MoneyVoices: The Surprise Wealth Management Boom

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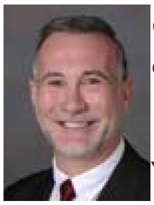

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You might think it is a bad time to grow a wealth management practice, in the wake of the subprime debacle, large market depreciation and high volatility. However, the opposite seems to be the case.

Many of the institutions hit the hardest are channeling their dwindling resources into growing their wealth management lines of business. The reason is their desire to shift into a more fee-based paradigm, while attempting to capture assets in a time of uncertainty and universal discontent.

Despite market conditions, we expect an increase of $3.44 trillion in new U.S. high-net-worth (HNW) client assets by 2010. The 2005 Cap Gemini World Wealth Report also suggests the creation of an additional one million HNW clients. At 50 bps, these new assets should generate $17 billion in new annual fee revenues. Since the average producer of our 500,000 person national sales force generates about $350,000 in new fee revenues, that projects the need for 50,000 new client facing professionals by 2010. This is in addition to replacing retirees, the majority of whom are themselves baby-boomers nearing retirement.

The fee-based, high-margin nature of the business and the projected growth of high-net-worth assets is making wealth management all the more attractive. As a result, we are experiencing a frenzy to attract talent. Many institutions are compensating by reducing support staff and eliminating pure sales management roles. The term “player-coach” has come in vogue, as producing managers have become considerably more desirable than the “pure overhead” managers that used to dominate the industry.

In light of these changes, the sales professionals of today receive less mentoring from above and less support from below. Yet, the expectations for asset generation seem to be growing unrealistically high. In the past, roughly 5% of the national sales force was able to generate $1 million of new fee revenues each year. This number has shrunk to fewer than 3%. Still, many hiring managers still hope that each new hire will be “accretive” in the first year.

Despite this disconnect, trends show a large increase in compensation over the last twelve months. We see a resurgence of first and even second year guarantees, higher base pay, rich sign-on bonuses, and even a slight movement toward payment for recurring revenues in some non-brokerage models. The average total compensation for million dollar revenue producers has increased from $425,000 to $515,000 among the twenty firms we poll. It will be interesting to see if these trends continue, in light of the uncertainties and challenges that our industry faces.