

# INDUSTRY

FUND MANAGER PROFILE

## On Beyond Wealth

*The greatest growth now may be among family offices, and multigenerational planning is just the beginning. Do you know how to buy a yacht? By Brooke Southall*



Arthur Black, a principal with BBR Partners in New York City, left Goldman Sachs to open a multifamily office.

LET'S FORGET THE MELTDOWN, THE Madoff scandal and insolvent banks for a moment. The new trend is to recast your practice as a family office. Right now, 4,000 family offices with a combined \$1.05 trillion in assets are stealing green from financial advisors, according to a recent Celent study.

There were 25% more family office client relationships in 2007 than in 2006, based on a survey of 83 family offices with a combined \$333 billion, making this the hottest growth area in the advice market, according to the *Multifamily Office Study of 2008*, published last fall by the Family Wealth Alliance. Assets under advisement at these multifamily offices (MFOs) climbed 12% during

this same one-year period, it adds.

The question is whether MFOs will continue to gain momentum. "We're at the beginning," says Bob Casey, director of research for the Family Wealth Alliance in Wheaton, Ill. One reason for the growth: Traditional players shot themselves in the foot. "Wirehouses and banks are just an unholy mess," he says. "It's been going on for a decade with all the mergers and so your trust officer changes every 12 months. If you're well-heeled, you say, 'forget it. I don't need this monkey business.'"

### WINNING BIG CLIENTS

Arthur Black, a principal with BBR Partners in New York City, broke away from

Goldman Sachs in 2000 to create a multifamily office because he believed it was the way to win and keep big clients. His firm, which manages \$3 billion, now has 55 employees. Among them, two-thirds have expertise in legal, tax and accounting matters, and only one-third is focused on investment matters.

As with the term wealth management, there is no bright-line test for calling a practice a family office. "Your problem-solving changes," Black says. "Instead of going from point A to [point] B, there are three or four dimensions and everything is moving around." Industry observers agree that MFOs must have expertise in multigenerational planning, setting up philanthropic foundations, services relating to owning big assets [such as mansions, yachts and jets] and the ability to coordinate legal, tax, insurance, estate and investment issues.

Family-office clients tend to have \$50 million or more to invest, according to Jeff Roush, former chief operating officer of MyCFO, a multifamily office originally founded by Netscape founder Jim Clark to manage his fortune and those of other Silicon Valley tech barons. (It is now Harris MyCFO.) Traditionally, a family office is the staff of experts put in place by plutocrats like the Rockefellers, Phipps or Carnegies to manage their personal financial affairs.

The lines between family offices and RIAs blurred in the late 1990s with the rise of MFOs, which found it expedient to pool the management of family fortunes. There are now about 3,000

MFOs that manage a combined \$750 billion, a number that outweighs the 1,000 single-family offices with \$300 billion, according to the Celent study. Family office assets represent 20% of the \$2.4 trillion of RIA assets, and 65.2% of family offices are organized as RIAs,

according to the 2008 Family Wealth Alliance study.

**CUSTODIANS' ROLE**

Seeking to help push RIAs to the rarified family-office realm are custodians Schwab Institutional, Fidelity

Investments and Pershing, which offer family offices improved support. Schwab, at the urging of its RIA clients, is creating ways to manage the blizzard of documents involved with multigenerational planning. "There is a major shift happening and we are right in the middle of it," says Janelle Sallenave, head of family-office business at Schwab.

Executives at Schwab Institutional, Fidelity Investments and Pershing Advisor Solutions are also rushing to grab family-office gold. Schwab expects its family-office assets to soar from \$33 billion today to \$72 billion by 2011. Pershing Advisor Solutions has \$70 billion of RIA assets in custody and 25% of them are from family offices, up from 13% at the end of 2007, says Julie Harrington, a director at Pershing Advisor Solutions who joined the company in 2007 to build the family-office business.

Fidelity is also pulling out the stops to win family-office business, says Ron Fiske of Fidelity Institutional Wealth Services. The company has \$9 billion in its family-office unit and does business with 34 of the top 83 family offices identified by the Family Wealth Alliance, he adds. The company recently hired Edward J. Orazem, former head of Citi Family Office, Michael Durbin, from Morgan Stanley's Global Wealth Management Group and Charles Goldman, former president of Schwab Institutional.

While the big guns wrangle over billions, smaller advisors are responding to their own clients. Carrie Jones, principal of LBA Wealth Management in Jacksonville, Fla., manages \$160 million and most of her clients have \$3 million or less. But two of her clients are selling businesses and will soon have \$20 million or more in liquid assets. "These clients are saying: You have the ability to do more things and we want you to do more things," she says. "In this business, you have to morph." **FP**

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