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Wirehouses are down but far from out: Cerulli

By Editor Test *Thu, Jan 19, 2012*

Although their headcount is down and their images are tarnished, wirehouses remain the kings of investment distribution, according to a report from Cerulli Associates.

Cerulli projects that in 2013 the wirehouse channel will remain the largest distribution channel despite an anticipated decline of its share of assets under management to 35% in 2013 from 43% in 2010.

Wirehouses were hurt by the 2008 bear market and by their perceived roles in the financial crisis, Cerulli's Bing Waldert said. While the financial advisor industry grew from to $11.2 trillion in 2010 from just under $11 trillion in 2007, wirehouse assets dropped to $4.8 trillion from $5.5 trillion during that same period.

Nonetheless, the four wirehouses (Bank of America/Merrill Lynch, Morgan Stanley Smith Barney, UBS, and Wells Fargo Advisors) remain the best capitalized in the asset management industry, and much of their recent market share loss came from planned attrition, as they forced out lower producing, less profitable advisors.

Wirehouses may be less concerned about market share than profitability, Cerulli noted. While scale is essential to these firms, they may want to serve only the most productive advisors. Morgan Stanley Smith Barney, for one, has publicly stated that it seeks a 20% profit margin from its wealth management business. Both Morgan Stanley Smith Barney and Bank of America/Merrill Lynch have trimmed middle management layers, aggressively cutting lower producing advisors.

"The future growth of wirehouses is through their largest advisor teams," said Waldert. "Not via organic growth, but by supplementing these teams with junior advisors in order to free the principal advisors to continue their focus on business development."

He warned, however, "It must be understood where these advisors will come from if these firms are not successfully hiring new advisors into the industry. Second, given the number of flexible options for an advisor, any cost-cutting in the name of profits that affects these advisors' businesses could cause them to leave the firm if they feel that they are not being adequately supported."