



State of the Wirehouses

Despite coming under fire in the recent market crisis, wirehouses (defined as Bank of America/Merrill Lynch, Morgan Stanley Smith Barney, UBS, and Wells Fargo Advisors/Wachovia Securities) continue to employ the most productive advisors in the industry. As a channel, they are, and will remain, a dominant force in retail distribution. This report analyses this important channel by sizing it compared to other distribution channels, examining the roles within these firms, discovering opportunities for firms looking to address wirehouse advisors, and predicting the future state of this channel.



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INSIDE LOOK:

Key Findings:

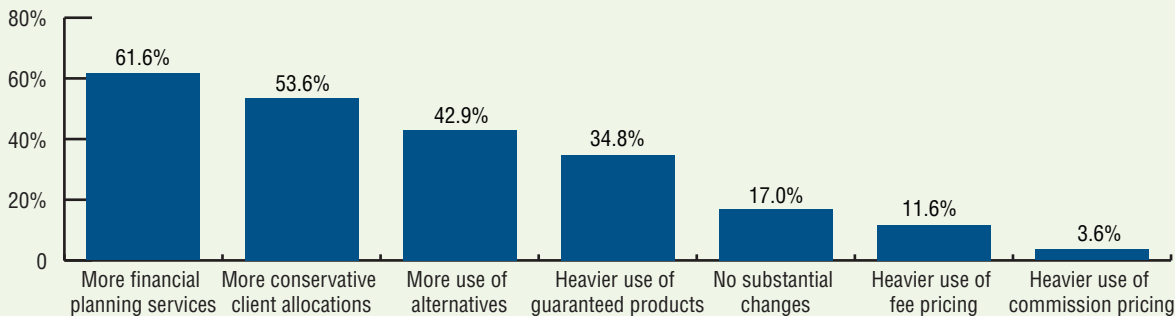
- The majority of wirehouse advisor movement is between wirehouses, despite much-publicized advisor moves to independent channels.
- Wirehouses remain the largest distribution channel, controlling near \$4 trillion and boasting almost 50% marketshare.
- For asset managers, committing to a wirehouse can include selling low-margin products, developing special products, and looking at a broader corporate relationship.
- Managed accounts will continue to be the preferred way of doing business for wirehouse advisors.

Exclusive data in this report:

- Recruiting insight and economics of recruiting packages
- Sizing and projections of each retail channel
- Impact and outlook of recent wirehouse mergers
- Most important advisor considerations when selecting an asset manager
- Effects of pending legislation on wirehouse firms

Sample Report Exhibit: Expected Change to Wirehouse Advisor Practices as a Result of the Bear Market, 3Q 2009

Wirehouse advisors are planning to diversify their service set post-bear market.



Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar

This report helps asset managers and product providers:

- Evaluate the position, challenges, and future outlook of each wirehouse firm
- Better understand functional roles and influence points to maximize distribution opportunities
- Assess wholesaler strategy in light of increased focus on professional buyers
- Bridge the gap between advisors and less experienced wholesalers
- Examine advisors' current retirement income practices

This report helps distributors:

- Segment advisors by practice type, core market, and assets under management
- Compare their practices, staffing, and advisor education to those of wirehouse broker/dealers
- Encourage team structures that allow advisors to specialize and share responsibility
- Understand how market conditions have changed the way advisors construct portfolios
- Identify opportunities for recruiting wirehouse advisors

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Table of contents, exhibit list, user examples, and sample pages are attached

REPORT ROADMAP

1. The Retail Advisory Marketplace
2. Understanding the Wirehouses
3. Growth Strategies in the Wirehouses



State of the Wirehouses

USER SCENARIOS:

The following are examples of how this report can be applied to business planning and strategic decision-making:

Scenario 1: An asset manager currently distributes mutual funds through a wirehouse but has not had much success in attracting assets. They are trying to figure out how to better work with their wirehouse partner. *The Cerulli Report: State of the Wirehouses* answers the following questions:

- How can wholesalers better communicate with more experienced wirehouse advisors?
- What type of wirehouse advisor uses a heavier allocation of mutual funds?
- How can asset managers better work with due diligence teams?
- Who are the most important contacts at a wirehouse firm?

Scenario 2: A regional firm is looking to recruit dissatisfied wirehouse advisors. They are hoping to learn more about wirehouse advisors so they can provide better services for them. *The Cerulli Report: State of the Wirehouses* answers the following questions:

- What do advisors value in a managed account platform?
- What type of non-investment services do advisors provide to their clients?
- What types of advisors are most likely to leave the wirehouse channel?
- How have market conditions changed the way advisors use research?

Scenario 3: A small asset manager has a unique product they think will be well received by the wirehouse channel. They are unsure how to approach wirehouses and need help understanding this channel. *The Cerulli Report: State of the Wirehouses* answers the following questions:

- How have recent mergers and acquisitions changed the culture and structure of wirehouse firms?
- What information does a professional buyer want from the asset manager?
- How do segments of advisors differ in the way they operate their practices, serve their clients, and use products?
- How can an asset manager create an 'echo effect' and have many people at a wirehouse talking about their product?

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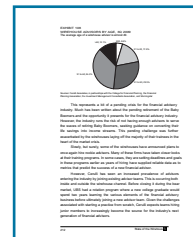
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REPORT SCOPE

State of the Wirehouses, the most recent study in **The Cerulli Report™** series, examines the four New York wirehouses (Bank of America/Merrill Lynch, Morgan Stanley Smith Barney, UBS, and Wells Fargo Advisors/Wachovia Securities) and their affiliated advisors. These firms are under fire due to their role in the recent market crisis and are losing marketshare to independent channels. However, the wirehouses remain the dominant force in retail advisory distribution and employ the most productive advisors in the industry. The report begins with a discussion of how Cerull defines and sizes retail intermediary channels and assesses the opportunity associated with each. The report continues to look at the various functional roles in the wirehouses, how advisors practice, and opportunities for firms looking to address the channel. Finally, an outlook for the future state of the wirehouses and other retail distribution channels is offered.

Report Beneficiaries

Strategies outlined in this report should help various types of firms operating within the financial services industry:

- **Asset Managers:** firms—including mutual fund companies, banks, institutional money managers, insurers, and separate account managers—that distribute their products through the various intermediary channels and wish to understand and address wirehouses and their advisors.
- **Broker/dealers:** firms—including wirehouse, regional broker/dealer, independent broker/dealer, bank broker/dealer, and registered investment advisor firms—that wish to gain a better understanding of the trends shaping this channel and its competitive positioning. Recruiting insight for competitive broker/dealers is offered.
- **Software and service providers:** firms that provide services to independent broker/dealers and their advisors and wish to better understand the challenges in this channel.

Report Roadmap

State of Wirehouses has several sections:

Section 1: The Retail Advisory Marketplace

- **Defining and Sizing Retail Channels** sizes the traditional retail advisory distribution channels both by advisors and assets and discusses the challenges and opportunities for each segment.
- **Examining the Wirehouses** looks at the legacy of the four wirehouses, their recent positioning and challenges, and their future outlook.

Section 2: Understanding the Wirehouses

- **Functional Roles and Influence Points** looks at the various functional roles that exist within wirehouse firms and how product manufacturers can work with them to maximize their distribution opportunities.
- **Advisor Practices and Services** introduces various segmentations of advisor practices. There is a detailed discussion of how wirehouse advisors provide non-investment services to their clients.
- **Investment Product Usage and Outlook** looks at what products wirehouse advisors use, how they choose product partners, how they construct client portfolios, and offers an outlook for a few key products.
- **Managed Account Platforms** looks at recent and future trends regarding fee-based managed account programs within the wirehouses.

Section 3: Growth Strategies in the Wirehouses

- **Wholesaling Strategy** offers strategies for product manufacturers selling into the wirehouses and best practices for working with the various constituencies within these firms.
- **A Future Outlook for the Wirehouses** offers a projection for the wirehouses' future state. Discussion around recruiting strategy and future risks is also provided.

METHODOLOGY

The following analysis of the wirehouse channel relies on a combination of quantitative and qualitative analyses conducted by Cerulli Associates. Our research draws upon our own market insight and proprietary data, as well as our analysis of third-party information sources.

Quantitative Data

A proprietary survey of the population of financial advisors serves as the foundation for identifying industry trends. These surveys include both Cerulli's internal efforts as well as partnerships with the College for Financial Planning, the Financial Planning Association (FPA), the Investment Management Consultants Association (IMCA), Morningstar, and other industry organizations. Broker/dealers can participate in this survey in return for complimentary results; for further information, please contact Cerulli Associates.

Also included are results of Cerulli Associates' surveys of broker/dealers, sales managers, and wholesalers. The survey of wholesalers was conducted in conjunction with Advanced Sales Corporation and the Investment Management Consultants Association (IMCA). Other data was collected from a wide variety of third-party sources and other relevant Cerulli surveys. Firms can also participate in these surveys in return for complimentary results; for further information, please contact Cerulli Associates.

CA administers its surveys through our proprietary data-gathering engine at www.cerullisurveys.com.

Qualitative Research

Qualitative Interviews

As part of our ongoing research initiatives, CA analysts regularly interview key executives from asset management firms and distributors, as well as other industry observers. For the purposes of this survey, CA analysts conducted a number of qualitative conversations with executives at firms involved with the wirehouses. This included sales managers at asset managers and current and former executives at the wirehouses. We also spoke with a number of financial advisors who either work or worked at the wirehouses. All interviews were conducted on a background basis and without attribution. The conversations reinforced the findings of our survey work and provided additional valuable insights reflected in this study.

As with all **Cerulli Reports™**, additional information in this report was obtained from third-party public and nonconfidential sources that Cerulli Associates believes to be reliable, and we have made every reasonable attempt to verify it; however, CA does not guarantee its accuracy or completeness.

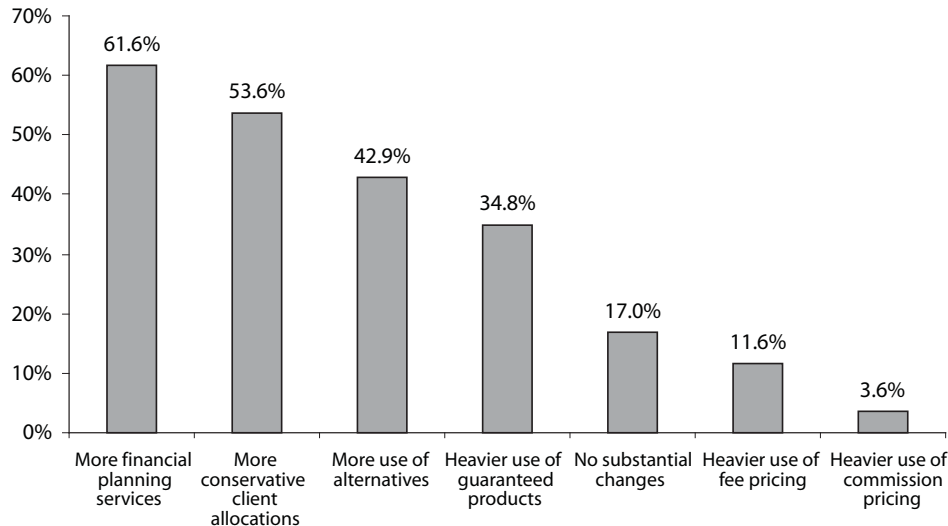
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THE CERULLI REPORT

STATE OF THE WIREHOUSES

Investor dissatisfaction is grounded more in lack of communication from their advisors about why investment performance is poor and not seeing value in other parts of their advisor relationship.

**EXHIBIT 50
EXPECTED CHANGE TO WIREHOUSE ADVISOR PRACTICES AS
A RESULT OF THE BEAR MARKET, 3Q 2009**

Wirehouse advisors are planning to diversify their service set post-bear market.



Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar

There has been a multi-year effort on the part of the financial services industry to shift the focus of investor-advisor relationships away from solely selling investments. This challenge is perhaps steepest in the wirehouses with the legacy image of stockbrokers and a strong capital markets heritage. However, nearly every practicing financial advisor is providing some degree of financial planning services in their practice, evidenced by the near disappearance of the money manager practice type from Cerulli's advisor segmentations. As they deal with the after-effects of the bear market, there is a renewed focus for financial advisors in shifting the focus in their practice away from just investment performance to a more holistic set of services. As we see above, wirehouse advisors listed increased usage of financial planning services as the primary expected change to their practice.

their team, however, despite largely internalizing the portfolio construction process, they might still rely on broker/dealer research as an initial screen or to validate their ideas. Most commonly we will see advisors either start or finish the portfolio construction process with professional buyer research. They will either use the research as a short list from which they will construct portfolios or use this research to validate the client portfolio they have already built.

EXHIBIT 85
FACTORS FOR SELECTING SPECIFIC MANAGED ACCOUNT PROGRAMS BY WIREHOUSE PRACTICE TYPE, 3Q 2009

Money managers and investment planners are more likely to rely on their firm's internal research.

Reason for Choosing a Program	Money Manager/ Investment Planner	Financial Planner	Wealth Manager	All Wirehouse Practices
Research assistance provided by broker/dealer or platform	74.7%	72.4%	64.3%	72.8%
Manager availability	75.9%	67.2%	64.3%	71.5%
Fee structure	73.4%	69.0%	64.3%	70.9%
Advisor freedom	49.4%	63.8%	64.3%	56.3%
Client assets	51.9%	58.6%	64.3%	55.6%
Vehicle availability	39.2%	36.2%	42.9%	38.4%
Marketing material	15.2%	6.9%	0.0%	10.6%
12b-1 fees	10.1%	5.2%	7.1%	7.9%
Other	5.1%	1.7%	0.0%	3.3%

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, and Morningstar

We see these themes echoed in a wide variety of ways. Returning to advisor-reported usage of managed account programs, we see the investment planner/money manager group of advisors express a wide range of opinions around managed account programs, particularly around their reliance on internal research. Investment planners and money manager reported the highest opinions of those programs where they worked off a broker/dealer-generated shortlist or the fully packaged programs where the broker/dealer fully determined the portfolio construction decision. Likewise, we see these same advisors rank broker/dealer research as the most important factor in choosing to use a specific managed account program. There are two lessons for asset managers here. First, investment planners are going to be the most reliant on broker/dealer research. However, they use it in a wide variety of ways, meaning an asset manager must understand exactly how reliant advisors are on their broker/dealer's research. This is why it is so important for asset managers to be delivering high quality and timely competitive intel-