

FAMILYWEALTHREPORT

September 27, 2010

Silvercrest Success Seen As Boost For Boutiques

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The New York wealth management market is notoriously crowded and competitive, yet continues to attract a slew of aspiring new players, both large and small, every year.

Many of them are inspired by the success story of [Silvercrest Asset Management Group](#), which launched in 2002 and is now considered one of the elite boutique firms in the market, with \$8.5 billion in assets under management and a sterling reputation for client service.

“Silvercrest took the New York City market by storm and is quickly becoming the US Trust of our generation – extremely blue chip, attracting great talent and clients,” said investment banker Liz Nesvold, a managing partner at Silver Lane Advisors in Manhattan.

“They’ve done a wonderful job of innovating and growing in the market,” said Steve Braverman, whose new firm Pathstone Family Office is about to open up an office in New York. “We consider them one of the most respected members of our industry.”

Silvercrest was in the spotlight earlier this month when it bolstered its management ranks by naming Richard Hough as chief operating officer.

The move is part of a trend among wealth management shops to put more emphasis on the nuts and bolts of the business, according to Gary Carrai, senior managing director for Fortigent, the Rockville, Maryland-based outsourced solutions providers.

“We’re seeing firms hiring more operations-oriented people than just having a principle in the job,” Carrai said. “They know it’s important to be more of a business than just an investment shop.”

Hough’s appointment also underscores the increasingly competitive nature of the New York market, say industry observers, and the need for even successful firms to raise the level of their game.

Not only are a phalanx of boutiques like Pathstone entering the market but large banks, trust companies and wirehouses are also committed to either growing or carving out market share for themselves.

Banks vs boutiques

Which raises the obvious question: who will be able to survive and thrive?

“There will always be room for small boutiques, but the big players are focusing on ultra high net worth wealth management clients with \$25 million or more in investable assets and are putting a lot of money behind this push,” said Alois Pirker, research director for the Boston-based Aite Group.

“They’re working hard to restore their brand and they have things that wealthy clients want like a wide range of products, lending capability and the ability to help businesses in areas like mergers and acquisitions,” Pirker noted. “The big banks bring a lot to the table and will give boutiques a run for their money.”

Industry veteran Jamie McLaughlin said boutiques haven’t taken as much advantage of the 2008-2009 economic crisis that set back the industry’s financial giants as they are given credit for.

“I don’t sense the boutiques have taken substantial market share from a devastated broker-dealer world,” McLaughlin said. “In the short-term the trust banks and global banks are winners.” Carrai, who works closely with many boutiques who are Fortigent customers, gives the smaller advisory firms - perhaps not surprisingly - a higher grade.

“I don’t think boutiques are on the ropes,” he said. “New York is one of the last places where we’ve seen advisors coming in and they will eat into market share. Companies like ours can give them tools to leverage their resources and offer more customized advice.”

Silvercrest as model

To date, Silvercrest is widely viewed as a model of how a boutique can thrive in a difficult environment.

“New York is tough to penetrate given the oodles of big name firms swarming here,” Nesvold said. “With the market’s upheaval and rally since 2008, Silvercrest is well positioned to take more than its fair share of money in motion.”

Silvercrest executives agree, but also acknowledge the challenges the firm faces.

“There are probably more providers of investment services in Manhattan than any place in the world,” said [Moffett Cochran](#), Silvercrest’s chief executive and co-founder. “It’s brutally competitive and a market that’s not easily won.”

Attracting and retaining professional talent on an ongoing basis is the biggest challenge Silvercrest faces “by far,” Cochran said.

The firm faces competition from both large institutions and smaller start-ups, according to Hough, who was a managing director before being named COO, and a partner since 2006.

“Breakaway brokers and advisors mean a lot of movement,” said Hough, “but I’m not sure it means new growth. Once clients have moved, can these firms achieve organic growth? The

challenge is to grow persistently over time. There are a number of firms that have launched and then peaked out with slow growth.”

The industry giants offer a “broader range of product capabilities” and are “very good at off-the-shelf capabilities,” said Cochran. “We admire that, but it’s a different business. We can customize for clients and giant firms are not able to do that.”

What’s more, many of Silvercrest’s competitors have “stumbled badly” in recent years, he maintained, resulting in a “terrible experience” for clients who in turn have been “quite receptive” to Silvercrest’s entreaties.

“Our pitch is that we’re able to deliver a very high level of investment performance coupled with a high level of client service,” Cochran said. “Those two things separate us from the herd.”

In-house investment vs outsourcing

Some industry observers question whether Silvercrest’s combination of “core proprietary investment capabilities” and outsourcing present a conflict for the firm when deciding where to put the client’s money.

The decision is made “in concert with the client,” Hough responded.

“In most client circumstances, outsourced investment solutions are used to further diversify a client’s portfolio and complement Silvercrest’s core value equity style of management,” he continued.

“Silvercrest is compensated the same for its advice regardless of whether assets are managed internally or with an external manager, so the objectivity of our advice is not an issue from a revenue perspective.”

And while “service creep” can often be a margin issue for “high touch” firms like Silvercrest who tout non-investment services, Hough said those services “are generally provided on the basis of a separately negotiated fee dependent upon the scope of work” and have not eroded margins.

Growth plans

Silvercrest, which is 72 per cent employee-owned, with the balance held by Paul Allen’s Vulcan Capital, is currently focusing on clients with \$100 million or more in investable assets, Cochran said. The firm’s average client has about \$25 million in assets, he said, and new clients must have at least \$5 million.

Two years ago, Silvercrest acquired Boston-based Marathon Capital Group, allowing it to break into the New England market, and in 2005 it bought Heritage Financial management in Charlottesville, Virginia.

These days, Cochran said he is “spending a lot of time on the west coast trying to find the right group around whom we can build a west coast presence.”

Other expansion targets include Chicago, Miami and Houston or Dallas he said.

Expanding beyond New York is critical, according to Braverman.

“New York is the largest and most important market, and whatever happens nationally starts in New York” he said. “But it’s overcrowded and firms need to find a way to operate on a national basis.”

In addition to growing existing business by traditional methods such as client referrals, Silvercrest is also using targeted marketing techniques such as specialized magazines like *Garden and Gun* magazine, a regional publication in the southeast US.

“We look for publications that are less cluttered, are targeted to the high net worth space and share our demographic,” Hough said.

And when talking directly to prospective clients, he added “we are very careful to honestly represent our capabilities and do what we say we can do. We’ve seen a lot of firms who have overextended themselves.”

In fact, Wallace Blankenbaker, senior director, financial services for Arlington, Virginia-based Corporate Executive Board’s VIP Forum, cites the “trust factor” and the quality of the advisors working for boutique firms as two of their most important competitive advantages when going up against larger competitors.

Boutiques may be struggling with the issue of scale and how to do more with less, but they have been able to attract top talent from larger firms, he said.

The ongoing consolidation of single family offices may also boost the fortunes of boutiques, said Cochran. Silvercrest is doing more business with existing SFOs while fewer are being formed, he said.

“Not much wealth is being created in the US right now, and you need new wealth to form SFOs,” Cochran said. But isn’t Silvercrest’s growth also hindered by this slowdown? No, Cochran responded. “We can do quite well by chipping away at market share.”