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Despite High Hurdles, New York Is Still A Magnet For Wealth Managers

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The competition is brutal, the costs as imposing as the city's famous skyscrapers and the prevailing economic climate is decidedly chilly.

So why are so many wealth management firms either moving to New York or building up their operations in the Big Apple?

The obvious answer, of course, is the one Willie Sutton gave when asked why he robbed banks: that's where the money is. But that was always the case, and these are hardly the best of times for the wealth management business.

So why now? Precisely because there's been so much disruption, industry experts say.

Giant brokerages that once dominated the market are trying to pick up the pieces as they cope with new owners and old scandals, and while fed-up clients may be increasingly skeptical and asking tougher questions, they aren't putting their millions under the mattress either.

Disruption creates opportunity, and savvy firms want to capitalize on a rare, if not unprecedented, moment in time.

"If you're going to make a move into New York, this is the time," said Liz Nesvold, managing partner, Silver Lane Advisors, and one of the city's most prominent investment bankers specializing in wealth management. "There's a lot of money changing hands, and there's a lot of advisers floating around," noted Alois Pirker, research director for the Boston-based Aite Group. "Conditions are ideal for firms to gain market share."

Glenmede, the highly respected Philadelphia wealth management firm, certainly thinks so.

It just opened up an office in Manhattan, recruiting two veterans of the New York market the firm hopes will reel in well-heeled Gotham clients: Glenn Switzer, best known for managing money for ultra high net worth clients at US Trust, and Lee Miller, who catered to wealthy families as a managing director at Threshold Group.

"A physical presence in New York is a natural extension of our growth and the result of demand in the marketplace," said Chip Wilson, Director of Client Services for Glenmede.

The firm's selling points, Mr Wilson said, include its "independence and exclusive commitment of its resources to investment and wealth management. The fact our business model is without conflicts of interest matters."

“The fact that Glenmede, which is conservative, successful and has its headquarters about three hours from Manhattan, is making an investment in opening up a New York office and hiring top people to run it tells you all you need to know about what people think the potential here is,” said one industry observer.

Lazard and Geller Make Their Move

Lazard’s recent move into wealth management is also cited as a quintessential example of the attractiveness shrewd new players see in the New York market.

Although the prestigious investment banking and asset management firm is located in New York, it never had a dedicated wealth management division – until this summer.

That’s when Bruce Wasserstein, Lazard’s late chairman and chief executive, and long considered one of the smartest executives on Wall Street, decided the opportunity was too great to pass up.

In typical Wasserstein fashion, he went straight for the jugular, hiring away Thad Shelly from Bessemer Trust, the wealth management firm widely considered to be one of the most successful in town.

Mr Wasserstein died in October, but any doubts about Lazard’s commitment to its new private wealth subsidiary were put to rest last week, when the firm brought in industry veteran Mark Ostroff as a managing director to work with Mr Shelly, his former colleague at Goldman Sachs.

Lazard declined to comment on its plans, but one source tells *Family Wealth Report* the firm is prepared to commit approximately \$20 million as an initial investment into the de novo business.

“These are very, very smart people, and they think it’s worth it,” the source said.

Another New York firm making a considerable investment in building up its wealth management business is Geller & Company, which hired Jamie McLaughlin away from Convergent Wealth Advisors this summer to head its Geller Family Office Services subsidiary as chief executive.

Mr McLaughlin, a well known figure in wealth management circles who often speaks publicly about industry trends and issues, has been charged with no less a mandate than to vault Geller into the top tier of family offices, starting in New York.

Currently in serious hiring mode, Mr McLaughlin is expected to name a new chief operating officer this month and begin a search for a top-tier chief investment officer in January.

He is also focusing on hiring senior relationship managers to work with Geller’s wealthy clients, who have an average of nearly \$280 million in assets, the highest among multifamily offices, according to a survey conducted by Family Wealth Alliance.

“Families of great wealth want to know they will be working with,” he said, “and the degree of complexity in this market dictates that that person be at the first meeting with the client or potential client. Fortunately the quality of people that we are seeing is stunning.”

Help Wanted

GenSpring Family Offices and Wells Fargo Private Bank are also making a push to expand their

presence in New York and beefing up their staffs.

GenSpring, a unit of SunTrust Bank, has been adding more “experienced technical professionals” into its business development group in New York, said senior partner John Elmes.

“To have an open, candid discussion with wealthy families, you have to be able to have a diagnostic conversation,” Mr Elmes explained.

Wells Fargo Private Bank is currently hiring “senior client relationship professionals,” said Jennifer Lee, regional managing director.

“We’re looking to add seasoned professionals with experience in this market,” said Ms Lee, a New Yorker herself who joined Wells last month with a resume that includes stints at Neuberger Berman, JP Morgan, Goldman Sachs and Lehman Brothers.

She will report to John Dowd, another New York veteran and a top wealth management executive at the Bank of New York before joining Wells Fargo last year.

Mr Dowd is now a senior managing director who has been charged by Wells wealth chief Jay Welker to oversee the wealth management integration of Wells Fargo and Wachovia in the northeast.

Besides disruption in the market, the firms who are trying to elbow their way into the New York market also have the advantage of not being tainted by the negativity of the past 15 months.

“Clients are willing to listen,” said Gary Carrai, senior managing director, Fortigent, a leading platform provider for wealth management firms.

“You don’t need to have a history in the city any longer. In fact, it’s just the opposite. A fresh story is a good story.”

Fees Down, Cost of Talent Up

But firms hoping to take a bite – or a bigger bite – out of the Big Apple also face major league challenges, including cutthroat competition on pricing and talent.

Pricing is a subject executives don’t like to talk about publicly, but it’s no secret that cutting price is a proven way to get business.

And make no mistake, insiders say, despite all the talk for public consumption about the holding the line on the industry’s lifeblood, fees based on a percentage of assets under management, and charging extra for additional services, the gloves are off.

Fees can range from 1.25 per cent of assets under management to 50 basis points, executives say.

And wealthy clients aren’t shy about piling on requests for additional planning and governance services, resulting in “work creep,” which can put extreme, if not fatal pressure on a firm’s profit margin.

Competition for proven talent is also fierce – and comes with a high cost.

“Nothing is cheap in Manhattan, talent especially,” said Mr Carrai.

What's more, proven sales people, which expanding firms desperately need, are among the highest priced – and hardest to find.

“Everyone likes to talk about ‘relationship managers’ who service clients,” said a high-level wealth management executive in New York who asked not to be identified. “That’s fine, but if you’re just coming in to town or building up, you have to originate assets. You have to get the meetings. Yes, the firm’s top executives will bring in their key relationships, but after that first wave, you need a sales force.”

Ms Nesvold agreed. “People in wealth management need to understand that sales is not a dirty word,” she said. “You have to create a culture of business development that is the right one for the firm. The challenge is identifying the right people who fit in, because you have to assume it will take 12 to 24 months before they add more in revenue than they take away.”

Who Do You Trust?

And in a post-Madoff era, firms hoping to carve out market share in New York also have to demonstrate their stability, fiduciary capabilities and overall trustworthiness, local executives say.

It’s no coincidence, they point out, that trust companies, banks and independent boutiques untouched by scandal or negative publicity such as Bessemer, BNY Mellon, JP Morgan, Silvercrest Asset Management and Convergent rank high among the market leaders.

“Clients are looking for safety and stability,” said Doris Meister, president of BNY Mellon Wealth Management’s New York Tri-State region. “It’s a lasting effect of Madoff. People want to understand how their money is being held and is it safe. They’re doing more due diligence and asking more detailed questions. And after all the mergers and problems companies have had, we’ve found that clients are also more concerned about staff turnover.”

“For new entrants,” Ms Meister adds, “there are opportunities, but you have to have a very good story about safety and structure.”

Two executives who work closely with exactly the type of ultra high net worth New Yorkers wealth managers covet agreed.

“After Madoff and everything that happened over the past year, there has been a loss of trust and greater skepticism,” said Joel Treisman, group chair for Tiger 21, a peer-to-peer organization for very wealthy individuals and families. “People are not taking anything for granted. They are asking tough questions and following up with more tough questions.”

“Behavioral issues are now front and center,” said Stephen McCarthy, senior vice president of KCG Capital Advisors in New York. “Assuming all things are equal in investment performance, whoever can win the trust will gather the assets.”

Scale Rules

As if those challenges weren’t formidable enough, there’s the question of scale, always a major factor in the wealth management equation, but one that is particularly daunting in New York.

“In an open-architecture business, there are no barriers to entry,” said G Moffett Cochran, Silvercrest’s

chief executive. “But while there are no capital constraints, economic viability in a market as expensive as New York is not a slam dunk. That’s the biggest challenge anyone coming into New York has got. You have to get the business to a sufficient scale to pay the rent, infrastructure and salaries, which are all very expensive in Manhattan.

“You have to quickly get to multi-billion dollars in assets under management to achieve scale. The question is how much staying power do you have to get there?”

Clearly, not every newcomer will make the grade but don’t expect wealth management firms to stop trying.

“There’s so much wealth in New York and so much potential,” Mr Carrrai said, “I’m surprised wealth managers aren’t coming in even greater waves to try and capitalize on the opportunity.”