Investment ADVISOR

Standing Tall

For all that's changed in investment counseling, much is still the same

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For as long as there have been things to invest in, from seeds and livestock to railroads and cars, from the telephone and electric utilities to the internet, there have been investors who have had good advice, and those who have not. When you look at the history of investing, and advice, there seems to be a correlation between the amount of success individual investors have had—or not—and the amount of new investment-related legislation and regulation. Just look at the tidal wave of new regulation that swept across the investment landscape over the last five years post "the bubble." But what set the stage for the Investment Advisers Act of 1940?

It helps to review some of the events from early in the 20th century to gain a bit of perspective. Long before the 1929 Crash and Great Depression, during which the initial U.S. investment statutes and regulations were enacted, including the Securities Act of 1933, the Glass-Steagall Act in 1933, separating banks and insurance companies from brokers, and the 1934 Securities Exchange Act, which created SEC, the Investment Advisers Act of 1940, and the Investment Company Act of 1940, there were other major events that shaped the history of investment advice.

The 16th Amendment to the United States Constitution was ratified in 1913, allowing Congress to once again levy a tax on personal income. One has to wonder if there was another, more important catalyst for the birth of the advisory profession than the revival of the income tax. Right around that time, a young broker on the West coast, and an investment banker on the East coast took different paths to a similar philosophy: both felt there might be another way to guide investors that would be free from the inevitable conflict of having to sell to their customers the investment products underwritten or in inventory at their respective firms. Instead they would counsel them, providing advice on a fiduciary basis, for a fee.

In 1911 Arthur M. Clifford opened his own Los Angeles-based brokerage firm after spending several years as a broker and analyst at a brokerage company in St. Louis. Then in 1915, the widow of the creator of Fletcher's Castoria, Mrs. Robert Bliss, asked him to review her $30 million in assets, and A.M. Clifford started calling himself an "Investment Counselor and Financial Analyst," according to the *History of Clifford Associates*, written in 1995 by A.M. Clifford II, which claims Clifford decided in 1921 to "serve exclusively as an investment counselor and no longer act as a broker/dealer. Thus began the investment counsel profession as we know it today." The firm still exists in Pasadena, California, as Clifford Associates.

Meanwhile back on the East Coast, a young investment banker named Theodore Scudder was mulling a similar idea, that of "leaving investment banking business and starting this whole new revolutionary concept where instead of selling products you're selling advice. To me, that's the beginning of the investment advisor business," says David Tittsworth, executive director of the Washington, D.C.-based Investment Adviser Association. Scudder decided he wanted to sell advice and started charging a fee based on assets under management, and formed Scudder Stevens & Clark in 1919.

Scudder Stevens & Clark got into the no-load mutual fund business early, with the Scudder Income Fund, in 1928.

Originally, mutual funds were used “grudgingly” by early investment counselors for accounts that did not meet the minimums necessary for an investment counsel relationship, according to Paul Elmlinger, who was at Scudder Stevens & Clark from 1988 to 2002. Now Senior Associate General Counsel at Franklin Templeton in New York, Elmlinger remembers the feeling of a partnership culture at Scudder when he went to work there: “the halls of Scudder were like a white-shoe law firm, collegial, a sense of duty, and an honorable profession.” Though well known for mutual funds now, the firm’s real business then was investment counsel. Until the 1980s, marketing was just not done, “we’re fiduciaries, we don’t sell our services,” was the unspoken credo. Clients were acquired strictly by word of mouth.

In *The History of Scudder Stevens & Clark*, a book self-published for the firm’s 75th anniversary in 1994, a chart, “Formation of Investment Counsel Firms 1921-1938,” lists a total of 103 firms “exclusively practicing investment counsel” during those early years before the ’40 Act, adding that “many more companies engage in this work in addition to other kinds of financial businesses.”

In another book, *A Brief History of the Investment Counsel Association of America*, an appendix lists a census of the early investment counsel firms along with the year they were established. The list includes A.M. Clifford, and Scudder, which had $200 billion under management when it was purchased by Zurich Group in 1997. Scudder was subsequently bought by Deutsche Bank in 2002. There were a few other familiar names: Brundage, Story & Rose, 1932; Loomis, Sayles & Co., 1925; T. Rowe Price, Jr. & Associates, 1937; Stein Roe, 1932, though only a few remain independent.

The More Things Change…

Though most of the names on that census are now owned by other entities or have gone out of business, investment counselors who worked with some of them went on to found their own investment counsel firms. Louis deK. Belden is one of those. Belden started his investment counsel career—one that that spans more than 50 years—at the fabled New York investment counsel firm Brundage Story & Rose in 1952. He started Belden and Associates in 1966, in San Francisco, sold it to The Boston Company in the 1990s, and eventually bought it back again. He’s seen some changes in the profession over the last 50-odd years: “We pay a lot more attention to the SEC than we did then. That’s major. We’ve expanded the range of our investment possibilities enormously. When we started out I don’t think we ever used over-the-counter stocks, now we buy as much on Nasdaq as not, [as well as] foreign investments, which we would not have considered 50 years ago.” He adds that the approach to research is different as well. “The research effort has been greatly expanded, and become much more professional in its approach to the investment process.”

Something else that has changed over the years is fees, notes Belden, “When I started out, the rule of thumb, which was established by Scudder in 1919 when it started, was to charge half of one percent, and never to change that figure. The more assets you put under management, the more income you derived from it. But with the inflationary pressures of the post-war period that standard was abandoned slowly, and now that figure is more than twice that. A lot of advisors charge more [than 1%] either because they have specific products or because they can get it, and that’s been necessary to offset what are mounting costs of operation: the cost of purchased research has gone way up,” along with, he says, the cost of housing, salaries, and producing reports for clients. Belden’s fees start at 1%. “Our clients have been very gracious about accepting those arguments and we’ve never had much trouble with fees.”

The More They Stay the Same

Everyone interviewed for this article agreed that what hasn’t changed much is the client’s needs. However, Belden says that “our relationship has become more formal, because the SEC requires we have a written contract with them, which we never used to have. I think we remain as close to our clients as ever and recognize that just being there is every bit as important as giving good investment advice.”

The one firm that has been in the investment counsel business since 1915, Clifford Associates, echoes that sentiment. “We call ourselves investment counselors, and we really mean that,” says Clifford Associates’ principal Maye Albanez. “We’re not just a money management firm,” a direction in which, she says, a lot of investment advisors have gone. “Investment counseling is concerned with much more than just beating the market from day-to-day. We’re looking at preserving the wealth of our clients over generations.” That can include estate and tax strategies. “There may be a need to transfer some of that wealth to other generations in order to try to avoid as much of that inheritance tax as possible. We consider what their tax situation is without pretending to be accountants or attorneys.”

Would you call it wealth management? “Absolutely, it’s always been about wealth management and all the aspects of life

that wealth influences and impacts," says Kathleen Gilmore, another principal of Clifford Associates. Instead of having all the different expertise in house, as many new wealth management firms do, Gilmore says Clifford Associates is the "quarterback of the financial team" and recommends "best of breed" outside experts based on what clients need.

Another way the investment advisory business has changed is the price of admission, or rather the amount of assets necessary to get access to advice. It's evolved through use of separately managed accounts or wrap fee programs so that by the early 1990s, "not merely 'the very wealthy' but simply 'the wealthy' had access to those portfolio managers through those managed accounts, that was a significant development more towards retail money management," explains SEC Associate Director, Division of Investment Management Robert E. Plaze.

"Basically the financial planning industry broke away from the brokerage industry, as originally did the money management industry." Now banks, insurance companies, and brokerage firms are all essentially competing for the same customers. "The issue and debate is over how they should be regulated, because you have financial services statutes that were created 50 and 60 years ago when these services and these industries were quite distinct; most of the services didn't even exist," Plaze argues. "There's a perceived need to protect customers—provide similar protections where they're provided similar services. How do you go about doing that? That's the biggest challenge."

Does History Repeat?

As for what's next for the investment advisory industry, you have to wonder, with so many of the larger advisors being gobbled up by banks, brokerage houses, or insurance companies, will the independent spirit of investment advisors rise again? Maybe. Franklin Templeton's Elmlinger cites the fairly young but sizeable Silvercrest Asset Management Group, based in New York and Charlottesville, Virginia, with $6.8 billion in assets under management. The firm is a startup founded in 2002 by G. Moffett Cochran and Martin Jaffe, both former DLJ Asset Management top executives who ended up at Credit Suisse Asset Management after Credit Suisse bought DLJ Asset Management in 2000. Is this the start of a new wave of investment advisor independence? Elmlinger says it could be. "There's going to be an ongoing demand for independent investment advisors."

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