

After the shake-out - the era of boutiques

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Published: October 27 2008

Hedge funds are down and out; investment banks are having to reinvent themselves; asset managers are struggling; big private banks are losing their cachet and their customers due to their parent bank travails. Where do unemployed investment folk turn? Wealth management may be one of the answers, judging by the growth in boutique outfits offering the service.

It is definitely one of the areas more insulated from the cold wind blowing through the financial services industry, according to James Anderson, chairman of Tru-Est, a specialist financial publishing group. Like asset management, wealth management represents a geared play on the stock market, and asset-based fees will be hit by the fall in value of client portfolios. But the annuity-style income stream remains attractive.

"If you look at the ability of a business to generate consistent steady revenues, wealth management is the only game in town," says Mr Anderson.

FTfm reported last week on the launch in the UK of Vestra Wealth, an outfit set up last year by ex-UBS employees - who left voluntarily. Sister publication Fundfire also gave news of a four-man team leaving Merrill Lynch in the US to set up on their own as LLBH Group Private Wealth Management.

Jupiter Asset Management announced recently it was hiring four former Singer & Friedlander employees to expand its private client division, and the boutiques already up and running are keen to talk about their services.

"It will be the era of the boutique," Mr Anderson forecasts. There has already been a steady stream of people leaving the big banks, disenchanted by the business practices they follow, he says. They see themselves as being in control of client relationships, and believe they can take that expertise and make money from it by running an independent operation.

That trend will be amplified by the fallout from the financial crisis. "Some of the big [wealth management] firms have come unstuck in a very public way. They are seen to be lacking in the area of risk management, which is central to wealth management," says Mr Anderson.

That is not to say any investment banker seeking re-employment has the option to set up in wealth management, or even join an existing outfit. Although investment banking has been a hunting ground for the wealth management sector for the past 10 years, there has been a realisation that people trained in a high pressure sales environment do not always adapt well to the client-led approach required in wealth management.

"The modus operandi [of investment banking] enters the soul," says Michael Maslinski, a consultant to the wealth management sector. "You can take the man out of investment banking, but you can't take investment banking out of the man."

Former derivative swaps traders cannot just waltz into wealth management by setting up from scratch either. It is not a highly capital intensive business, but the prerequisite is to have a pool of client money to start with. In Mr Maslinski's experience, "there are only a small number of people in the industry with clients willing to follow them into a new start-up".

He warns also that no one will be raking in big profits from wealth management for a while. It will be a case of "making friends in the bad times and making money out of them in the good times".

"We have seen a lot of banks using their customer base as a distribution channel," says Mr

Anderson. "Even if you look at the so-called open architecture model, you will still find the bank's own products being sold alongside [third party products]."

Suspicion of this product-led approach is the trump card for boutique wealth managers. They can tout their independent status as a reassurance that clients will not be fed in-house products of dubious value. Even better if the owners of the business invest their money alongside that of their clients.

Performance of wealth managers has widened out over the past year, says Mr Anderson. Some have succeeded in protecting capital, while others have lost large amounts. Boutiques may be a better bet in that respect. They should be looking for the best products on behalf of clients, which may mean using low cost products like exchange traded funds where possible to keep costs down as well.

Caveat emptor, or buyer beware, warnings still apply, though. Wealth managers are in business to make money, as well as look after clients' money. People who use their services should be clear what they want and how much they are willing to pay.