SNOWDEN LANE PARTNERS

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Snowden Lane Perspectives: Why Snowden Lane Partners Is Bullish on International Clients

Global Banks Retrenchment Spells Boutique Opportunity

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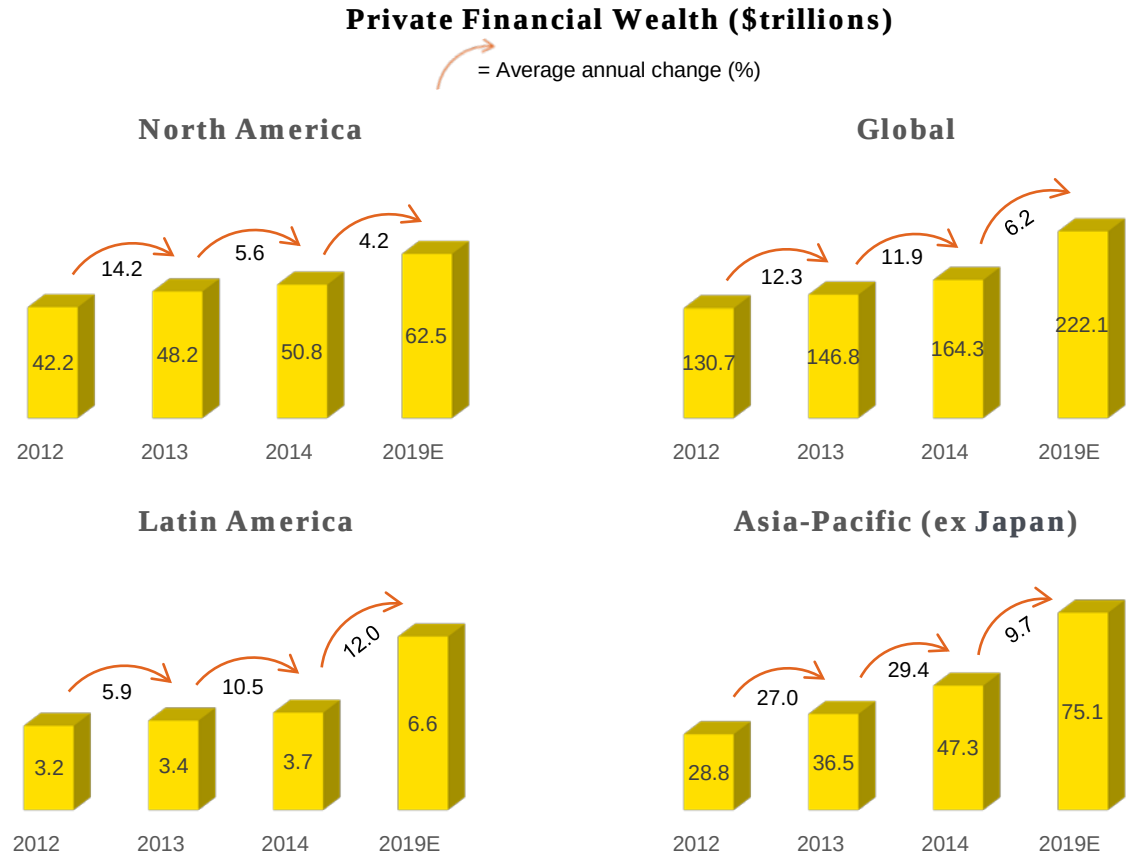
This Perspectives piece is being published concurrently with the opening of our San Diego office that will principally serve non-resident clients (NRCs) – a version of this article appears on WealthManagement.com on December 4, 2015.

It's hard to believe that *a decade* has passed since Thomas Friedman penned *The World is Flat*. And, notwithstanding today's geo-political challenges, the world is getting flatter every day.

Today, more wealthy individuals are crossing borders than ever before. Families outside the U.S. have increasing connections with the U.S. Their children go to college here. They have residences here. Their family businesses cross borders and intersect with the U.S. Many invest in our markets, and frequently estate plans involve residents here.

For many years now, with a few regional interruptions, wealth outside the U.S. has been increasing at a faster pace than within it. According to BCG's 2015 Global Wealth Report, by 2019, Latin American and Asia Pacific wealth growth is projected to increase by roughly 12% and 10% respectively, versus around 4% for North America. The following chart is instructive:



In spite of this abundantly clear data, however, many global banks are pulling out of the cross border wealth management business. In 2012, Bank of America sold Merrill Lynch's international private client business to Julius Baer. In July of this year, Merrill Lynch announced $2.5 million account minimums for new clients in "core" countries and $5 million account minimums for new clients in 21 other countries. In March, RBC Wealth Management decided to close its International Advisory Group. According to the Wall Street Journal, the bank's exit was a result of several global money-laundering probes. Morgan Stanley has repeatedly increased account minimums for international accounts from $100,000 to $250,000 and now $500,000, as of August. U.K. and European banks are reducing their international operations as well. In 2012, Barclays closed its Argentina office, then its only business in Latin America. Deutsche Bank, after posting a $6.5 billion loss in Q3 and reporting plans to lay off 35,000 employees, also is ceasing operations in Mexico, Chile, Denmark and Finland. Barclays, Credit Suisse and Deutsche Bank are unloading their U.S. private client businesses (to Stifel Financial, Wells Fargo and Raymond James, respectively).

So why are so many of the largest banks in the world retrenching from cross border business, when the world is flatter, and wealthier, than ever?

One reason is that for large banks, wealth management is a scale business; it's not profitable in markets they cannot dominate with size. Unfortunately for clients around the world, "post-crisis" global banks are so big now, and required to be so heavily capitalized, that it is difficult to generate requisite returns covering markets where they cannot achieve massive scale. They prefer to focus on markets closer to home, where they can do that.

Another reason is the regulatory landscape is more complex and difficult for large, layered bureaucracies to navigate. Many large firms have experienced difficult anti-money laundering and other cross-border sales practice issues. Big institutions can also be political and regulatory targets in foreign countries.

Certainly though, the large firms are aware of the growing pool of wealth abroad. In fact, some are trying to stay in the international advisory business, at least partially — by creating specialized teams that mimic three characteristics of a boutique: *small, focused, experienced*. Wells Fargo formed a financial adviser group called International Client Investment Services, which specializes in serving NRCs, and Merrill Lynch has announced similar plans. In August, Morgan Stanley began whittling down its NRC business so only 400 of its U.S.-based advisors can work with NRCs. Unfortunately, "boutique units" inside goliath financial firms do not usually fare well as they are low on the order of priorities.

In light of the "dis-economies of scale" at work in the large firms, we see a significant opportunity for a select specialty boutique. As mentioned, the enabling characteristics are:

Small

Boutiques don't need massive scale to be profitable. Simply put, high quality, small teams can operate with greater speed, agility and effectiveness than large ones – with more efficient cost structures and with a lower profile. The boutique model combines the best of "big" - that is safe custody of client assets at a large, secure custodian (in our case Pershing / BNY Mellon) - with the best of "small," a trusted advisor providing customized advice and investment solutions. Boutique advisors can work freely with clients' other professional advisors and can respond to and customize solutions for clients faster and better and away from the layered bureaucracy that characterizes large banks. Boutiques also don't have teams of advisors competing for clients in a given market, or locally based affiliates that raise the firm's, the advisor's and the clients' profile and risk.

And, for the right specialty boutique, small is longer a barrier to having a robust, state of the art, platform. Snowden Lane carefully developed its platform to include multi-currency capabilities, access to international borrowing/lending, FX solutions, and complex international trust and estate planning capabilities, including multi-jurisdictional overlays.

Arguably, small size also benefits internal controls around things like anti-money laundering, foreign corrupt practices, and sales practices. More senior oversight is closer to the business, and with the relatively smaller number of financial advisors, the boutique is actually a more risk-averse home for teams with NRCs.

Focused

Because boutiques are small, and because advisors and leadership are owners, they tend to operate with greater focus. Wealth advisory is our only business. Decisions to enter markets are not taken lightly, and decisions to leave are unlikely where partners' relationships and business interests are at stake. Boutique advisors don't worry about their business being arbitrarily shut down because it doesn't meet the scale threshold of a large institution. As noted above, Snowden Lane's focus on NRC's has enabled construction of a customized platform for advisors and clients alike.

Wealth advisors in boutiques can focus on what they do best - providing superior advice and solutions to their clients, and less on navigating the labyrinth bureaucracy of the big bank. Their clients are not subject to cross selling of bank and proprietary products. As banks continue to withdraw from the international scene, financial advisers with years of experience serving NRCs increasingly find themselves working in a dwindling segment placed at the sidelines of a bank; advisors joining Snowden Lane enjoy being at the center of our business.

Experienced

Experience is perhaps the most important enabling attribute of the specialty boutique – and one that cannot be easily replicated. Boutiques typically only hire experienced advisors, and senior leadership can evaluate issues and make decisions far more quickly than large firms. Typically, these decisions are more informed because leaders are closer to the business. Snowden Lane's leadership spent years living and managing businesses outside the U.S. Our financial advisors have a deep understanding of the markets they cover, in terms of clients as well as the regulatory and legal requirements of the countries in which their clients reside.

In terms of the business opportunity at hand, experience tells us that if banks are retrenching from cross border business at a time when the world is flatter and investors outside the U.S. are wealthier than ever – something is askance. That something is that global banks are now so constrained by capital and other regulatory requirements they cannot act in the interests of some very good advisors and clients. This presents a great opportunity for small firms with unique capabilities.

The specialized boutique model is simply a more effective enabler of advisors to provide superior client focus, advice and investment solutions. In the end, this is what it's all about, serving clients and their families — whether resident in this country or outside.

About Rob Mooney, Managing Partner, Co-Founder & CEO

Rob spent 22 years at Merrill Lynch, in New York, Singapore, Hong Kong, and London. He was General Counsel and Chief Business Risk Officer of Global Wealth Management (GWM) and a member of the GWM Executive and Operating Committees. He previously held senior executive positions in International Private Client and the Asia Pacific Region. Rob started at Merrill Lynch in London (Europe, Middle East and Africa Region) and before that worked at the U.S. Securities and Exchange Commission. He has a BA from Franklin and Marshall College and a JD from George Washington University. He is a Board member and former Board Chairman of the American Red Cross of Central New Jersey and a founding Board member of the Christina Seix Academy, a residential school for underprivileged inner city children. Rob and his wife reside in Princeton, NJ and have four children.

About Snowden Lane Partners

Snowden Lane is a client-focused, financial advisor-owned, and national branded independent wealth advisory firm. Through its open-architecture platform, Snowden Lane delivers wealth advisory services to high net worth individuals, families and foundations. For more information about Snowden lane, please visit www.snowdenlane.com.

Questions or Comments? Please direct them to:
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Chart Source: BCG Global Wealth Market-Sizing Database, 2015. Note: Private financial wealth is measured across all private households. All growth rates are nominal. With the exception of Argentina, numbers for all years were converted to U.S. dollars at average 2014 exchange rates to exclude the effect of currency fluctuations. Percentage changes and global tools of private financial wealth are based on complete (not rounded) numbers. Calculations for all years shown are based on the same methodology. For further details, please refer to the Methodology section of the BCG 2015 Global Wealth Report.