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# Independent advisers leaving wirehouses, taking more marketshare

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*Matthew Papazian, Ross Fox and Marti Awad are three of the four founding partners of Cardan Capital Partners*.

When financial adviser Marti Awad sits down with a client, she has autonomy in her work. She doesn't feel pressure to sell products to her client that they don't want or need. And she acts as a fiduciary, meaning she puts her client's interests first.

For all those reasons, she joined three other financial advisers and walked out of the big New York-based Bank of America Merrill Lynch a year and a half ago to start their own firm, Cardan Capital Partners in Denver. The four partners -- Awad, Matthew Papazian, Ross Fox and Sarah Keys -- took with them about $640 million in assets under management.

"Merrill Lynch is a huge organization with (about) 15,000 financial advisers; they have to gear the services offered to the whole range – the skill set – of more than 15,000 people," Awad said. "We like to work more closely with our clients; we like to provide more analysis that we would not have been able to provide at Merrill Lynch."

Since the financial crisis of 2008-2009, financial advisers have been leaving the big wirehouses for independent firms or to start their own firms, not in droves, but in substantial numbers – enough to take a bigger slice of the market share pie.

Global analytics firm Cerulli Associates says the independent registered investments advisers group grew assets in 2015 at a faster rate than any other group, including the wirehouses. Cerulli projects that registered independent advisers and a hybrid RIA combined will increase their asset market share from 23 percent in 2015 to 28 percent in 2020. In 2015, wirehouse asset base shrank by 1.9 percent.

"While wirehouses still hold a substantial share of assets, RIAs are the growth story," said Kenton Shirk, associate director at Cerulli.

In recent years, technology has made it much easier to break from the big firm than a decade ago, said Matt Papazian, one of the four founding partners at Cardan Capital Partners, located in Cherry Creek.

"But the primary reason that we broke is that we wanted to be able to provide purely independent advice that was covered by the fiduciary standard," he said.

Clients, he said, have become more aware of the difference between the fiduciary and suitability standards. And things got sticky at the wirehouse when he had to inform clients that he was not technically a fiduciary.

**New fiduciary rule raises the bar**

Last year the Department of Labor set a new fiduciary rule for all retirement investment advisers, which starting in June requires brokers and registered investment advisers to put their clients' interests ahead of their own profits. It raises the bar from the "suitability standard," which meant that broker dealers and advisers ensured that investments were suitable for a client.

Now, they must follow a stricter rule: avoiding conflicts of interest and operating in full transparency. The fiduciary rule is aimed at curbing billions of dollars in fees paid annually by Americans trying to save for retirement. The U.S. Department of Labor, on its website, said the new rules are directed at what the Obama Administration considered a business model that takes retirement money away from Americans through backdoor payments and hidden fees.

Papazian said Cardan Capital Partners is a fiduciary on all investment services, not just retirement.

"The reality is now our agenda is taking care of our clients," he said. "Whereas the bigger firms, they do have an implicit agenda, and I think clients get that even if they don't verbalize it."

Papazian believes the smaller, independent firms, like his, attract independent thinkers. Their sweet spot is clients who are entrepreneurs, C-level executives, foundations and non-profits with roughly between $3.5 million to tens of millions in assets.

"Before we broke — the people we talked to, and I did not believe this for one second, I was skeptical – said you will get more referrals once you are out of the big firm. And that is 100 percent true."

It just might be the fiduciary rule change that touches off a second wave of advisers fleeing big wirehouses, said Fred Taylor, president and co-founder of Denver-based Northstar Investment Advisors LLC.

He left the big wirehouse to form his own firm 22 years ago. Now, he could see increased competition.

A change in the fiduciary rule also means a change in the fee structure away from commissions inside the wirehouses. And that change may provoke advisers to bust out on their own or join independent firms for the specific reason that they will be fiduciaries.

They will want to move to an asset-based model, and be paid a percentage of the assets under management, Taylor said.

“They might be thinking; how can I make it now? I’ll start my own firm and put the interests of clients first as a fiduciary,” Taylor said.

“Wirehouses are still much bigger – there are more brokers,” he said. “But the trend is moving to IRA space based on compensation at warehouses.”

Merrill Lynch has had no trouble replacing the advisers who have left. In 2015, the company reported a 3 percent increase in financial advisers and in 2016, they were up 1 percent.

Leaving the comfort – and brand – of the big firm was no easy decision, Papazian said.

“It was nerve-racking,” Papazian said. “The first six months were nerve-racking – we were getting all of our systems in place and making sure our clients were going to come over – the majority of our clients came over.”