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Chip Roame says wirehouses can overcome their tarnished brands but may stumble on their lack of a strategy.

10 things I learned at yesterday's Tiburon CEO Summit

Chip Roame puts wirehouses, new regulations and the economic downturn into perspective

Thursday 10.7.10 by Brooke Southall

Brooke's Note: With so many leaders of the RIA industry in one small room being led to provocative thinking by an intense consultant, it is like sipping from a fire hose to report on the proceedings. I took pages of notes. Here is some of what I gleaned from the torrents of discourse.

The Tiburon CEO Summit is not for wimps.

On a bright San Francisco day, all seats were filled by 7:45 a.m. by the 118 attendees, and Skip Schweiss, managing director, advisor advocacy & industry affairs for TD AMERITRADE, was laying down some 'tough love' directives for the attendees. A longtime participant at and sponsor of the event, he was serving as the event's emcee held at the Ritz-Carlton.

If you RSVP, show up because the expenses associated with a slot are about $1,000. Fill out the attendee survey. There was a 'tough love' comment for the reporter in the room to respect the executives' rights to strike comments from the record at this semi-annual convention put on by Tiburon [Calif.] Strategic Advisors, a management consultancy for financial executives. For the record, nobody asked to strike comments from the record – except for some of the personal sidebars I had with executives outside the main sessions.

I was there primarily to hear Tiburon's managing principal give his opening talk, which is a high-level distillation of Charles "Chip" Roame's 75 research reports — produced for various slices of the advisory industry over the past decade — spiced with many of his contemporary thoughts.

Here are some observations that I made of the Roame's presentation and of the conference in general:

1.) Roame is giving his speech to a disparate group of CEOs – and yet a group that has many common interests. Roame has a stock explanation about how leaders in multiple advice silos venture to his conference to compare notes and create a hybrid vigor of intellectual capital. He says that the model drew inspiration from Allen & Co.'s famous Sun Valley Conference for the media, which regularly draws the likes of Bill Gates, Rupert Murdoch and Oprah Winfrey.

As an RIABiz reporter, I'd say Tiburon's attendees are the leaders of companies that are rapidly forming a parallel universe designed to supplant Wall Street brokerages and other legacy firms with a more advisor-friendly

and consumer-friendly alternative. They don't suggest it's altruism but they all draw energy from being part of a force for good.

2.) Major banks, wirehouses and the like are often less heavily represented [and Roame noted that of the multitude of award nominations he receives, one has yet to be received for a wirehouse executive]. Tiburon honors top execs who are best at either maintaining focus on the consumer or challenging conventional wisdom.

The RIA universe was very strongly represented at the conference – especially by the heads of custodians. Michael Durbin and Gerard McGraw were there for Fidelity. Jim McCool and Bernie Clark were there from Schwab. Craig Gordon was there for RBC, Frank Maiorano for Trust Company of America and Greg Vigrass for Folio Institutional.

Some IBD executives like Barnaby Grist of Cetera – an Oxford grad drinking tea among us coffee hounds – and Stephen Langlois, executive vice president, LPL Financial were present.

3.) Roame showed slides that reminded us that these are not normal times. We will return to pre-2008 crash levels of wealth in the United States by 2015, he says. We lost $12.8 trillion of net worth in the U.S. at the worst and we've regained $2.9 trillion of it. For perspective, these losses are seven times what was lost during the tech implosion of 2002. The double whammy for advisors: as assets and revenues declined, costs spiraled upward for servicing [i.e. handholding] clients.

4.) Roame makes clear that wirehouses are not well-positioned but he offers a different spin from the standard take on Merrill Lynch, Morgan Stanley Smith Barney, UBS and Wells Fargo and the $6 trillion or so of assets they control. "Wirehouse brands are tarnished; I don't think that's relevant. The problem is that none of them has a strategy…I can't figure out what any of them are doing." The one strategy that wirehouses make apparent is that they're 'bribing' advisors to stay on board.

The greatest vulnerability of wirehouses isn't so much that they'll lose clients. The personal relationships that brokers have with clients will see to that. "More interesting: Are the advisors going to bail?"

5.) Roame notes that two former CEOs from the four are now at the head of well-financed efforts aimed at independents. Don Marron, formerly of Paine Webber that merged with UBS, now heads Cetera through his Lightyear venture. Cetera owns the old ING IBDs. Philip Purcell, former Morgan Stanley CEO who resigned in 2005, is a major investor in HighTower Advisors in Chicago – a high-powered aggregator.

6.) Roame made two bold predictions: First, one wirehouse will spin off its sales force in the next two years — much in the style that big insurance companies did a few years ago. Second, another wirehouse will acquire a large independent broker-dealer. He made a third half-joking prediction that LPL will acquire a wirehouse. "That's out-of-the-box-thinking," he said.

7.) Roame asks unrhetorically why it is that there are actually the same number of financial advisors today as there were 13 years ago? He reminds that there are more Baby Boomers of retirement age or nearing it – seemingly driving demand. The two channels that have lost the most advisors over the past 13 years – insurance

8.) Financial advisors — aside from throwing RIAs with less than $100 million to the states — won't be affected much by what is going on in Washington. "Investment management was primarily a side note" of financial reform, Roame says. Banks facing new consumer-related laws and investment banks facing restrictions on how they do proprietary trading with derivatives may have the most to worry about. In attendance yesterday were Harold Evensky, president of Evensky & Katz LLC and Dale E. Brown, president & CEO of the Financial Services Institute. Roame allowed that these advocates might have much more to say on the fiduciary issue later on during the conference. See: Why Harold Evensky believes that a FINRA-as-devil attitude is counterproductive.

9.) Morningstar's Don Phillips, president, fund research, and Joe Mansueto, CEO, received the Tiburon CEO Summit awards for challenging conventional wisdom, showing intensive attention to the consumer and showing responsibility — won last year by Charles 'Chuck' Schwab and Ken Fisher. Instead of handing them gold watches, Roame grilled them with questions on stage and got good answers about where the big Chicago asset-tracker is headed. The company is rethinking how it delivers data in light of the move to mobile devices. "We have to reinvent ourselves; it's a little like the 1990s when the Internet came along," Mansueto says. Morningstar's business model is shifting more from a data content provider to that of an aggregator relying on third-party providers. It is reacting to the intense growth of ETFs and has upped its research staff from three to 15 devoted to exchange traded funds.

Morningstar has also re-energized its research efforts to base it more on a journalistic model of covering what's hot. Best-of-breed funds get covered four times a year, other funds twice a year and small funds, once. Research analysts are quick to write breaking analysis when, for instance, a manager leaves.

10.) I left the conference with a much better read on the industry. Grist made me truly understand Cetera's strategy [stay tuned]. McCool filled me in on the twist to expect at IMPACT 2010. Stay tuned. A number of executives offered [somewhat speculative] thoughts about what to think about the planned LPL IPO that is starting to take on an overdue feel. Roame alluded to the LPL IPO in his speech, mentioning that two long-time clients of his, Envestnet and Morningstar, had pulled off IPOs. He pointed to the LPL exec, Langlois, and noted the LPL IPO is in the works.

Brooke's Final Note: Skip Schweiss gave RIABiz a plug in his opening remarks by saying that anyone associated with RIAs who isn't reading it ought to be. I appreciated it.

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