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Blooming Wealth

The Top Advisors Keep the Money Growing

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It wasn't so long ago that the vast majority of time spent by wealth advisers was dedicated to the basics: maximizing returns on investment portfolios.

That meant for a wealth adviser like Bruce Treitman his day was filled with completing financial transactions on behalf of wealthy clients who had multimillion dollar nest eggs.

"When I started in this business 20 years ago, it was all just bond sales or stock trading," said Treitman, who manages a team at Deutsche Bank Alex. Brown. "Now, it has become so much more complex. You have to understand all aspects of a client's wealth, from estate planning to charities to teaching the family members about finances."

Indeed, times have changed in the wealth management industry, which has become more competitive than ever.

An explosion of wealth in L.A. and across the nation has brought increasing numbers of people into the field. It has also prompted wealth managers to offer an array of services beyond money management to get a bigger piece of the action.

In essence, L.A.'s wealth managers today mostly guide overall investment strategy and deal with the big picture for clients, but leaving the detailed execution to teams of people both inside and outside their firms.

And this changed picture is reflected in the Business Journal's first-ever list of the top wealth managers in Los Angeles, as compiled and ranked for the Business Journal by R.J. Shook of Winner's Circle LLC. (Treitman is ranked No. 8.) While many of the top-ranked wealth managers got their start as strictly investment advisers, they have vastly expanded their offerings in recent years.

"The business of wealth management has changed," said Frank Ulf, chairman, chief executive and co-founder of Covington Capital Management in Los Angeles.

"There are roles for trust and estate lawyers, for accountants and for financial planners. The role for the wealth manager is to be the quarterback of the team."

Wealth boom

Driving this change has been the convergence of two major trends. One is the sheer magnitude of the wealth in Los Angeles County, which according to TNS Financial Services was home to 268,000 millionaires in 2006, far more than any other county in the U.S. and more than most countries.

Among those, tens of thousands of those have net worths exceeding \$10 million, which is generally regarded as the threshold for elite private wealth managers.

The wealth has been fueled by entrepreneurs selling their businesses, the boom in technology, the huge run-up in residential and commercial real estate values, and, of course, the entertainment industry.

“What sets L.A. apart is that there are so many pools of money. You’ve got technology money, real estate money, industrial money, retail money, entertainment money – just to name a few,” said Howard Rowen, managing director of Deutsche Bank Alex. Brown in Los Angeles and the Business Journal’s top-ranked wealth manager.

This wealth has drawn many more players in the financial and investment services arena, from major national players such as Bank of America’s U.S. Trust Corp. to boutique money management firms like Covington Capital.

“The competition is now much more fierce for clients,” said Richard Byrd, director of wealth management services for Beverly Hills-based City National Bank, the region’s largest independent bank.

Of course, with so many more people and firms looking to get into the sector, the key differentiating factor is the degree of client services that a wealth manager can offer. That’s a major reason why just managing a client’s investment portfolio to get optimum returns is no longer adequate – especially with the proliferation of index funds that offer similar returns.

“When returns start to look index-oriented across wealth management companies, the key differentiator is how broad an array of wealth management services you can offer,” said David Emmes, regional president for Southern California for Mellon Private Wealth Management, a unit of Pittsburgh-based Mellon Financial Corp.

The other trend is the maturing of wealth in Southern California. In older communities on the East Coast, wealth has been transferred across generations for more than a century. But in L.A., until very recently, the vast majority of high net worth individuals and families have created their fortunes.

Prominent exceptions would include the Chandlers. But far more prevalent have been the first generation entrepreneurs who have sold the family business, executives at high tech firms who cashed in on initial public offerings and people who have risen in the entertainment field.

Only in the last 10 years, as many in this generation have reached their 60s or 70s, has wealth transfer emerged as an issue, especially among entrepreneurs looking to sell the family business and retire. That’s why services such as estate planning and trusts for very wealthy families – long a staple on the East Coast – have only recently emerged on a big scale here in L.A.

“In the 1980s, high net worth individuals were still focused on generating more wealth and didn’t think too much about passing it onto the next generation,” Byrd said. “Now, the whole thought process is around, ‘What is my legacy?’”

Succession planning

This emphasis on legacy planning has been the major driver in determining what types of ancillary services wealth managers offer. For example, at Mellon Private Wealth Management, the range of services includes management and succession planning, setting up trusts, advising on charitable giving, estate and estate tax planning and fiduciary services.

With so many services to coordinate, the wealth managers who focus on building relationships with clients no longer spend much time actually investing clients' funds. Wealth managers will set general portfolio guidelines, such as putting a portion of a portfolio in bonds and another portion in hedge funds. Then they contract most of the actual investment work out to fund managers, private equity or hedge fund managers.

"It's more of an open architecture platform, looking for the best outside investment management that you can bring to the table," said James Berliner, president of Century City-based Westmount Asset Management Inc.

This is even more prevalent for clients with net worths exceeding \$50 million. Wealth of that magnitude often involves several distinct accounts, partnerships and trusts that need separate management.

"If Trust A is one-tenth the size of Family Partnership B, then you will have a whole different solution set for each," said Kenneth Anderson, president and co-founder of Quintile Wealth Management in West Los Angeles.

Proponents of this business model say it also offers another advantage to high net worth clients: a more objective approach. They say if some of the investment services are offered in-house, there's more of a temptation to go with those investments to generate more commissions, instead of always looking out for the best interests of the client.

That's especially important these days as high net worth individuals today are often much savvier about their investments than previous generations. They've had extensive exposure to financial media and Internet sites, and may have read the wealth management books published in recent years.

"They want the best," Byrd said.