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Heather R. Ettinger, managing partner at Fairport Asset Management.

HighTower At 10

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BY ERIC RASMUSSEN

IN MANY WAYS, HEATHER Ettinger represents the future direction of HighTower. She co-manages Fairport Asset Management, a $1.5 billion RIA, and was already in the RIA space at WealthTrust when it was acquired by HighTower in 2017.

But she had a growth plan and needed a partner with some capital to implement it. Specifically, she wanted to christen a new firm, Luma Wealth Advisors, launched in June 2017 as a separate brand catering to women and acknowledging the reality that females are set to inherit trillions of dollars—as well as the decision-making authority over that money.

Fairport was a legacy of the brokerage firm Ettinger's father founded, Cleveland's Roulston & Co., whose roots go back to the 1960s. She's been working in the women's space, for a number of years in niches such as divorcees, widows, women of inherited wealth, women business owners and breadwinners.

Many advisory firms don't cater to women and often aren't sensitive to their needs, Ettinger says. Because she wanted to focus on building her business that way, a HighTower relationship allowed her to pursue this unique brand and offload chores she didn't want—like technology building and compliance.

The firm helps her vet vendors and network with advisors doing similar things. "I'm on a call with them every other week talking about different strategic partnerships that we're looking at that are very innovative, very different, and never in my career of having a partner like that have I had people who said, 'This is really interesting, let's delve into this, let's think differently' and embrace my disruptor ideas and my vision for how we could build something better." She said other consolidation firms tend to think of businesses like hers as "grow and flip."

HighTower's investment in her firm allowed her to both grow the business organically through partnerships and referrals, but also to pursue strategic tuck-ins and acquisitions of advisors who want to be in the women's space. "Obviously that requires capital," she says. She claims HighTower has a higher proportion of female advisors than the industry in general does.

HighTower can also help her identify and vet potential acquisition targets, she says. In the last year, she says, she's folded in two new advisors with about $150 million in assets. She currently has her own ADV, but the firm is moving under HighTower's she says.

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When HighTower Advisors opened its doors 10 years ago, the firm had a simple business proposition. Its goal was twofold: to give brokers from the wirehouses a place to pursue a conflict-free advice model and to consolidate the fast-growing RIA space, says its founder and CEO Elliot Weissbluth.

Weissbluth found two investors who gave HighTower instant credibility in both the RIA and wirehouse worlds. David Pottruck, former CEO or Charles Schwab & Co., had overseen the nation's largest custodian when the fee-only advisor model exploded in the 1990s. Philip Purcell, former CEO of Morgan Stanley, who had engineered the blue-chip investment bank's merger with Dean Witter to form a retail brokerage colossus rivaling Merrill Lynch.

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—*Elliot Weissbluth*

Other entrepreneurs in the financial business had similar ideas. None were identical, but the others were focused largely on the RIA space. United Capital's Joe Duran looked to acquire dozens of mid-sized RIAs and put them together under one umbrella with a common platform. Focus Financial Partners' Rudy Adolf sought to buy majority stakes in large RIAs but let them continue to run their businesses independently. Fiduciary Network's Mark Hurley set out to acquire minority stakes in larger RIAs and provide transition financing so the next generation of young partners could buy out the founders. After the financial crisis, Dynasty Wealth Partners' Shirl Penney began providing a major alternative for wirehouse brokers.

HighTower's plan was to create an independent platform leveraging hundreds of RIAs and wirehouse brokers looking to migrate their businesses towards a fiduciary model. By pooling many advisors under one big organization, Weissbluth wanted to offer them the best infrastructure support of big Wall Street firms in areas like research and technology.

This would spur the clearing/custody houses like Schwab, Fidelity and Pershing to compete for its advisors' business. "As a result of that competition, our clients would get the benefit of the big firms fighting," Weissbluth says. "We also set out to do all the front-, middle- and the back-office services that an RIA would need."

His other priorities were to create a culture of advisors for advisors, build a national brand and create an open architecture platform free from proprietary products. Today if a HighTower advisor and her clients are interested in investing in an asset class, the firm's research department will conduct an analysis and present several options. The advisor can act upon the recommendations or pursue other options as she and her client choose.

Weissbluth says that the firm has never really deviated from the original plan. But when the financial crisis rocked the global economy in 2008, HighTower was perfectly positioned to capitalize on the upheaval. Its early success came from wirehouse broker acquisitions at a time when the names of storied Wall Street firms were suddenly tarnished. Brokers' clients were watching the equity markets drop more than 50%, and firms like Merrill Lynch and Morgan Stanley were announcing billion-dollar writedowns of subprime mortgages on a monthly basis, exacerbating the crisis.

"We were growing in 2008 and 2009, [and] the credit crisis happened, and so you had a flurry of [wirehouse] advisors that really wanted to go independent, and because the ACAT system significantly streamlined the movement of assets, we could grow very rapidly and efficiently lifting out wirehouse teams," Weissbluth explains.

Indeed, in the years immediately following the financial crisis HighTower became known as the go-to, lift-out specialist for corner-office brokerage teams who felt more frustrated than ever at national wirehouses with impaired reputations laboring under TARP restrictions. But the original blueprint always had the firm playing in both spaces, he says.

HighTower has since grown through acquisitions into a $55 billion AUM powerhouse with a voracious appetite. Weissbluth said the firm expanded the model somewhat in 2013, offering a partnering platform in which it could offer its back-office services for firms that didn't want to sell outright or build their own internal platform.

Beyond sheer assets, HighTower has created an operation with 209 advisors on 92 teams with 76 offices in 33 states. It has about 600 employees. While many of the 209 advisors are employees, the ratio of employees to advisors says something about the investment the firm has made on various service offerings.

The costs associated with this high-service, high-touch business model are significant. Different advisors access services at various levels, but most pay more than 10% of their revenues to HighTower for services that would be expensive for mid-sized RIAs to replicate, sources say.

In the last year HighTower had made significant acquisitions in the RIA and trust services worlds. Last year, HighTower emerged as the winning bidder for WealthTrust, perhaps the first consolidator in the RIA space. WealthTrust ran into financial trouble during the financial crisis and was owned by its creditors. No purchase price was reported, but it is believed that HighTower paid more than $60 million.

After years of speculation about how HighTower would finally pay off its longtime investors, including IPO rumors, the firm sold part of itself to private equity firm Thomas H. Lee last November—a recapitalization that allowed it to pay off old investors and obtain $100 million in growth capital that may be used for new acquisitions.

In April, it did just that, buying Salient Private Client in Houston, which brought in $4.5 billion in client assets as well as a trust company. The deal provided HighTower with a bigger footprint in Texas as well as more high-net-worth clients, says Weissbluth.

"I like the fact that I can buy all the research, buy-side, sell-side and formulate an opinion that suits the clients."
—Laurie Kamhi

He also stresses that an IPO has never been on the firm's agenda—suggesting that the rumor has always existed only in the media echo chamber. However, many advisors at various consolidators, most notably Focus Financial, say the lure of a potential IPO was used as an inducement for firms to affiliate or sell themselves.

The Thomas Lee purchase has led to some changes at the top. Pottruck, the chairman of the board of directors, announced he was leaving the firm in April. He was recently replaced by Thomas H. Lee executive advisor Gurinder S. Ahluwalia.

Advisors who have made the jump to HighTower are diverse in structure and have a variegated set of reasons for pitching tent under the firm's flag. They say that HighTower's business model is working for them, whether the company is offering them a brand reputation as a client-centered business, taking back-office chores off their hands, or giving them the autonomy to run their practices their own way—unfettered by squeamish brokerages that don't like unconventional investments, youthful internet marketing campaigns or controversial opinions.

"We had a pretty long leash at Morgan Stanley, as far as things go, based on the politics of where I was on the totem pole. But there was no way the leash was getting any longer."
—David Bahnsen

"Recap was a major piece of [the Thomas H. Lee deal]. Growth capital was a major piece of it," Weissbluth told *Financial Advisor* at the time. "The reason why we were attracted to THL is that they put a proposal that included both of our objectives, which is to recapitalize our internal shareholder base and provide growth capital. And then we immediately went out into the marketplace and deployed that into Salient."

David Bahnsen, a former Morgan Stanley advisor, decided to go independent and join HighTower in 2015. His firm now has $1.5 billion in assets. "Ours was a business model that required a great deal of freedom—thought freedom," Bahnsen says. "We create an extraordinary amount of content."

Bahnsen is not only an advisor but an author and

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sometime pundit who contributes to the *National Review* and appears on Fox Business. His desire to speak freely and boldly about investments and politics is part of the brand he wants to sell and the way he wants to communicate with clients. That wasn't practical at Morgan.

"We had a pretty long leash at Morgan Stanley, as far as things go, based on the politics of where I was on the totem pole," he explains. "But there was no way the leash was getting any longer."

His writing and speaking activities on economics and politics are a major part of his business. "The ethos of HighTower was one that encouraged that kind of free articulation of a point of view," he says.

"We wanted to be able to engage with a client ... and not be burdened with a set of rules that might have managed to the lowest common denominator."
—Moss Crosby

The wirehouses have a good reason to avoid controversy and boat-rocking. "A lot of times, they would censor me in terms of things I want to say about the Fed, for example. Well I don't blame them. The Fed was their regulator and they had a pretty cozy relationship with the Fed, where in this world, those types of things you just don't have to think about. I can be right, I can be wrong, but it's my call to make."

Morgan Stanley also limited the way he could run his organization. "We had an attitude in our business—people I wanted to hire, people I wanted to fire, roles I wanted people to play, titles I wanted to give them, compensation I wanted to give them," he says. Morgan's size was the symptom of the problem, in his view. If two advisors are working in a company with thousands, the model for one has to default to the lowest common denominator, he says.

Bahnsen says he didn't simply launch his own independent RIA because he became convinced HighTower would be able to provide resources, technology and infrastructure. The challenges of running a new firm were sufficient without having to build a back office, he says.

The technology bench was also a selling point. If he'd gone out on his own, "I'd have to pay attention to technology a lot more than I do," he says.

Chris Jones, at Irongate Partners, came to HighTower in November 2016, bringing along $225 million or so in assets, with a familiar story: His firm's growth had stalled.

"We were our own ADV, an SEC-registered firm, and then independent since our launch in October 2004. We had had a wonderful growth trajectory and had really hit this interesting weird almost stall, if you will. A step forward, a step back," Jones says. "We were seeking a partner to help us take that next step because we had gotten to the point of being in the business of running a business versus continuing to be in the business of wealth management."

Irongate had tried to do everything itself until then—from ordering the paper and pens it bought to running its own compliance department. He says that during the last full year under the firm's own ADV, legal costs and compliance costs, including staff time and effort, cost the firm about $100,000. That put the cost of outsourcing most of these tasks to HighTower, while hardly cheap, in perspective."Because you have to do everything. You have to have check logs, you have to have trade blotters ... you have to look over random trades; you have to look over random accounts," Jones says.

These expenses aren't getting any cheaper. "This industry has changed and continues to change so dramatically and so quickly that we were really doing our clients but also ourselves a disservice by trying to be that self-contained ecosystem versus partnering with someone that could provide some of that leadership and allow us to get back to some of the things that we do best, which is serving as our clients' personal CFO," Jones explains.

The Alabama firm Twickenham Wealth Advisors came over to HighTower from Morgan Stanley with $500 million in 2013, says one of its team members, Moss Crosby, in part because it needed to loosen the handcuffs a little when talking with clients. "We wanted to engage a client on something that was important for them, whether it was a real estate transaction or some trust work or a specific private equity investment that wasn't on the platform," Crosby says. "We wanted to be able to engage with a client ... and not be burdened with a set of rules that might have managed to the lowest common denominator."

Laurie Kamhi with LCK Wealth Management came over to HighTower in November 2013 after 20 years at

Merrill Lynch. She says the biggest reason was that she was looking for Next Gen and millennial clients, and they were looking for a new model—advice rather than brokerage. She had started her career dealing with corporate treasuries and institutions and worked backwards to start dealing with their executives, people who would transfer their wealth and seize on liquidity events.

Those executives would eventually transfer their wealth to their children. More than half her clients worked in some facet of the media business—broadcasting, magazine publishing, radio, advertising, online publishers—"and being in the media world, you end up in the technology world. A lot of traditional media became what we call digital technology." She helped a lot of these executives go public, go through takeovers, handle illiquid company positions, etc.

Their kids had naturally followed that path through the business, told their friends and became a nice ecosystem of referrals for Kamhi."I saw HighTower trying to build an open model, fee for advice—the subscription model of 'I will pay for what you deliver' is in every walk of life right now," she explains.

At Merrill, she says, she faced skepticism from her clients over who she was serving—them or the bank she worked for. HighTower was agnostic about where the banking was done and where the investment research was done. "I like the fact that I can buy all the research, buy-side, sell-side and formulate an opinion that suits the clients." Younger people do a lot of homework, but face more noise. "More information makes them feel more informed, but it also confuses them, and I think they need somebody who has the time to drill down to what's important to them."

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—Chris Jones

Peter J. Klein was a veteran of UBS for almost 20 years when he joined HighTower in 2013 under the name of his firm Klein Wealth Management with 265 client relationships and $225 million in AUM (now at about $300 million). He said at UBS he was trying to build a fee-based, consultative practice, but said that the wirehouses were not fully embracing the fiduciary model.

He said that clients always understood his fiduciary role, but knew that UBS could get in the way of that. Also, at HighTower he was no longer working with the confines of what UBS middle management wanted, and he could think as an entrepreneur. "Part of my growth has been in the niche field of philanthropic and charitable planning, so coming here I've put more effort behind that. HighTower was helpful and right there with me in developing marketing and relationships and helping continue to move that forward and that has resonated." John Wiley & Sons had asked him to write a book on philanthropic giving, *A Passion For Giving*, which allowed him a platform for his niche practice of hooking people up with donor-advised funds and foundations. A bigger firm would throw up more hurdles for marketing that kind of practice, he said. The HighTower model also allows him to talk with other advisors in the network about his practice.

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"This is a very collegial atmosphere that's very refreshing in that regard," Klein says. "It's the difference between a big firm and a more entrepreneurial firm. One's more nimble." FA

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