

June 14, 2010

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

The following report is produced by  
**THE WALL STREET TRANSCRIPT**

**06-14-2010**

## **TWST INVESTING STRATEGIES REPORT**

### **NOTICE**

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

### **CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS**

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that involve risks and

uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers selected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

**Founded 1963**

**Published by Wall Street Transcript Corporation  
48 West 37th Street, 8th Floor, New York, NY 10018  
Copyright 2009 Wall Street Transcript Corporation  
All Rights Reserved**

# Outsourcing for Independent Financial Advisors

MICHAEL STIER, ADHESION WEALTH ADVISOR SERVICES



**MICHAEL STIER** has been with Adhesion since 2000, bringing with him over 25 years of financial services experience. He was formerly Senior Vice President at Bank of America, where he provided leadership to the Asset Management Group in applying technology to BofA's private banking, trust, investment management (private and institutional), brokerage and mutual fund businesses. While there, Mr. Stier developed the strategy, technology infrastructure and organization to support a growth in business from \$60

billion to \$200 billion in managed assets. He also managed the integration of four acquired banks. Prior to that, Mr. Stier helmed the technology group for Goldman Sachs' worldwide capital markets group, supporting the growth of the business across three continents. Mr. Stier began his career in New York Andersen Consulting (now Accenture), where, as a senior consulting manager in their advanced systems group, he brought advanced technology solutions to Wall Street clients.

## SECTOR – GENERAL INVESTING

**(ABL501) TWST: Please begin with an overview of Adhesion Wealth Advisor Solutions and your target markets.**

**Mr. Stier:** Adhesion's target market is the independent financial adviser. These are the advisers who have broken away from Smith Barney, Merrill Lynch UBS, etc., and formed their own firms. They are SEC-registered investment advisers and truly independent entrepreneurs. Our mission is to provide these independent wealth managers with the operational aspects of the business. This essentially allows them to focus on their clients and build their business. Adhesion has been around since 1999, and we are headquartered in Charlotte, NC. We have about 11 billion in assets under administration currently, and our client base is spread all over the country.

**TWST: Why is outsourcing important for independent advisers?**

**Mr. Stier:** Running any business is complicated. There is a fairly deep and wide operational responsibility that comes with being an investment adviser — daily portfolio accounting, client reporting, trading, interfacing with your broker-dealers, etc. There is a tremendous amount of technology that's involved to be able to run all that these days. These guys are not technologists, they are not operational folks; they are investment advisers. Technology operational processes are not their forte. So either they have to try to build that expertise by hiring folks, acquiring technology and trying to make it all work together, or they can outsource it. By outsourcing they can focus on what they do best, on what's important in their business, and outsource the operational part of the business to a specialist who has built the technology and experienced staff.

**TWST: What are UMAs and what advantages do they have over the traditional investment product?**

### Highlights

*Michael Stier says his mission is to provide independent financial advisers with the operational aspects of the business, thereby allowing them to focus on their clients and build their business. By outsourcing the technology infrastructure and the administrative and portfolio management processes to a specialist who has built an experienced staff to deal with these facets of the company, the adviser can concentrate on growing the business. With unified managed accounts, advisers gain access to the model portfolios of multiple third-party money managers. With UMAs, both the administrative task of subscribing to multiple managers as well as the actual implementation of the combined investment strategy in the clients account is handled for the adviser.*

**Mr. Stier:** A unified managed account (UMA) can house multiple investment styles, investment vehicles and investment products all in one account. Think of an adviser trying to build a diversified portfolio — if he can acquire mutual funds in these outside managers or select stocks and bonds, etc., himself that are spread across all different asset classes, regions, industry sectors, etc., trying to build that diversified portfolio, including fixed income, etc. In the past, for your adviser to construct a diversified portfolio, he often opened a number of physical brokerage accounts as a result of using multiple outside managers and or going through different providers and custodians, or to get access to certain funds. At the end of the day, the average client household had about six to eight accounts. That's a tremendous complexity and burden, both on the adviser and the client, to manage of all these separate accounts, track all of the activity and statements, etc.

*“Adhesion provides a ready-to-use, turnkey platform. Some people call it a soft-landing zone, a platform onto which new breakaway advisers can land without much hassle and begin operating their business.”*

The unified managed account does exactly what the name implies. It unifies everything together under one umbrella account. With UMAs, advisers gain access to the model portfolios of multiple third-party money managers, e.g., domestic small-, mid-, large-cap managers, fixed income managers, international managers, etc., and combine them into the single account. With UMAs, both the administrative task of subscribing to multiple managers as well as the actual implementation of the combined investment strategy in the client's account is handled for the adviser. That latter job is what we call overlay portfolio management. The overlay portfolio manager coordinates the investment instructions from various managers and then trades the account in accordance to the combined strategy.

**TWST:** You just explained the role of an overlay portfolio manager. Does that mirror Adhesion's role for advisers who use the platform?

**Mr. Stier:** Yes, it does. Adhesion provides the technology infrastructure, and the administrative and portfolio management processes needed to implement the adviser-designed asset allocation strategy for a client within a unified managed account. The adviser need not get involved in the day-to-day monitoring, trading and rebalancing of client accounts. We handle those operational aspects for them.

**TWST:** Are clients aware of Adhesion's role, or are they exclusively focused on their individual adviser?

**Mr. Stier:** They are somewhat aware in the same way that in the traditional managed account world, a client would know if the adviser had hired someone to be a large-cap value manager to the account. The client would know who the adviser hired to be the investment manager on the account. With the Adhesion UMA platform, clients would know that Adhesion is the investment manager assigned to the account. What the client should notice is

that there is just one account with one manager assigned, versus eight accounts, each with its own manager.

**TWST:** Would the adviser continue to direct the way in which the money is actually invested?

**Mr. Stier:** Absolutely. The adviser is still the client's point of contact. The adviser remains their “financial quarterback,” calling the plays on their behalf. Adhesion as well as the money managers have no direct contact with the client. It's the adviser who is responsible for understanding the client's objectives and risk tolerances in order to devise an appropriate investment strategy. That trusted relationship does not get broken.

Behind the scenes, the adviser hands off the client strategy to us and says, “Here, implement this strategy.” The adviser called the plays and we are the linemen on the field making it all happen.

**TWST:** Would you describe Adhesion's investment reporting service and how that benefits advisers and their clients?

**Mr. Stier:** Taking a step back, let's consider the entire operational workflow of providing investment advice. In the prior questions, we focused on just the process of investment management and how unified, managed accounts improve that process. In addition to investment management, the adviser is responsible for day-to-day operational tasks, such as monitoring of their clients' accounts, tracking cost basis, tracking investment performance, reporting to clients on their holdings and results. It is all of this operational stuff that an adviser can outsource to Adhesion and what we refer to as “Adhesion Reporting Services.” Taken together with the Adhesion UMA platform, we provide to advisers an integrated platform, which we refer to as the “WealthADV platform,” upon which the advisory firm can run their entire operation.

*“With UMAs, advisers gain access to the model portfolios of multiple third-party money managers, e.g., domestic small-, mid-, large-cap managers, fixed income managers, international managers, etc., and combine them into the single account.”*

**TWST:** Adhesion has seen tremendous growth over the last few years. What factors contributed to that growth?

**Mr. Stier:** I think there are two things: One, we have built a pretty compelling, comprehensive service offering to advisers that really allows them to focus on their clients and their business growth. In the past, there has not been a consolidated, integrated solution for them. They've had to cobble together, through a series of technology and service providers, a complete solution, which is very difficult to do. Advisers are typically not technologists nor operations managers. An option to outsource their entire operation to a single service provider is very attractive.

The second driver is an external factor. The independent investment adviser is a rapidly rising tide. The entire industry is growing. And while it's been growing for over a decade, external

market events over the last couple of years have only accelerated the interest and desire of advisers to break away and go independent. What used to keep them inside the wire houses was the big-name recognition. Unfortunately those names have been quite tarnished.

*“Industry dynamics are driving a fairly significant consolidation trend. There are a fair number roll-up firms buying up other advisers with the goal of creating regional or national practices. We see a fair number of established advisers heavily recruiting the breakaways coming out of the big houses as a way to accelerate the growth of their own businesses. The traditional method of growth, organically adding one new client at a time, is just too slow now.”*

**TWST: How does the growing number of independent advisers impact the industry?**

**Mr. Stier:** The impact on the industry is actually pretty phenomenal and foundational. At its very core, the flood of new advisers is changing the entire competitive landscape. Long-established advisers are seeing new competitors pop up all over, and new advisers are finding it difficult to differentiate themselves in a market getting more crowded. It’s also creating a shortage of resources to support advisors.

Everyone is reacting to this flood in different ways. But in essence, it’s causing a lot of firms to rethink what it takes to be successful in this new world of competition. The critical mass required to have a successful firm has increased substantially over the last couple of years. It used to take about 100 million in assets under management at the high end for an independent adviser to be able to sustain a business, cover expenses and make a good living. Now it takes a more like \$250 to \$500 million in AUM to be able to compete.

These industry dynamics are driving a fairly significant consolidation trend. There are a fair number roll-up firms buying up other advisers with the goal of creating regional or national practices. We see a fair number of established advisers heavily recruiting the breakaways coming out of the big houses as a way to accelerate the growth of their own businesses. The traditional method of growth, organically adding one new client at a time, is just too slow now. There is now a whole industry around recruiting other advisers and everyone is trying to get bigger as the landscape is reshaping itself

That positions Adhesion very well. We’ve created a platform and service model designed to help RIA firms execute a rapid growth plan. We provide them an infrastructure that can smoothly accommodate large chunks of added business.

**TWST: So, the platform allows advisers to focus on managing money and clients, and they can outsource the rest to you?**

**Mr. Stier:** Exactly. Adhesion provides a ready-to-use, turnkey platform. Some people call it a soft-landing zone, a platform onto which new breakaway advisers can land without much hassle and begin operating their business.

We’ve also designed our systems to help advisers manage more complex businesses. With our platform, they can effectively monitor and administer an advisory practice made up of multiple affiliates or multiple offices/branches. We provide them not only the basic operations, but a management desktop that provides a firm-wide perspective of activities and exposure.

As such, Adhesion’s platform not only appeals to a standard independent adviser, but also to many firms that are in consolidation and aggregation mode. We give them a platform that is ready-made to help manage those businesses as well.

**TWST: Have you seen a change in the way advisers approach investment management over the last few years?**

**Mr. Stier:** Absolutely. It’s almost mind-boggling to think about what’s gone on in the world markets in the last two to three years. There is a tremendous amount of soul-searching and reevaluation by advisers on how to manage risk through diversification. The old notion of “Just spread your assets over large-, mid- and small-cap companies, and you’re diversified,” didn’t work very well in market crash of 2008. What it means to diversify a portfolio has been completely revamped.

There are more managers, there are more investment products and there are a greater array of asset classes being used now. That development is driving more interest in unified management accounts as the number of investment products used by advisers to create a diversified portfolio has increased.

*“Adhesion provides the technology infrastructure, and the administrative and portfolio management processes needed to implement the adviser-designed asset allocation strategy for a client within a unified managed account. The adviser need not get involved in the day-to-day monitoring, trading and rebalancing of client accounts.”*

Advisers have also figured out that maybe they aren’t the best stock pickers themselves. The old-style advisers who tried to be generalists and do everything themselves saw their clients lose a lot of money. We’re seeing a greater use of external expertise, external specialists. So instead of being stock pickers themselves, advisers are selecting managers. They will focus on what the appropriate asset allocation should be for their clients and then go out, find the best managers and then implement that allocation using those managers.

Flexibility in investment management is also becoming a key priority. A lot of advisers had their clients essentially in buy-and-hold strategies. When the market becomes more volatile, that “sit-tight-and-wait-it-out” mentality did not work very well.

As we're seeing, there is still a tremendous amount of volatility in the marketplace. So there must be a greater focus on nimbleness. With the old-style products, like the traditional managed accounts, it was very hard to get in and out of strategies or change investment managers. Within Adhesion's UMA platform, where everything is model based, it literally takes a click of a button for someone to get out of a domestic equity manager and move to an international manager who focuses on the BRIC markets, for example. It's important to note that there's a lot more of a tactical bent involved in investment management right now. Our platforms let advisers easily move in and out of particular investment styles, regions or products, or just get out of equities all together.

Transparency is another big focus. With the very public failures of some big hedge funds and the Madoff scandal, there is a keen interest in knowing what your adviser actually has you invested in. They are breaking out of opaque, illiquid funds and getting into portfolios that have full transparency and where ownership of the holdings is clear. With Adhesion's platform, clients have full visibility to all of their holdings, and their advisers can very easily get out of positions that cause concern.

We're also seeing a lot of focus now on after-tax returns versus gross returns. In the past, when everybody was getting 12% average return on their investments, taxes were less of an issue. Now that that's been cut in half, what you keep at the end of the day has become much more important. Through our platform, advisers can elect for us to implement their strategies in a tax-sensitive manner,

to deviate somewhat from the investment strategy when negative tax consequences can be minimized or avoided.

**TWST: Tell us about the members of your senior management team.**

**Mr. Stier:** The deep experience of Adhesion's senior management team has been very important in building the company over the past 11 years. We all have long histories working in very large financial institutions, which was crucial in building a service business that would accommodate large numbers of advisory firms. This was a fresh perspective in the independent adviser industry.

One common theme we all saw was the tremendous opportunity in serving the growing number of independent wealth advisers. This is a rising tide within the independent adviser space, and we saw the lack of any real institution class of operational solutions to help these entrepreneurs run their businesses. So we took our varied expertise and brought all to bear in this space.

**TWST: Thank you. (LMR)**

**MICHAEL STIER**

**President & CEO**

**Adhesion Wealth Advisor Services**

**5935 Carnegie Blvd Suite 301**

**Charlotte, NC 28209**

**(888) 295-8351**

**(704) 716-3710 — FAX**

**[www.adhesionwealth.com](http://www.adhesionwealth.com)**