FUNDfire

Turmoil Drives Merrill Wealth Team to LPL
By Tom Stabile
July 22, 2008

A four-partner wealth management team in Alexandria, Va., has joined the independent broker-dealer network at LPL Financial after leaving Merrill Lynch's Washington, D.C. branch in late May.

The partners have formed Monument Wealth Management under the LPL banner in a bid to escape the negative atmosphere surrounding big financial-sector firms, says **David Armstrong**, managing director and partner of the new outfit. "Our clients were asking a lot of questions, and they were good questions, about how the market volatility might impact their financial planning and portfolio management," he adds. "When we synthesized their concerns, we realized that they were looking for a solution that was not only customized but also unbiased."

The partners say they actively managed $230 million in assets for 150 high-net-worth clients at Merrill. The clients are largely current or former small business owners or corporate executives, and Armstrong says Monument is hoping to hang onto their business. Merrill did not respond to a request for comment before press time.

The "breakaway" movement of advisors leaving major wirehouses to set up shop has gotten considerable attention in the past year, thanks in part to promotion of the concept by independent broker-dealer outfits or big custodians – such as Charles Schwab & Co. and Fidelity Investments– that provide services to independent registered investment advisors (RIAs). Some industry consultants, notably **Chip Roame**, managing principal at Tiburon Strategic Advisors in Tiburon, Calif., have dismissed the trend by noting that the number of wirehouse advisors exiting each year is in the hundreds, compared to the 50,000-plus advisors at the top five brokerages.

Still, Armstrong says he would not be surprised to see a spike in wirehouse advisors taking the same path as his clients in the next 12 to 18 months. "Based on the phone calls I have been getting from advisors in our area at the big firms, I would say that we'll see a lot more who will be following us, because they indicated a lot of interest in the independent channel," he says. "Don't forget that these are entrepreneurs, who are not getting all of the benefits that they're 'paying for' from these Wall Street firms. I would expect an unprecedented number of advisors to consider it."

The bleak outlook for many big-name financial firms with large wealth management arms is the "tipping point" that could motivate more defections, says **Tim Welsh**, president of Nexus Strategy, a consultancy on advisor issues in Larkspur, Calif.

"Right now, the big name is not helping these advisors," Welsh says. "If you're already inclined to go independent, there really are no more reasons left to stay, because these independent firms have built [competitive platforms]. And the value of your stock in the deferred compensation plan [at the wirehouses] has been cut in half, so you're ready to go."

Advisors also are hearing it from clients, Welsh says. "Whether it's exposure to auction-rate securities or the next problem, it's one headline after another," he adds. "It has hit critical mass, and they are concerned – 'Is it safe here?'"

Monument's Armstrong says he even sees growth potential in plucking away high-net-worth investors who currently use wirehouse advisors but who may have concerns similar to those of his clients.

Monument adds to a busy recruiting year, say officials at LPL, which has “headquarters” in Boston, San Diego, and Charlotte, N.C. LPL has added nearly 600 advisors to its roster since the start of the year, bringing its total to 11,675 advisors who oversee $289 billion in total assets, including more than $75 billion in advisory assets under management. The firm saw a rise in new advisor recruiting “leads” from 1,294 in the first five and a half months of 2007 to 2,741 in the same timeframe of 2008, a sign of the traction that its team of 35 recruiters in the field is having, says **Bill Morrissey**, LPL’s executive v.p. of branch development. He also cites volatility in the marketplace as a prime driver of new recruits.

“In 2007 we had a record recruiting year, and so far in 2008 we’re well ahead of where we were last year,” he adds. Morrissey says about a third of the recruits come from the wirehouses, and another third from independent brokerage competitors, with the rest from banks and insurance firms.

Armstrong says he and his three partners – **Dean Catino**, **Timothy Lee**, and **Timothy MicKey**, all managing directors – began seriously considering a move about six months ago and weighed other independent options. LPL got the nod because of its technology platforms and the fact that its entire business model is oriented toward serving advisors. “That was important to our clients, knowing that the firm you’re affiliated with is on your side,” he adds. “We were playing some defense on that beforehand.”

Armstrong says going independent also will allow Monument to branch out in other ways it could not have accomplished as easily at Merrill, including acquiring other advisory firms, managing money for other advisors, or buying the practice of retiring wirehouse advisors. “There are advisors at the Wall Street firms who feel this would be a great option to pass their clients along to, rather than have them enter a ‘mechanical’ account distribution process where their clients are split among the branch advisors,” he adds.

Monument’s typical client has at least $1 million in investable assets. The firm aims to provide a diversified, fee-sensitive, tax-efficient set of strategies incorporating cash, fixed income, equity, and alternative investments.