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Breakaway Brokers

Advisers Got in Early on Autonomy Movement

By Jennifer Joyner

THREE FOUNDING PARTNERS at WealthPath Investment Advisors left the realm of commissioned stockbrokers back in 2006, with desires to implement a fee compensation structure, broaden clients' investment options and generally have more control over their own careers.

"It was a no-brainer," said WealthPath partner and chartered financial analyst Clay Kendall. "It's good for us, good for the clients. It's a win-win."

Kendall, Jim Mote and Jim Edmiaston quit the financial firm Morgan Keegan (acquired by Raymond James & Associates in 2012) to co-found with two other partners an independent finance firm, AdvisorAlliance.

It was a bit ahead of the game, but the move reflects an ongoing national trend seen in the industry during the years that followed. And although the five-way partnership of AdvisorAlliance ended after five years, Kendall, Mote and Edmiaston stuck with the independent plan and went on to co-found WealthPath with a fourth partner, Brent Harless, in 2011.

One reason for the influx of advisers going solo? Large wirehouses can no longer credibly claim the advantage of access to superior number-crunching and data-compilation tools.

The rise of the Internet fostered opportunities for those who go independent to more easily replicate the information technology infrastructure necessary to serve clients.

And those resources are now affordable for smaller entities, Kendall said.

As a result, data from the U.S. Bureau of Labor Statistics show independent wealth advisers are rising through the ranks of finance careers.

In recent years, stockbrokers have held 11 percent of jobs in the finance industry, a dominant share over wealth advisers. But now, the wealth management profession is projected by the U.S. Bureau of Labor Statistics to expand 27 percent between 2012 and 2022.

This rate is much faster than average, according to the bureau, and that facet of the industry will add an estimated 60,000 jobs.

Meanwhile, during the same time period the number of traditional stockbrokers is projected to grow only 11 percent, which is an average pace for the profession.

The wealth advisement industry is already bigger than ever now, earning $93 billion last year, with $68.7 trillion in assets under management, according to a report from Boston Consulting Group. And, as that part of the financial services business continues to grow, some common themes have emerged among the reasons breakaway advisers give for making the move.

Fee vs. Commission

A majority of advisers who went independent during the two years leading up to a 2013 poll did so in an effort to make more money, according to a report from Charles Schwab Corp. titled "Advisors Turning Independent."

Ninety-five percent of those surveyed did so because of a desire to be self-employed and 98 percent said they wanted to be able to offer more personal services.

For the partners at WealthPath, the option to charge clients a fee (at WealthPath, a percentage of assets managed), rather than earning a commission from transactions, was a huge motivator in their choice to go independent.

"We think fee compensation is better for our clients," Edmiaston said, explaining that the method shifts the focus from an emphasis on transactions to the formation of a long-term relationship.

"We have an ongoing responsibility to our clients," he said.

In addition, the fee structure eliminates what some industry experts say is a potential conflict of interest created by commission compensation.

Because of this reason, the industry as a whole is slowly starting to lean more toward fee compensation.

Kendall said many independent advisers are going this route and even some of the larger firms are moving in that direction.

And Edmiaston agreed with his colleague. "It's on an upward trend," he said.

Fiduciary vs. Suitability

Another perceived benefit for independent advisers is the fact that they are not limited in the companies with which they can work or the use of certain tools or investment options.

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WealthPath Investment Advisors partners Jim Edmiaston, left, and Clay Kendall quit wirehouse careers to go independent in 2006.

"As an independent here in Northwest Arkansas, I have the universe of retail investment options," Kendall said.

In addition to this, independent advisers can sign on for a higher level of fiduciary responsibility, which larger firms often avoid in order to protect themselves from exposure, he added.

Generally, independent firms subscribe to the fiduciary standard, meaning decisions should be made in the best interest of the client, while broker firms apply the suitability standard, which means the broker has to reasonably believe that any recommendations made are suitable for clients, in terms of the client's financial needs, objectives and unique circumstances.

Like fee compensation, the occurance of advisers taking on fiduciary responsibility is becoming more common across the industry, as investors have become increasingly aware of the distinction.

Transparency Track

As a whole, the partners at WealthPath like the direction in which the industry is slowly moving, although sometimes change has not come easily.

"It literally took an act of Congress to get this industry focused on transparency," Kendall said, referring to 408(b)(2) regulations put in place in 2012 by the U.S. Department of Labor.

The measure requires financial service providers to display their fees on customers' statements and also to illuminate any potential conflicts of interest.

While some in the financial world railed against the regulation, the advisers over at WealthPath embraced the change.

"If your fees are reasonable, there's no need to avoid transparency," Kendall said. "We find people don't mind paying fees; they just want to know what you're charging them and what they're paying for."

Edmiaston agrees with the move toward more transparency about fees.

"We think it's positive," he said.

And, before long, transparency throughout the financial services industry might be more necessity than choice.

Technology, yielding an endless stream of information, has changed the entire industry and put a lot more power in investors' hands, as the barrier between investors and access to both information and trading has been lifted.

It's a far cry from the industry that existed when WealthPath partner Mote, who graduated from the UA in 1963, would watch for stock changes on tickertape, Edmiaston said.

Blurred Lines

One aspect of the financial industry that has remained ambiguous is the difference between wealth advisers and commissioned brokers.

Although wealth advisers might draw a stark contrast between themselves and those they deem to be old-school stockbrokers, most people don't know the difference between the two — at least that's what the advisers think.

Ninety-seven percent of financial advisers polled in 2012 said investors don't know the difference between stockbrokers and investment advisers, according to a report co-produced by fi360, a Pennsylvania-based training and information source for financial advisers, and AdvisorOne, the online sister publication to Investment Advisor magazine, a New York City-based business-to-business publication.

Many people, and also the Bureau of Labor Services, in one instance, lump the two together. Also, traditional stockbrokers now mostly avoid that terminology and instead call themselves financial advisers, adding to the confusion.

Impact Unclear

Although many financial media sources and advising experts say the number of breakaway brokers is substantial, there is debate as to the effect on the two facets of the financial industry.

For example, a study from Cerulli Associates Inc., an asset management research firm, published earlier this year shows the number of advisers that broke away from large firms in 2012 resulted in a $74 billion loss for large firms, or 1.4 percent of their assets.

Also, a 2013 report from Cerulli estimated wirehouses would have lost 4.5 percent of their market share between 2011 and 2016.

However, an Investment News article from 2013 indicates the financial adviser headcount at the big four wirehouses (Bank of America Merrill Lynch, Morgan Stanley Wealth Management, Wells Fargo Advisors and UBS Wealth Management) remained basically the same between 2011 and 2013, declining less than 2 percent.

The article also said some industry observers see signs that fewer brokers will be leaving in the future, as new regulations take effect.

On the other hand, all of the independent advisers surveyed by Schwab in 2013 said they would make the same decision again, and 75 percent said they wish they had done it sooner.

And it seems to have worked out well for WealthPath.

The firm started with only its Rogers headquarters and a small satellite office on the Fayetteville square, but since then the company has expanded into a larger space in Colt Square (with eight offices) and has opened offices in Little Rock and Oklahoma City.

As of this year, the firm now has 11 employees, 10 of which are advisers, and has more than doubled its assets managed, at $223 million.