

InvestmentNews

Smith Barney's hard line costs it some veterans

By Brooke Southall
November 29, 2004; page 1

SAN FRANCISCO - Smith Barney has once again refused to spin off an elite corps of its financial advisers who beseeched the firm to put them into a separate division - but this time, the New York-based wirehouse is paying a price. Some of the veteran Smith Barney financial advisers - denied the greater autonomy they seek from their broker-dealer - have recently left, taking billions of dollars in client assets with them.

They may also have planted a seed with like-minded financial advisers, encouraging them to look toward their own independence.

The departing advisers said they have been asking Smith Barney since 1993 to form a distinct unit that would create a Chinese wall thick enough that they can tell clients definitively that there are no conflicts of interest with the broker-dealer.

Michael J. Francis, president of Francis Investment Counsel LLC in Hartland, Wis., who had \$2 billion under management when he left Smith Barney in April, said that this time, he wasn't willing to take no for an answer from Smith Barney.

No choice

"I felt that I didn't have a choice but to leave Smith Barney," he said.

The more intense scrutiny being paid to both plan sponsors and to investment firms like his is forcing Mr. Francis to proactively seek better ways to render squeaky-clean advice.

"Smith Barney is getting remuneration from mutual fund companies that I'm recommending to the plans," he said. "Therein lies the problem."

Mr. Francis said it became a problem for him that his broker-dealer had the appearance of conflicts of interest as defined by the Employee Retirement Income Security Act at a time when New York Attorney General Eliot L. Spitzer and a re-energized Securities and Exchange Commission were "witch hunting."

James Stoker, principal with Waterstreet

Investment Consultants LLC in Austin, Texas, said he left Smith Barney on Sept. 17 with more than \$1 billion of retirement assets because his association with the broker-dealer was making his business unravel.

"We lost a couple of long-term clients who cited these conflicts of interest with Smith Barney," he said.

Kim Atwater, a spokeswoman for Smith Barney, said her company doesn't comment on employees who have departed.

In an earlier InvestmentNews interview, Paul Hatch, New York-based director of managed accounts at Smith Barney and head of its Consulting Group in Wilmington, Del., downplayed advisers' fiduciary concerns, saying that they had been raising them for some time.

Former Smith Barney employees and industry consultants said that the departures by some of the firm's most loyal, profitable and high-profile financial advisers is getting attention at the highest corporate levels.

According to one former Consulting Group executive, there are as many as 100 of these elite advisers to retirement plans who combined have as much as \$100 billion under management.

According to insiders, the request for a spinoff was taken to Sallie Krawcheck, who until Nov. 1 was Smith Barney's chief executive, and she wouldn't follow through on it.

Mr. Stoker said that even she didn't have the power to shift tens of billions of dollars out from under branch managers whose compensation is so closely linked to asset levels.

Ms. Atwater declined to comment on this issue.

One Smith Barney concern, consultants said, is that retirement advisers who may be contemplating departure work under the same group as the regular stockbrokers and fraternize with them regularly as members of the Association of Professional Investment Consultants, a Washington-based independent association that comprises Smith Barney advisers.

"Rumor has it that lots of [other Smith Barney financial advisers] are looking at leaving," Mr. Francis said.

According to Stephen C. Winks, principal with SrConsultant.com in Richmond, Va., one reason for that is that Mr. Stoker was seen as a key role model who captivated APIC audiences by speaking about advancing toward best-practices perfection.

"[Smith Barney brokers] begin to ask, 'Can I be as



good professionally - always trying to do the

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right thing as much as Jim Stoker - and stay with the firm?" Mr. Winks said. Indeed, Bevin Crodian, former director of fiduciary services at the Consulting Group, said that his former employer and all the other New York-based wirehouses are being put in the untenable position of trying to show that the appearance of conflict isn't real. "Now they're in the position where they're trying to prove a negative - that there's not a payoff here," he said.

Indeed, Mr. Stoker said that Smith Barney would have a tough time disproving the conflicts his clients perceive. For example, he said, he couldn't always provide customers with the best separate-accounts manager, because the firm chose not to research managers if they lacked the capacity to make it economical.

Mr. Stoker gave another example relating to alternative investments.

"To find a good hedge-fund-of-funds manager, you need research on all the layers," he said. "You can't comply with that so [wirehouse] brokers have to avoid it."

The irony is that neither Mr. Francis nor Mr. Stoker has hard feelings toward Smith Barney. Mr. Francis said that he might even be willing to return to the firm were it to create an arm's-length spinoff group.

He said he initially lost a big chunk of his \$2 billion in assets to plan sponsors who felt safer staying with Smith Barney despite potential conflicts. But Mr. Francis said he is now back up to \$1.5 billion under management, and he is closing fast on his high-water mark.

"People are very receptive to the whole independence issue," he said.