

Moving Up-Market

Is raising account minimums the right thing to do?

BY ED MCCARTHY

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P rivate wealth advisers, in what appears to be an accelerating trend, are raising their account minimums for new clients. Two main factors are driving this development. The first is affluence. By one estimate, almost three million U. S. families have more than US\$1 million in financial assets; consequently, many advisers are experiencing greater demand for their services and can afford to be selective about new clients. The second major factor is operating leverage. Most firms' variable expenses don't increase in direct proportion to account size. Thus, serving a single US\$4 million account may be more profitable than serving two accounts of US\$2 million each—even if the single US\$4 million account pays a reduced asset management rate because of its larger size.

On close examination, however, the behavior of asset managers is more complex than simply raising minimum account sizes. Some advisers are choosing to accommodate existing clients whose accounts fall below the new minimum, and others are trying to push smaller clients out the door. The decision to raise minimums must take into account a manager's business model, management style, and relationships with clients. Results can range from a narrowing focus to an expanded business model.

Motivations

Capacity constraints are frequently cited [by large firms] as a reason to raise minimums. Small firms face the same constraint and are likely to encounter their capacity limits more quickly than large firms do. David Blain, CFA, owner of D.L. Blain & Company in New Bern, NC, works with 40 families and manages approximately US\$60 million with a staff of three, including himself. He has been unable to attract other advisers to work with him in his small town, so he is the sole adviser in the firm. Blain increased his minimum from US\$250,000 to US\$500,000 at the beginning of 2007 after analyzing his revenues and capacity. "I looked at what we charge and the revenue that generates and then all the services that we provide," he says. "We do all the financial planning, and other than an initial planning fee, in subsequent years, we don't charge extra for it. It just was not profitable with our current structure to service those smaller clients."