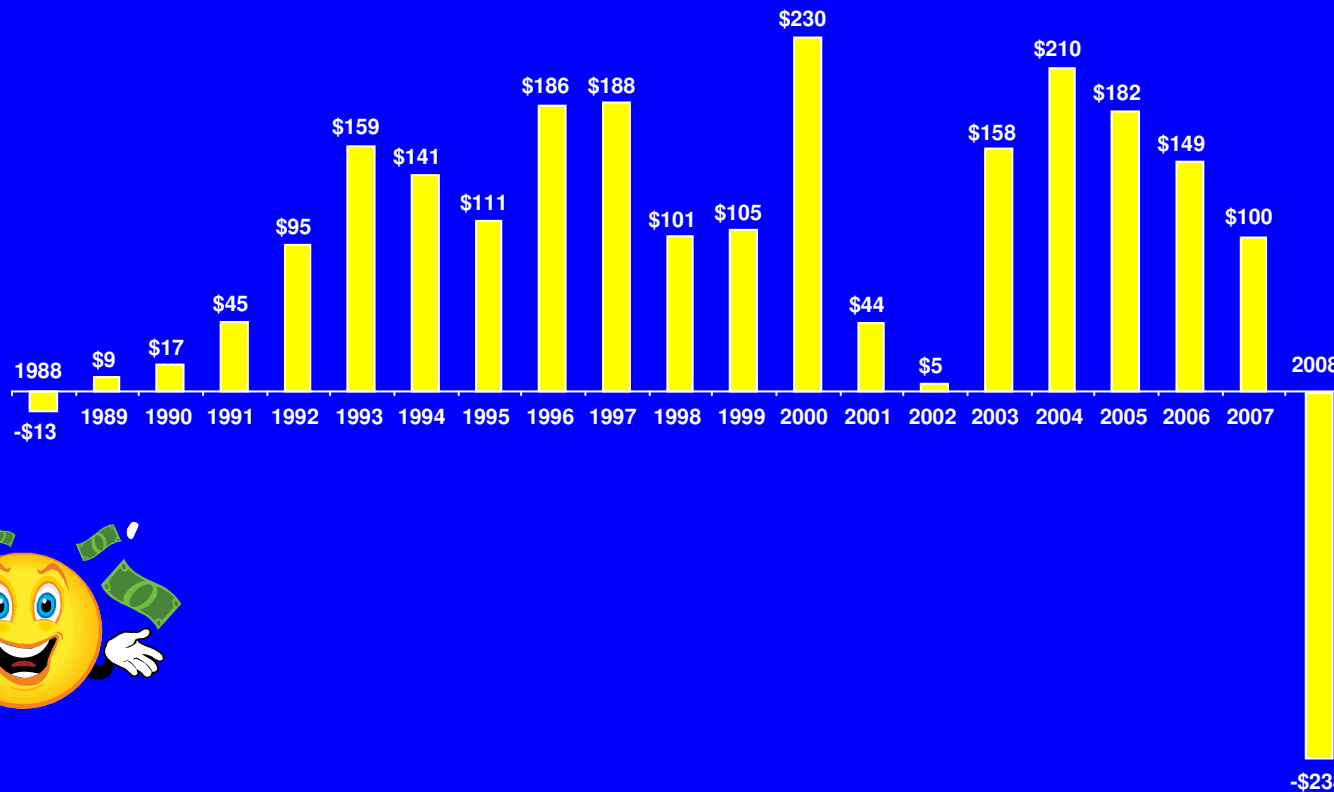


- Investment firms' huge AUM drops
- Full-service brokerage firm revenues down 50%
- 325,000 jobs lost worldwide since 2007
- Banks record \$680 billion of losses and write-offs
- Market capitalizations collapse

Source: 4/2/09 Oppenheimer Funds Email (Murphy); 3/2/09 Money Management Executive (International Labor Organization); 2/4/09 TD Bank Financial Group Presentation (Drummond) (Bloomberg); 2/19/09 Grail Partners Presentation (Putnam); 2/2/09 Investment News (Bloomberg); Tiburon Research & Analysis

# #1: Actively Managed Equity Mutual Funds Had Net Outflows of \$238 Billion in 2008 After Years of Positive Net Flows

## Actively Managed Equity Mutual Funds Net Flows (\$ Billions)

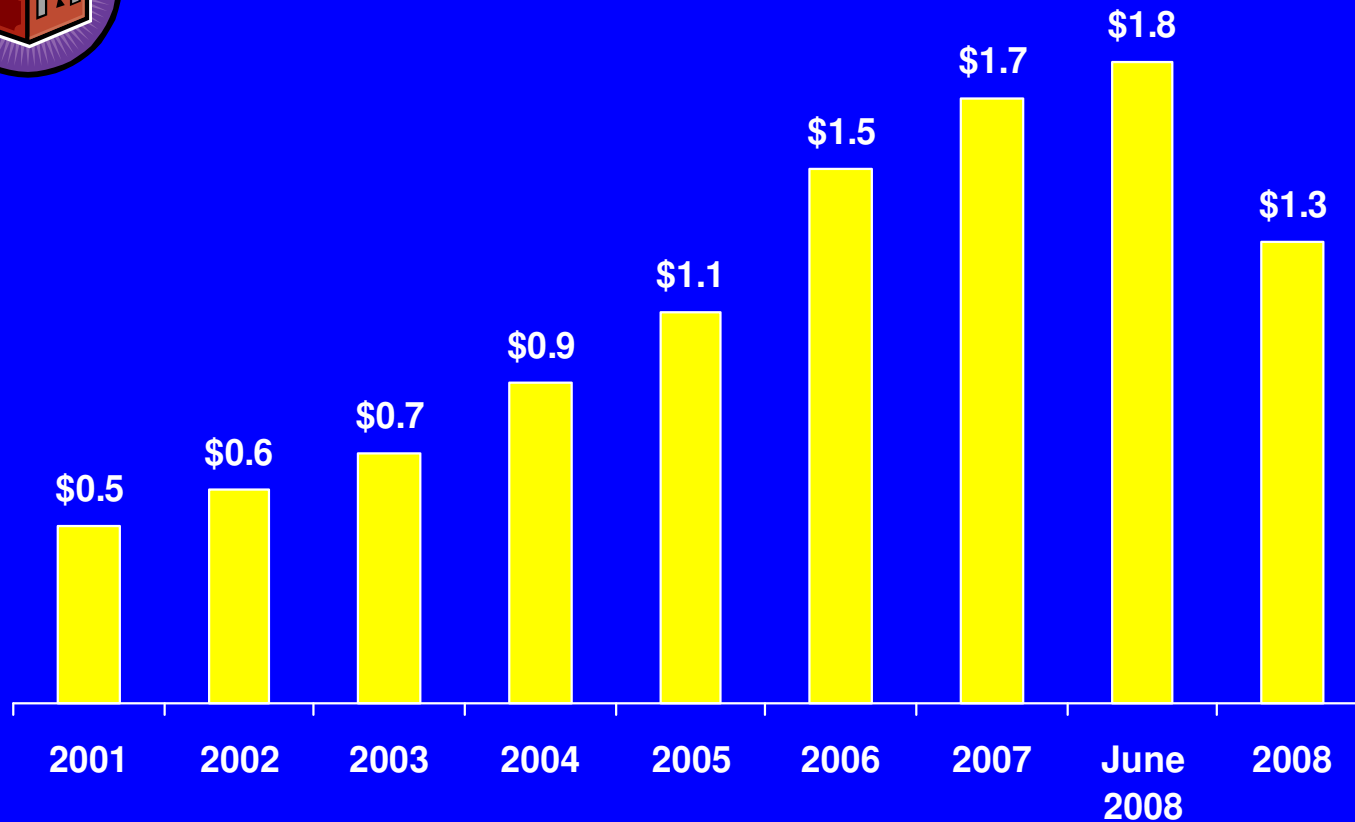


Source: 2/19/09 Grail Partners Presentation (Putnam) (Strategic Insight); Tiburon Research & Analysis

## #2: Hedge Fund Assets Ended 2008 at \$1.3 Trillion, Having Peaked at \$1.8 Trillion Mid-Year



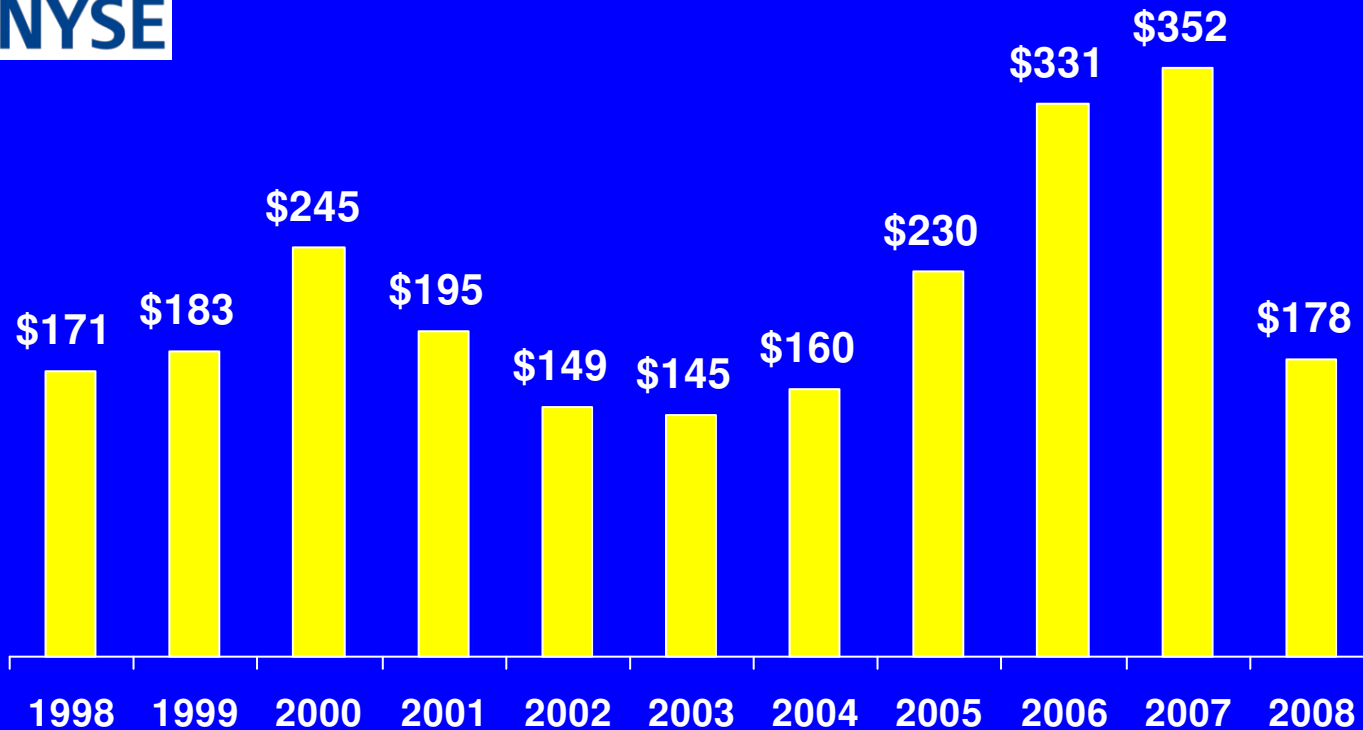
### Hedge Fund Assets (\$ Trillions)



Source: 4/15/09 Zebra Capital Management Presentation (Ibbotson) (HFR; Van Hedge Fund Advisors; Morningstar); 10/14/08 Morningstar Presentation (Mansueto); 1/18/08 Hedge Fund Review (Hedge Fund Research); 7/31/07 Bloomberg Web Site (Bhaktavatsalam); 3/21/07 American Banker Online (Hedge Fund Net); 3/19/07 Investment News; 3/6/06 Business Week (Hedge Fund Research); Tiburon Research & Analysis

### ***#3: New York Stock Exchange Registered Securities Firms' Revenues were Off 50% in 2008, Returning to 1998 Levels***

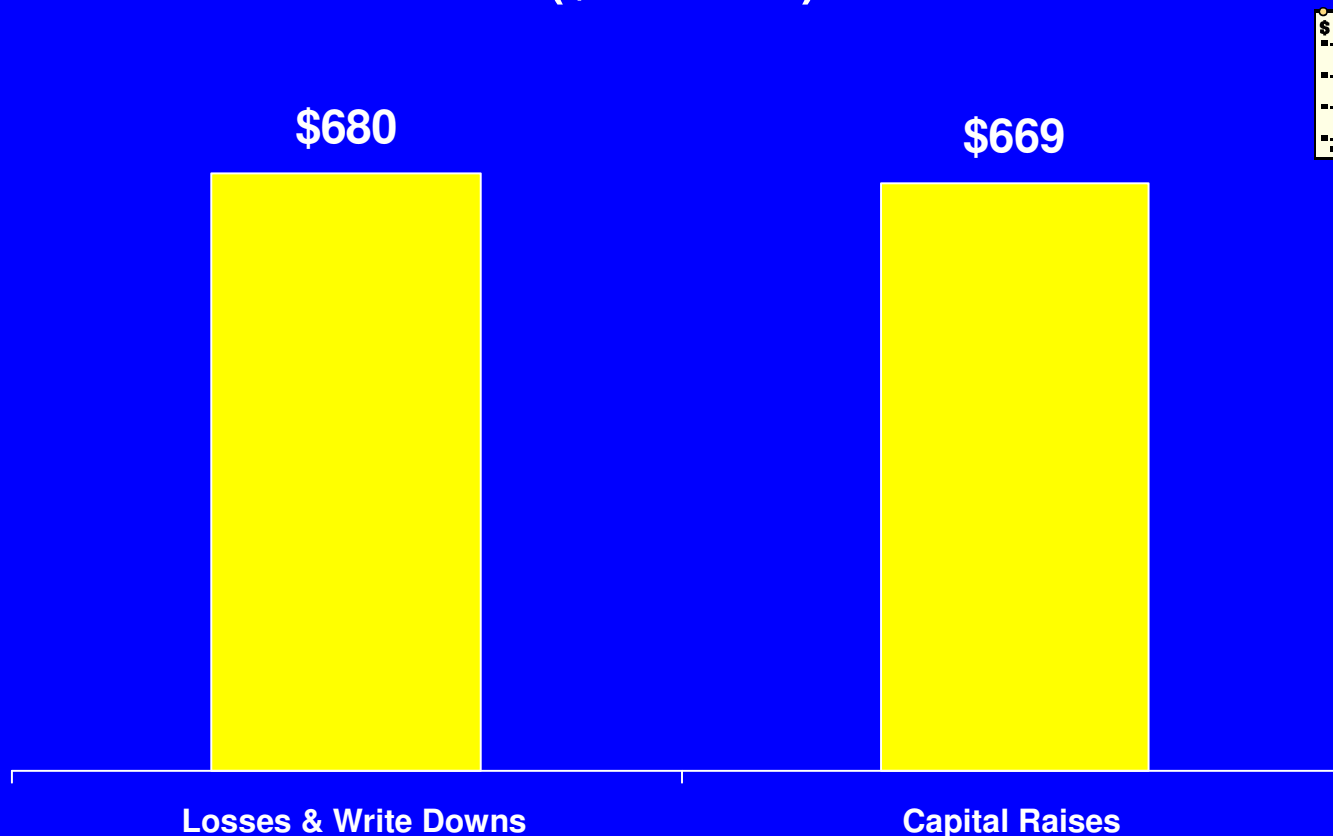
## **New York Stock Exchange Registered Securities Firms Revenues (\$ Billions)**



Source: 5/14/09 1st Global Presentation (Batman)(SIFMA); Tiburon Research & Analysis

# #4: Financial Institutions' Capital Raises Have Just Offset their Losses & Write Downs

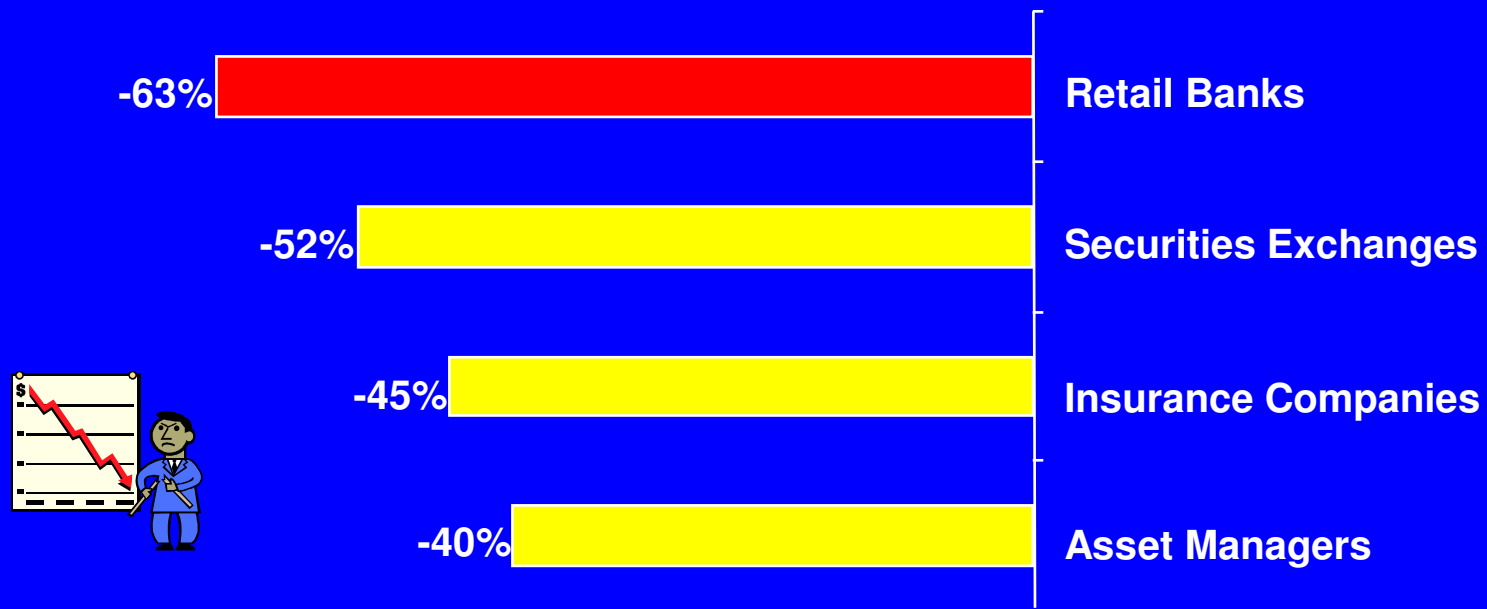
## Financial Institutions Losses & Write Downs Versus Capital Raises (\$ Billions)



Source: 4/2/09 Oppenheimer Funds Email (Murphy); 2/4/09 TD Bank Financial Group Presentation (Drummond) (Bloomberg); 2/2/09 Investment News (Bloomberg); Tiburon Research & Analysis

## #5: Retail Banks Have Had the Highest Market Capitalization Loss by Percentage in the Financial Services Industry at -63%

### Financial Services Industry Market Capitalization Declines from Peaks



Note: In the chart above: retail bank valuation was calculated from 1990-2007; Securities exchange valuation from 2003-2007; insurance company valuation from 1995-2007; asset manager valuation from 1992-2007; REIT valuation from 1994-2007

Source: 2/19/09 Grail Partners Presentation (Putnam) (Goldman Sachs Group); Tiburon Research & Analysis

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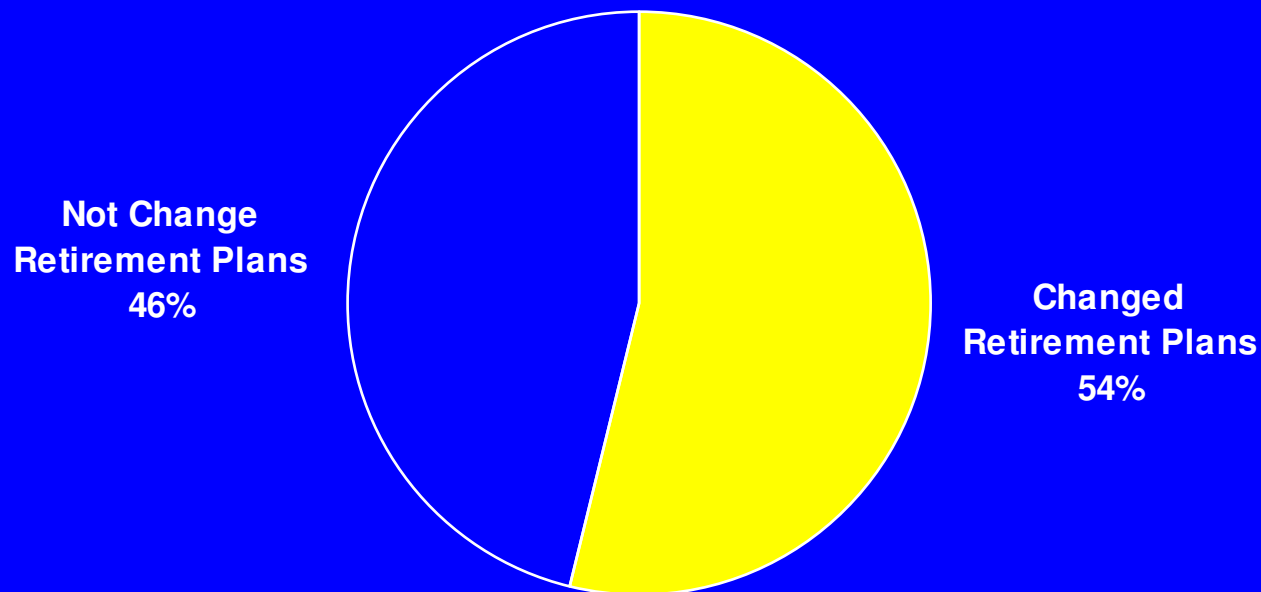
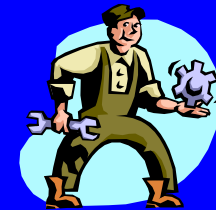
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# **#1: Over Half of Consumers Have Delayed their Retirement Plans Due to the Recent Economy**

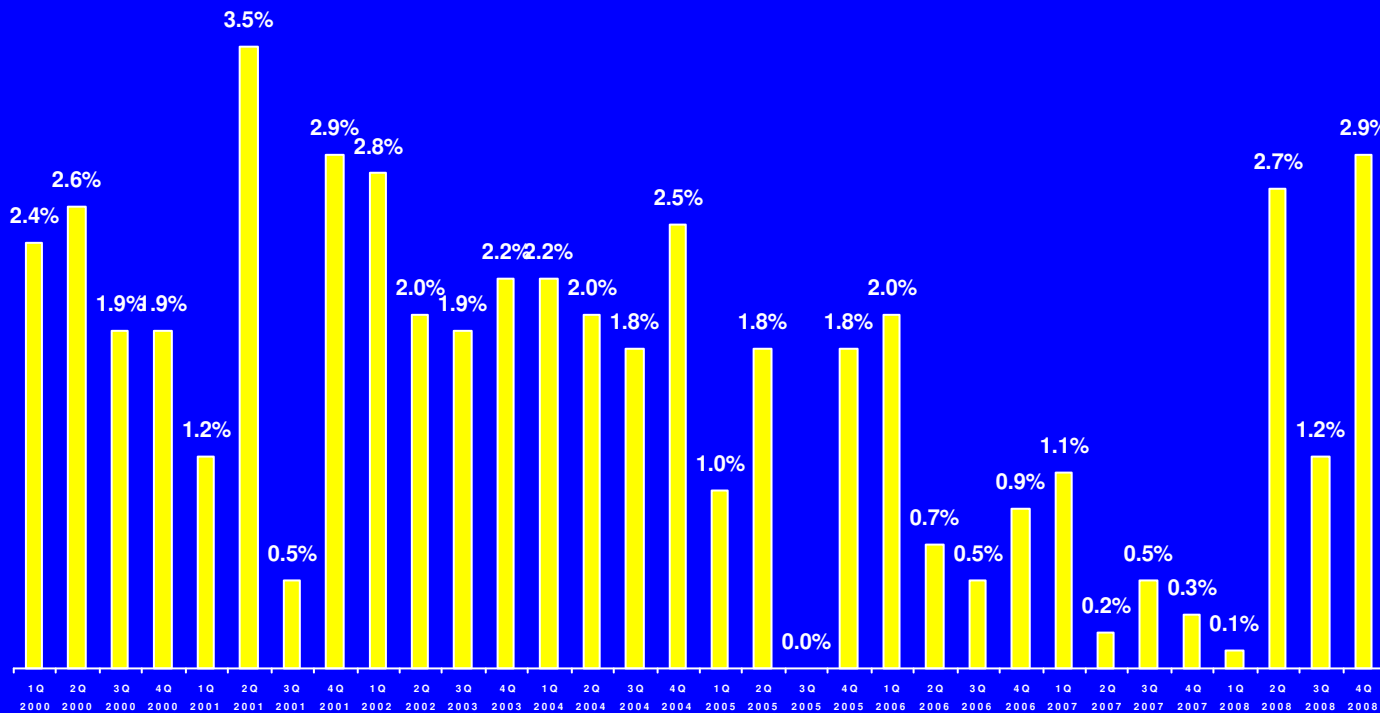
## **Consumers By Propensity to Have Delayed Retirement Plans Due to Economy**



Source: 5/09 Financial Advisor (Barclays; Boston Research Group); 4/09 Boomer Market Advisor; 10/7/08 Wall Street Journal; 1/04 Journal of Financial Planning; 3/10/03 USA Today; 9/02 Financial Advisor; Tiburon Research & Analysis

## #2: The US Personal Savings Rate is on the Rise!

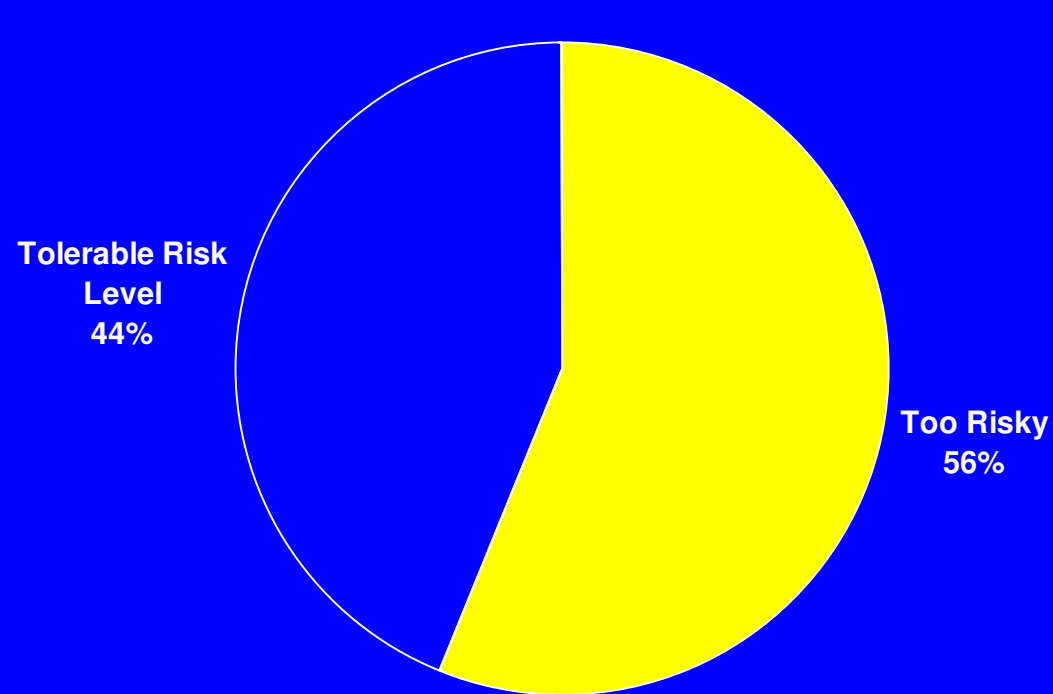
### US Personal Savings Rate



Source: 2/10/09 Wall Street Journal (US Bureau of Economic Analysis); Tiburon Research & Analysis

# #3: But Over Half of Baby Boomers Believe that the Stock Market is too Risky for People their Age...

## Baby Boomers By Propensity to Believe Stock Market is too Risky



Source: 2/13/09 San Francisco Business Times; Tiburon Research & Analysis

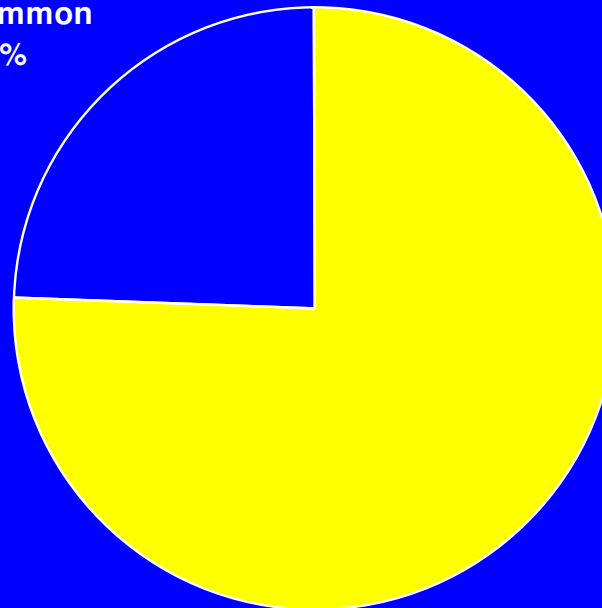
**#4: And as a Result of Recent Events, Consumers are Skeptical of the Financial Services Industry; Three-Quarters Believe that Bernie Madoff Type Behavior is Common**

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**Consumers  
By Propensity to Believe that Bernie Madoff  
Type Behavior is Common Amongst  
Financial Advisors & Financial Institutions**



Not Common  
24%



Common  
76%

Source: 3/09 Journal of Financial Planning; Tiburon Research & Analysis

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# Investment Products will Move from Complex, Risky, & High Fees to More Simple, Risk Averse, & Sustainable Products

## Investment & Wealth Management Product Trends

### Fading Products

- Closed-end funds
- Mortgage related products
- Hedge funds-of-funds
- Venture capital
- Private equity (aside from financial services industry private equity)
- Securitized products



### Unclear Futures

- Temporary Opportunities
- Distressed debt funds
  - Real estate funds
  - Alternative energy funds
  - Tax-aware products

- Mixed Reviews
- Individual equities
  - CDs
  - Mutual funds
  - Separately managed accounts
  - Annuities
  - Fine wines
  - Health care insurance

### Emerging Products

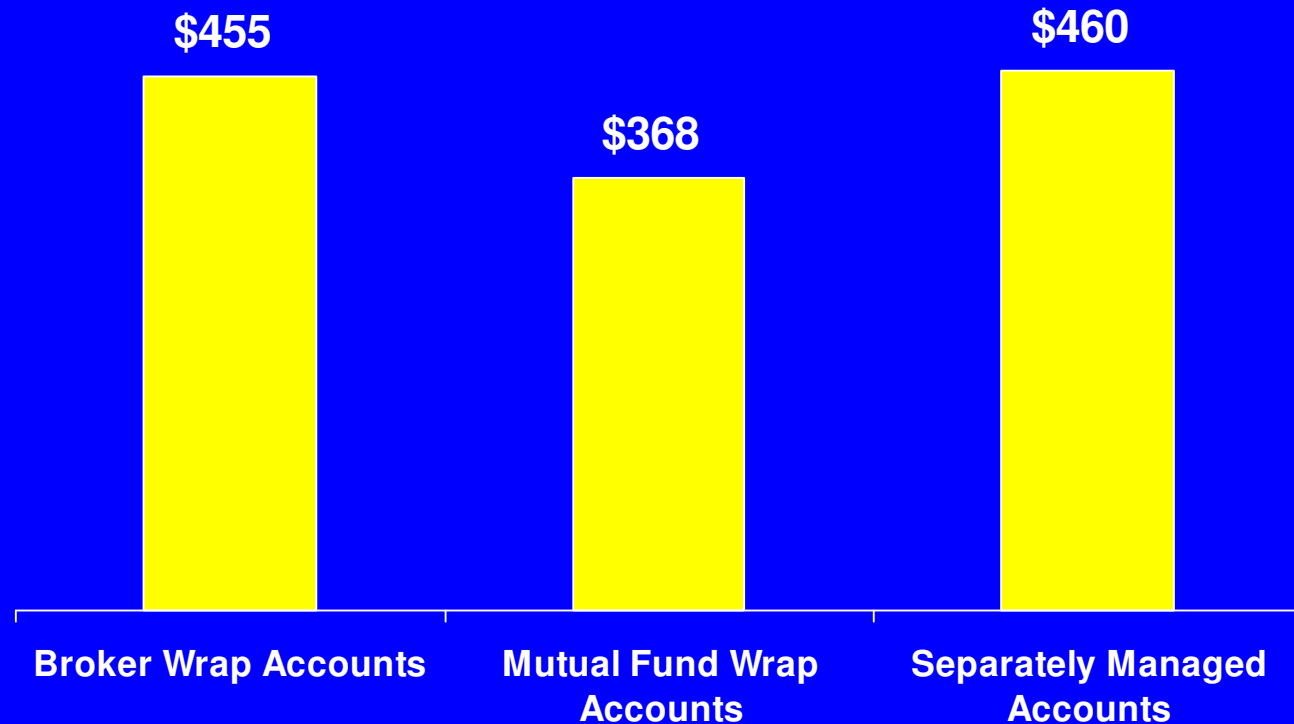
- Bonds
- 40 act structures (liquidity)
- Target date mutual funds
- Fee-accounts
- Open architecture
- Indexing
- Exchange traded funds
- Enhanced indexing
- Active ETFs
- Hedge Funds
- Absolute returns
- Non-correlated return products
- Balanced strategies
- Managed volatility products
- Guarantees
- Aggregation
- Estate planning
- Charitable giving

Source: 4/16/09 Envestnet Presentation (Bergman) (Prince & Associates); 4/2/09 Mass Mutual Email (Deschenes); 3/31/09 T.Rowe Price Group Email (Cammack); 2/19/09 Grail Partners Presentation (Putnam) (Casey Quirk, Watson Wyatt, Fund Fire, Goldman Sachs Group); Tiburon Research & Analysis

# #1: Both Mutual Fund Wrap Accounts and Broker Wrap Accounts Have Now Almost Caught Separately Managed Accounts in Assets



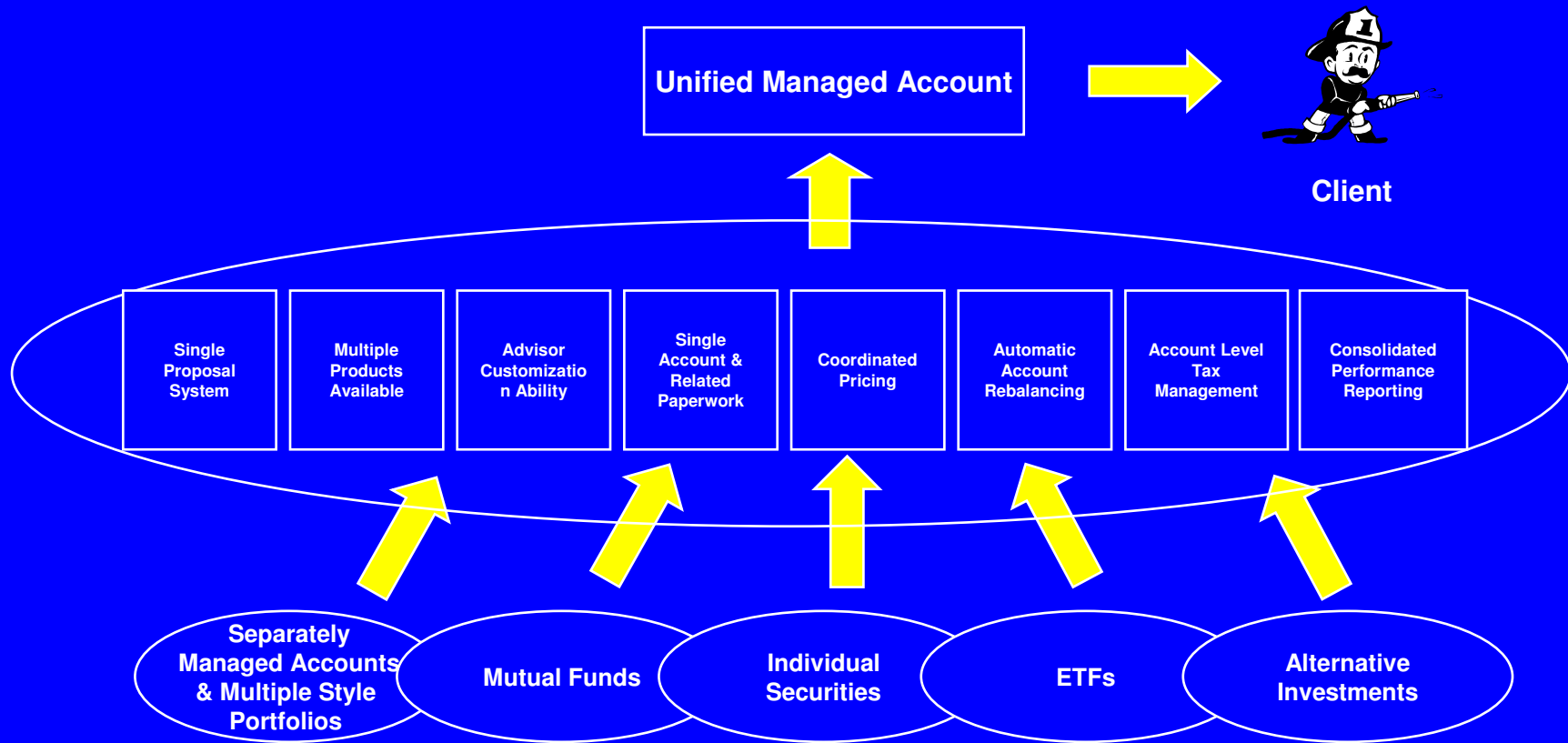
## Fee-Account Assets (\$ Billions)



Source: 5/24/09 Investment News; Tiburon Research & Analysis

# #2: Unified Managed Accounts (UMAs) will Become the Obvious Brokerage 2.0 Account...

## Unified Managed Accounts Workflow

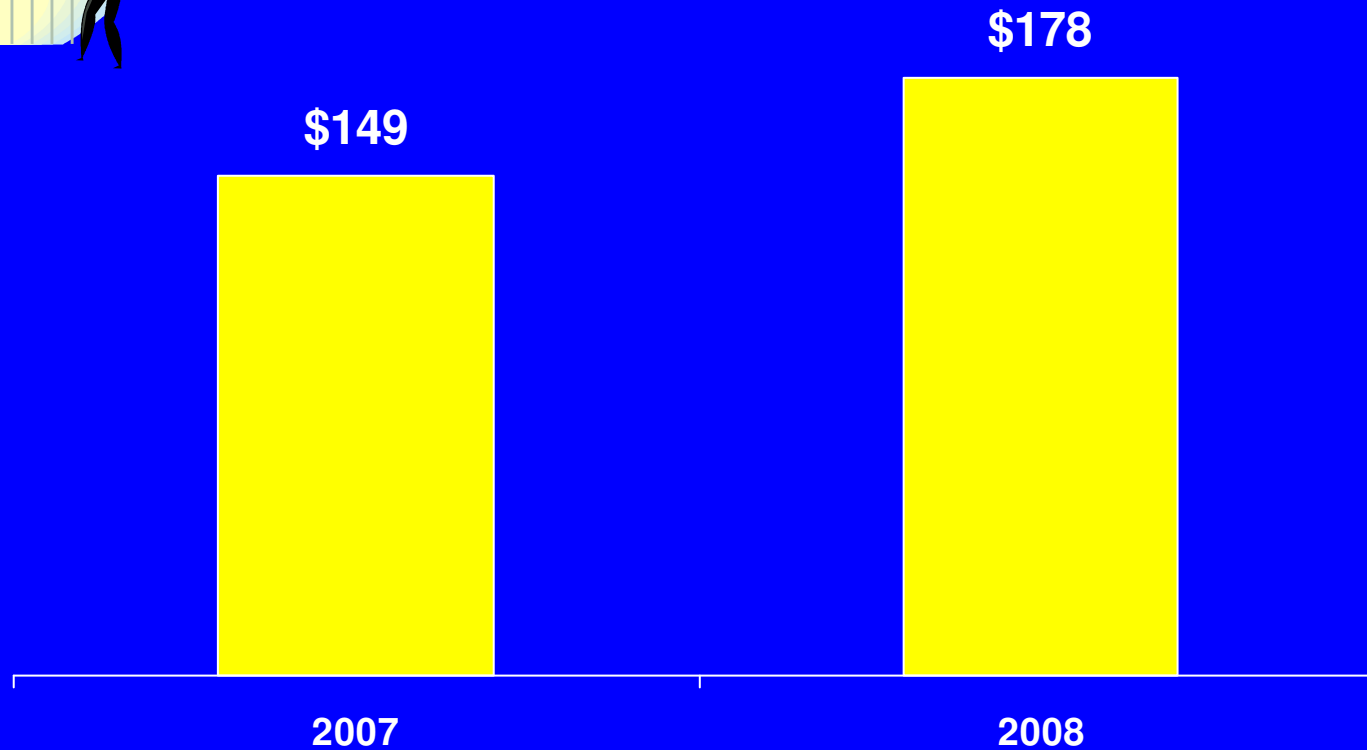


Source: 9/26/06 Money Management Institute Presentation (Doe); 6/27/05 Money Management Executive; Tiburon Research & Analysis

### ***#3: Exchange Traded Funds Net Flows Increased in 2008 to \$178 Billion, Up 20% Since 2007***

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#### **Exchange Traded Fund Net Flows (\$ Billions)**

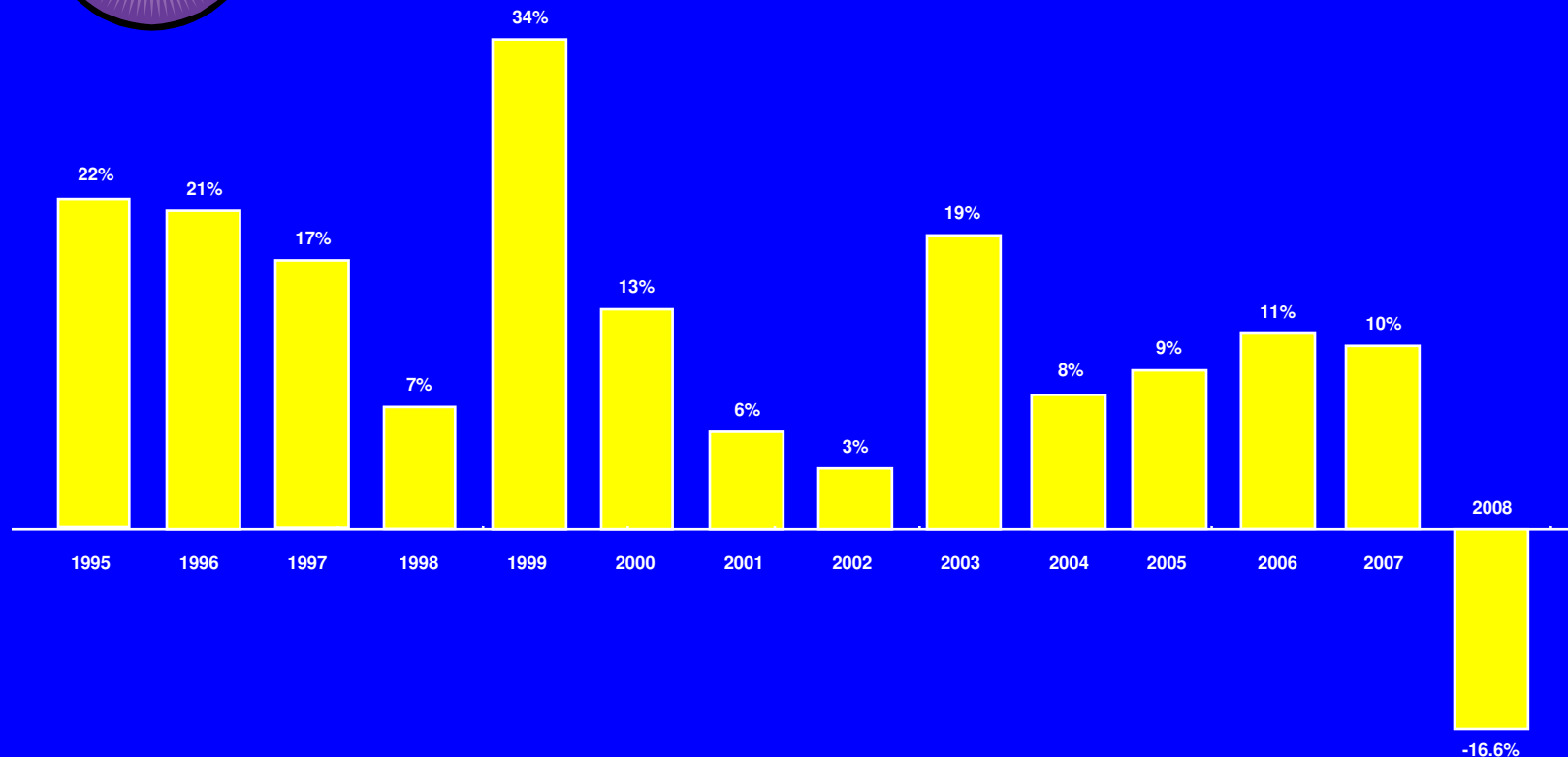


Source: 3/1/09 Research (National Stock Exchange); Tiburon Research & Analysis

# #4: Hedge Funds Lost 16.6% on Average in 2008 After Five Years of Really Solid Returns, Bit that was Less than Long-Only Managers



## Hedge Fund Returns



Source: 5/26/09 Morningstar Advisor; 4/15/09 State Street Presentation (Powers); 4/15/09 Zebra Capital Management Presentation (Ibbotson) (HFRI); 3/16/08 Money Management Executive (Invest Hedge); 2/28/09 Financial Times (Invest Hedge); Tiburon Research & Analysis

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- **Critical -> 2009 & Beyond: New Industry Trends & Directions**
  - **Consumers & their New Realty Regarding Trust & Conservatism**
  - **Investment & Wealth Management Products Shifts**
  - **Channel Shifts: The Future of Advice**
  - **The Wild Card: Regulators...**



# **Markets & Distribution Channel Flows will Come from High Ethical Channels with Client Focus**

## **Investment & Wealth Management Channel Trends**

### **Fading Channels**

- Investment banks
- Investment consultants

### **Unclear Futures**

- Temporary Issues**
- Defined contribution plans
  - Non-US markets

**Mixed Reviews**

- Retail banks
- Discount brokers
- Full-service brokers (wirehouses)
- Life insurance agents
- Family offices
- Defined benefit plans
- Endowments & foundations
- Sovereign wealth funds

### **Emerging Channels**

- Online financial services
- Independent reps
- Fee-based financial advisors



Source: 5/3/09 Fidelity Investments Email (Collins); 4/16/09 Envestnet Presentation (Bergman) (Prince & Associates); 4/2/09 Mass Mutual Email (Deschenes); 3/31/09 T.Rowe Price Group Email (Cammack); 2/19/09 Grail Partners Presentation (Putnam) (Casey Quirk, Watson Wyatt, Fund Fire, Goldman Sachs Group); Tiburon Research & Analysis

# ***#1: The Wirehouses Can Now be Seen as Three Business Models, Including the Integrated Bank Model, the Private Bank Model, & the Investment Bank Model***

## **Wirehouse Business Models**

### **Integrated Bank Model**

- **Bank of America Corporation**
  - Merrill Lynch
- **Wells Fargo Corporation**
  - Wells Fargo Advisors

### **Private Bank Model**

- **UBS**
  - UBS Financial Advisors

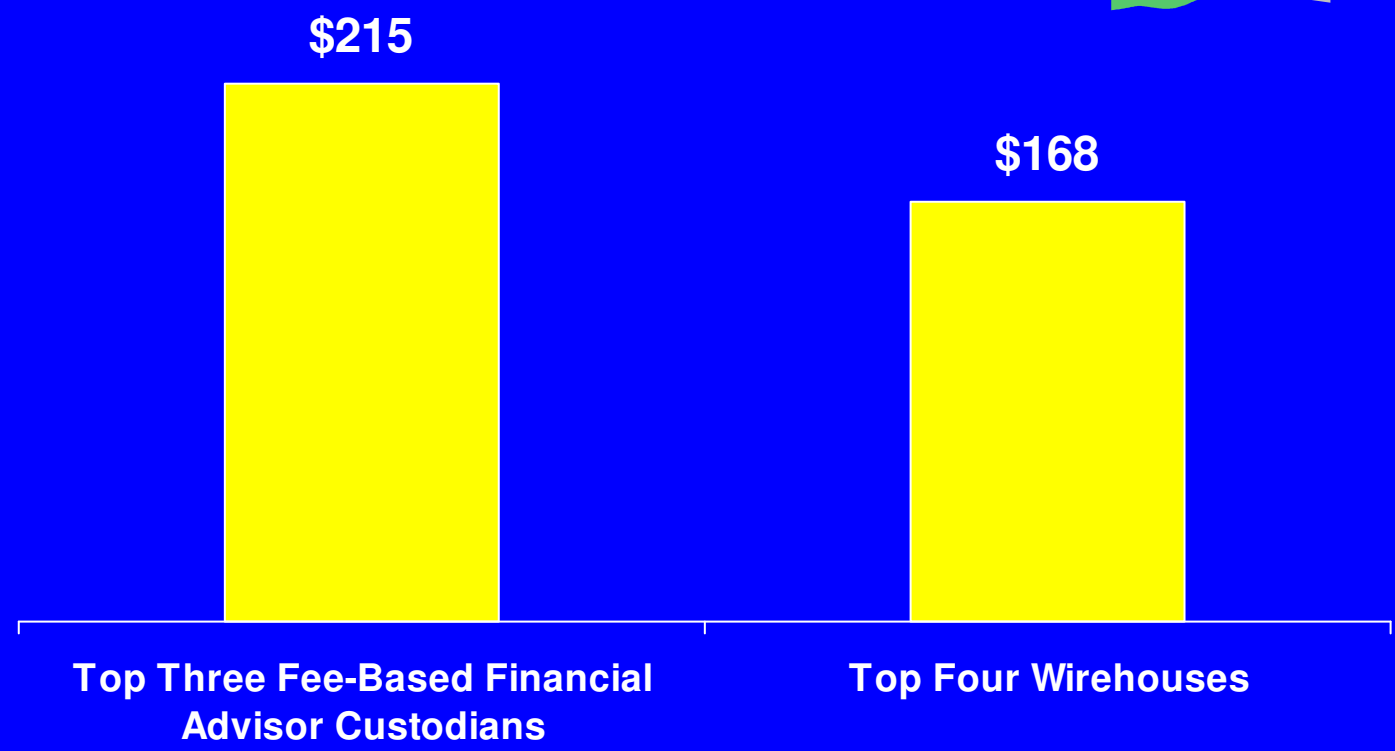
### **Investment Bank Model**

- **Morgan Stanley**
  - Morgan Stanley-Smith Barney



**#2: Fee-Based Financial Advisors' Big Three Custodians Have Brought in More Net New Assets Since the Beginning of 2007 than the Big Four Wirehouses...**

**2007-2008 Net New Assets  
By Financial Advisor Type  
(\$ Billions)**



Source: 10/7/08 Citigroup Analyst Report; Tiburon Research & Analysis

## ***#3: And Convergent Wealth Advisors Lifted Out of Two Smith Barney Teams in 2008 Set a New Standard***

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### **Comments**

- **Based in Rockville, MD & Rochester, NY**
- **18 employees**
  - **11 investment professionals**
- **\$7.0 billion assets under management (\$2.3 billion of which is in alternative investments)**
- **Managing directors: George Dunn, Peter Dunne, David Mattia, & Lori Van Dusen**

*Source: 9/12/08 Investment News; 9/2/08 Investment News; 7/29/08 City National Corporation Conversation (Goldsmith); 7/27/08 Convergent Wealth Advisors Email (Lockshin); Tiburon Research & Analysis*

## Outline

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- **Important -> Year-End 2007 Recollection: Product & Channel Trends**
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## The Obama Administration Has a Lot of Regulatory Issues in Play, Including the Suitability & Fiduciary Rules, Which Could Change the Industry's Make-Up

### Obama Administration Additional Proposed Key Steps



- Toxic asset plan
- Systematic risk regulator
- Hedge fund & private equity fund regulations
- Credit default swaps & other credit derivatives regulations
- Broker & RIA regulations
- Single US capital markets regulator
- 401K system regulations
- Money market fund regulations
- Short selling ban
- Estate tax rates
- Executive compensation

Source: 5/25/09 Business Week; 4/16/09 Investment Company Institute Presentation (Stevens); 4/2/09 Oppenheimer Email (Murphy); 3/31/09 Regulatory Compliance Association Email (Doe); 3/28/09 San Francisco Chronicle; 3/27/09 American Banker; 3/1/09 New York Times; Tiburon Research & Analysis

# Conclusion #1 => Next Year's Tactical Report Card Categories...

## Financial Advisor Key Tactics



Key Tactics	Grade	Best Practices
Play Defense: Increased Client Communications & Focus on Retention	?	--
Play Offense: Leverage Client Referrals	?	--
Grow While Able #1: Win the War for Talent	?	--
Grow While Able #2: Capitalize on Acquisition Opportunities	?	--

Source: Tiburon Research & Analysis

## **Conclusion #2: The Morgan Stanley Smith Barney Joint Venture is an Incredible Step but May Still Not be the End Game...**

### **More Aggressive Next Steps Possibilities**



- Further streamline sales force (focus on high-end producers)
- Support fiduciary standard
- Move to fee-accounts only model (reduced payout on commission accounts)
- Creation of independent arms (see Wachovia Securities Financial Network or Raymond James Financial Services)
- Spun-off sales forces (see life insurance agents model, e.g., Northwestern Mutual)
- Creation of producer groups (see M Financial Group, old Cap Trust that failed)



## Comments

- **Focus on corporate-level strategy**
  - **Serve senior executives only at financial services companies**
  - **Key services: market seminars, market research, & strategy consulting**
  - **Served over 300 corporate clients and completed over 1,200 projects since 1998**
  - **Host semi-annual CEO Summits, offer free weekly research releases, and offer free business benchmarking tools for all types of advisors**
- **Chip Roame background**
  - **McKinsey & Company**
  - **Charles Schwab & Company**
  - **Tiburon since 1998**