Welling on Wall St. Reprints
www.WellingonWallSt.com
VOLUME 3
ISSUE 10
JULY 11, 2014

INSIDE

Listening In
HighTower Advisors CEO Talks About RIA Revolution
Listening In *Flashback*
Famed Technician Justin Mamis Retires Chartbooks

Guest Perspectives
Ben Hunt
The Dude Abides
Bob Rodriguez
Reality Check
Michael Lewitt
Complacency Watch Will End

Chart Sightings
J. Ted Oakley
Gold's Potential
Andrew Lapthorne
Buybacks To Hit Brick Wall?
John Kosar
VIX: It's Still Relevant

Deep Dives
Canon & Liu
Jobless Benefits

Talk Back
Acute Observations
Comic Skews
Hot Links
ALL ON WEBSITE

RESEARCH DISCLOSURES SEE PAGE 13

listening*in*

The New Face of Wall Street?

Elliot Weissbluth's "Simple Idea," Unconflicted Advice, Disrupting Industry

Maybe it was just the way the calendar fell, or maybe it was because of all the ways "Independence Day" resonates with a guy who has put together a fast-growing, unconflicted platform on which independent-minded RIAs can efficiently do their own things. For whatever reason, it turned out that the morning of July 4th was the best time for me to get Elliot Weissbluth, the amiable gent in the photo over yonder, to sit still for an interview about the waves his company is making in Wall Street.

So why is that man smiling? Could it be because Elliot, the co-founder and CEO of HighTower Advisors — organized "way back" in 2005 — is already shepherding some $25 billion in high-net-worth and institutional client assets? An infinitesimal portion of which, I hasten to disclose, comprise a slice of my retirement portfolio. Perhaps.

But it must also be noted that, on the evidence, Elliot is a born optimist, the sort with the dogged determination needed to create a company doing what "everybody" in the industry had told him was impossible: Bucking the Street's traditional business model in which mega banks and

Elliot Weissbluth

Welling on Wall St.
Published exclusively
for institutional investors
by
Welling on Wall St. LLC
ISSN 2332-161X

Kathryn M. Welling
Editor, Publisher & CEO
Kate@WellingonWallSt.com
Office: (631)315-5076
Cell: (973)650-2722

Stuart Schwartz
Marketing Consultant
Stu@WellingonWallst.com
(914)768-3133

Donald R. Boyle
Chief Financial Officer
Don@WellingonWallSt.com
Office: (631)315-5077
Cell: (201)394-1548

Distributed biweekly,
usually on Fridays,
20 times a year, by
Welling on Wall St. LLC
PO Box 620
Mattituck, NY 11952

Office:(631)315-5076
Fax: (631)315-5077

brokerage firms tend to vertically integrate their manufacturing of financial products with their sales and distribution arms, usually dressed up as "advisors" but living on sales commissions in an "eat-what-you-kill" culture.

By contrast, HighTower, formed as an independently owned agglomeration of registered investment advisors, boasts professional teams serving up sophisticated financial services spanning advice, strategy and consulting. But HighTowers advisors never act as a proprietary sales force. The reason is deceptively simple, at HighTower, an advisor's primary responsibility is his or her fiduciary duty to put their clients' interests first — not their employer's or their own. And they're compensated with straightforward fees for those services to keep their priorities straight. Works for me.

Not so much for the traditional brokerage model. As we chatted, Elliot made one thing crystal clear: HighTower is disruptive, but the revolution has only just begun. Listen In.

KMW

Is it pouring down rain in Chicago, like it is here? Or are you celebrating the 4th elsewhere?

Elliot Weissbluth: I am actually on the East Coast for the holiday —

So you are all wet, too.

It's definitely not a 4th of July for lots of fun parades and fireworks. This is a good excuse to play a family champion Scrabble game and take a nap.

Alas, my family is not big on playing Scrabble with me. They claim it's unfair for some silly reason –

I wouldn't want to play Scrabble against you, either. But I'll partner with you any time!

Ah, but you can't always choose your competition.

That's too true.

"Today there are really no more excuses that the individual investor can raise with regard to how they navigate the choices that they have for seeking investment advice. There are plenty of choices now for people to understand what "fiduciary" means. They understand where they can get independent advice."

Which reminds me, we're supposed to be working. My first question is what went horribly wrong? Your parents raised you to be a perfectly respectable litigator, and here you are on Wall Street. Leading a veritable herd of financial advisors, no less.

[Laughter} Well, here's what I think: My grandfather was a nuclear physicist at Stanford. He solved — or tried to solve — some pretty big problems that were challenging nuclear physicists in the '50s and '60s. When my dad [Dr. Marc Weissbluth, the best selling author of *"Healthy Sleep Habits, Happy Child"* and professor of clinical pediatrics at Northwestern University School of Medicine] started out as a pediatrician, he was curious about what caused early infant crying. There were all sorts of misunderstandings and myths and bad information out there. So he worked to solve the problem of why kids cry and how you can help them not cry. Not an insignificant pediatric issue.

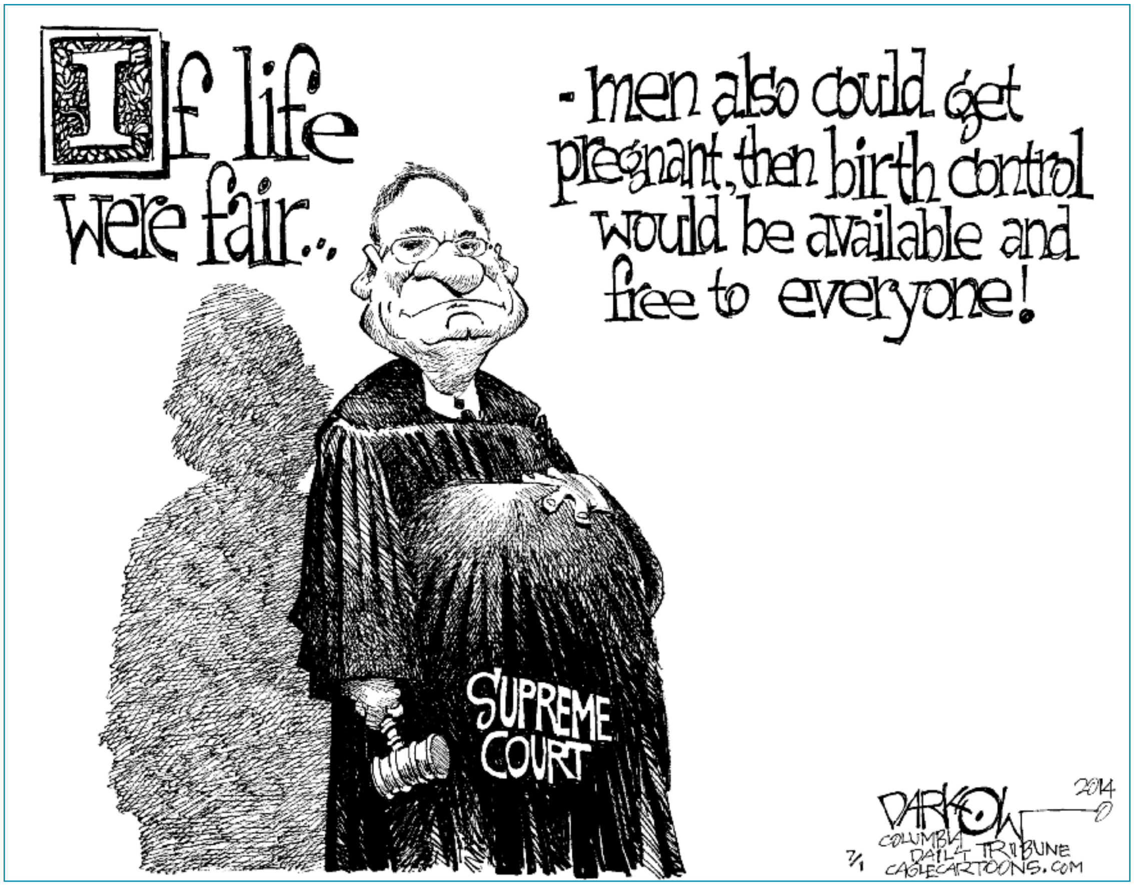
When I set out to solve a problem that I perceived in the financial industry, I didn't realize that it was going to become a 15-year pursuit, or that the problem was as big as the problem that we're solving for. It must be genetic — somewhere in the genes — we just take on big problems and try to solve them.

In other words, it's all your parents' fault?

Absolutely. I figure, if they're not here to defend themselves —

What exactly is this big problem you're trying to solve?

Well, I think that today there are really no more excuses that the individual investor can raise with regard to how they navigate the choices that they have for seeking investment advice. There are plenty of choices now for people to understand what "fiduciary" means. They understand where they can get independent advice. All the stuff that has gone wrong on Wall Street is certainly a very tired story, I think. No one really wants to talk about it any more, and frankly, I don't blame them.



It's certainly an age-old problem. A story as old as the hills. But that doesn't make it any less real.

Nonetheless, the argument that "Wall Street wirehouse brokers are bad and independent RIAs are good," wasn't ever an intellectually honest argument. You cannot deny that many Wall Street "brokers" have not really been stockbrokers for a long time, or that many of Wall Street's "brokers" are in fact doing very fine, fee-based financial advisory work for their clients. Nor that they are genuinely engaged in doing what's in their clients' interests. By the same token, just because you're an RIA or you're independent, doesn't mean you're either sophisticated or honest, right? Don't forget that Madoff was an RIA.

So he was.

So I've never subscribed the facile notion that wirehouse brokers are bad, independent RIAs are good.

No, the question is much more subtle and nuanced. How to find an advisor, regardless of label, who is actually going to work *for you*, at a fair price.

Well, I think you have to separate the difference between an individual financial advisor's behavior, and the behavior of the business for whom that financial advisor works. That is also lost in many of today's discussions.

You're saying that the environment, or culture, in which an advisor works makes a crucial difference?

Well, I don't know that it's the environment. I think it's really who is the culpable party for something that goes wrong. So, if you take a look at the credit crisis of 2008, the financial engineers who originated loans that really should not have been originated — the originators, whoever they were — were not financial advisors, right? Those were the people working in businesses companies like Countrywide.

Right. Though calling most of those folks financial engineers is really a stretch. They might as well have been selling used cars. It was the executives running those companies who had to know they were generating junk paper. —

Okay, and the real financial engineers were the bankers, traders, who then built all those different products, right, the CDOs, that buried toxic mortgages inside of various tranches with other, nontoxic, mortgages and sliced them up and diced them and sold them — those traders and capital market professionals were not financial advisors. And, largely, the buyers of those products were not financial advisors, right? So the financial advisor who might have worked for a large bank, who then had to face the frontline wrath of an unhappy or scared client, really was in a horribly compromised position because *his firm* was engaging in certain behaviors that the financial advisor had nothing to do with.

And too often was just as surprised as his clients.

Well, if you take a look at the option rate securities situation, you find the same paradigm. You find unfortunate behaviors by bank departments that were tasked with manufacturing products. Yet the financial advisor, who had nothing to do with the design or the manufacture or, for the most part, the distribution of that product, is the one feeling the wrath of the clients, often in a way that's frankly unfair to the financial advisor.

The problem is, they market themselves as financial professionals. And there's a limit to the "I knew nothing" defense.

Right, and if you were to look at HighTower, we recruit the best advisors from the best Wall Street firms. So the exposure among the ranks that we have recruited to these toxic products was very modest, because these financial advisors were aware that there were risks in those products that they either didn't understand or that they did not think were appropriate for their clients. No amount of distribution commission would ever convince top financial advisors to sell a product to their clients that they did not truly believe was in their clients' best interests. That's a testament to that grade of financial advisor inside the big banks.

Also a reason that Sandy Weill's grand vision of financial supermarkets proved such a bust in 2007, 2008.

Well, I think that when Glass-Steagall came down in '99, it was under the hypothesis that it would be a good thing to merge trading and lending and insurance and asset management. But that hypothesis proved to be a bad one, and I think that Sandy Weill, either in 2011 or 2012, went public, and acknowledged that repealing Glass-Steagall was a mistake.

So he did. Better late than never, I guess.

But he came out and was quite clear that his dream of having the ability to put trading, lending, insurance, and asset management under one roof had actually proven not in investors' best interests. Of course, it would've been nice, had he recognized that sooner, but it is what it is.

Back in '98 and '99, people could talk about "synergies" from bringing all those businesses together — without looking too closely at what that actually implied.

I think there were synergies, but they were not synergies that created efficiencies for price reductions or service enhancements *for the client*. They were synergies that allowed the integrated bank/brokerage business to increase its margins — which, we have to be very careful here, is not in itself a bad thing. I mean, there's nothing illegal about it. There's nothing unethical about it. But it was not, the way it was executed, for the benefit of the clients. It was for the benefit of the firms —

***Short-term benefit* of the firm, as they've found out the hard way.**

Well, I guess you can look at it that way. It depends what your time horizon here is. I think the most important thing today is that accountability now firmly rests with the investor, right? There has been enough written about Wall Street, there has been enough educational materials created that investors can read, guiding them to seek out the right kind of professionals. I suspect that the millennial generation, with all of this discussion of robo-technologies, is going to further empower the individual investor to make good choices. I think bashing Wall Street is passé, and that it's really the time for the individual investor to assume accountability and seek out good companies, good providers, good products.

That sounds good. And in theory, of course, investors *should* assume accountability for their own decisions. But in my 40 years of observing the market, very few of them — professional or individual — actually do their homework.

Well, then—

The ranks of Madoff's suckers included many folks who certainly knew better —

I mean, I think that there is an evolution where people are given an opportunity to really be educated, they have to separate the fact from the hyperbole. They have to do their own work, if it's important. They have to ask questions; they have to take some ownership over these important decisions.

I don't think this is any different than somebody taking an interest in their own health. If they're overweight, they should look at the labels in the supermarket, and they should consider basic, fundamental educational information about whether they should be eating certain types of food. If they continue to eat certain types of food, despite decades of education that those foods are not good for them, and they become fat and sick, well, I think they have to take some accountability for their own behaviors. And I think the same sort of thing applies to financial services today.

I'm not sure I follow, especially given all the science now showing obesity's complex multiplicity of causes.

Okay, it's not a perfect analogy. But I don't think you could have made the statement I made about individual accountability for financial choices a decade ago, because I think there was not the same ease of information, or the amount of education available, that's out there now to empower people to make good judgments. Today, there is plenty of good information. The media has done a very fine job of talking about this for almost a decade. You have different kinds of companies, like HighTower, offering solutions. To claim that there's no way for the individual investor to, on their own, understand how to make prudent decisions, I don't think is laying sufficient accountability at the feet of the investor.

I don't argue that information isn't available to act like an adult in the financial markets. Just that people all-too-often don't behave that way.

There's something about our culture, where there's an interesting ability for people to shirk accountability. And I think that applies to all sorts of behaviors. It's not just whether you are making good decisions about your financial future. It should permeate our culture that the more people take accountability for their own behaviors, the better decisions they are capable of making. And, the higher their quality of life will be, the more accountability they take. I don't think that you can argue that there's any lack of information or lack of ability to make good judgments.

No, it certainly seems as if shirking personal responsibility is culturally contagious. And individuals assuming responsibility for financial decision-making *might* result from the popular revulsion with the banking and brokerage industries because they "got away with" bringing the economy to its knees without any executives being held accountable — But so just as easily, could despair, or worse.

Well, if you take a look at the statistics, not a single Wall Street executive has gone to jail as a result of any of the activities that led up to the '08 crisis. If you take a look at the fines that are being levied, and it seems like every couple of weeks there's a new fine announced because of a new finding of bad behavior. They are largely a cost of doing business. I don't think any of these businesses are in jeopardy of being put out of business as a result of their fines.

I rest my case.

I think a good argument can be made that the fines are designed to penalize, but not to fatally punish those businesses, which I think undermines the value of a legal penalty, if it doesn't pose a real threat.

No argument. The government clearly believes they are too big to fail. But it is punishing shareholders, not the miscreants. And, in effect, propping up economic "bad actors."

The irony is that a number of alternatives nevertheless are springing up. There are alternative banks, a number of alternative investment technology companies, coming out of Silicon Valley. They are a large reaction that I think people should pay attention to. I see them becoming alternative sources for people to get the financial products and services they need. Merely talking about what everybody got away with — nobody's interested in talking about it any more. It's kind of, it was what it was. We have to move on, and let's talk about the future. Let's talk about how things are going to be different and improved instead of just continuing to pick the dead carcass of why things went bad the way they went bad. We already know that.

You're saying that while the TBTF banks have been tied up fighting rear-guard battles to preserve the status quo, they haven't noticed the arrival of a swarm of Lilliputian rivals with new ideas and new technologies?

I think so. It's fascinating to watch the crop of startups coming out of Silicon Valley. They're all seeking to do something different inside of financial services. Some of them will provide tools that a firm like mine will use. Some of them will become thriving financial businesses that will offer an alternative to the current solutions. In any event, the future is going to look different. That's the beauty of this conversation: Things will not stay the same forever. Things will change and they will change in ways that we haven't yet anticipated.

True enough.

One of my favorite recent examples of this is Über. I travel constantly, and am constantly going to cities where I don't know the ins and outs of the cab system or the car system. To be able to land now, in almost any city in the United States, open up my phone, and click a button to summon either a taxi cab, a town car, or some nice peer-to-peer ÜberX driver, who might be a college kid driving his mom's Suburban, has completely changed and disrupted an entire industry. It's only been, I think, four years that Über has been around, and it now has a valuation of how many billions of dollars?

The valuation seems awfully bubbly, though it is a very handy service.

I don't know about the valuation. But it's now a very valuable, very successful business operation, and I'm a happy, happy user of it. It has profoundly changed the taxi business, urban transportation.

My point is that kind of disruption is possible inside of financial services. I don't think it's happening quite yet, *but it's absolutely possible.*

You're talking about a new way of doing things that doesn't originate within the industry itself; that comes from an outsider?

Yes, right. It's the concept that I've written about, called the "smart stranger." It is where somebody who's on the margin approaches a problem without the baggage of having been inside the problem for many, many decades. So they bring to it a fresh view. Many times, the smart stranger doesn't really know that the "impossible" is impossible.

So they break with conventional wisdom?

Exactly. When I launched HighTower, I was told by many, many people: "It's impossible. It won't work." Obviously, we've proved those naysayers wrong, and HighTower today is one of the disruptive influences in the financial services marketplace.

Disruptive? Why?

I have two broad answers. 1.) HighTower is the first company to successfully bring the best of both worlds into a single business — the benefits to clients of a true, legal fiduciary duty to put a client's interest first, coupled with the infrastructure, service and support of a sophisticated national financial services firm.

2.) The HighTower platform is unique. With the industry's first and only multi-clearing and multi-custodial HOST ("HighTower Open Source Technology") platform, we have fully integrated the infrastructure of a Fiduciary Registered Investment Advisor ("RIA") with the infrastructure of a broker-dealer — and removed material economic conflicts of interest. Our platform allows the Advisor to maximize the highest and best uses of their time, working with clients, and developing new clients. As a result, HighTower Advisors are able to grow their businesses faster than their peers in the wirehouses and faster than their peers running their own investment advisory business (independent RIAs).

Are there other specific technologies or ways of doing business you see as disruptive to the financial services industry? Robotic advisors? Entrusting financial decision-making to an algorithm?

There are a couple of things that are changing. One is the general commoditization of various elemental financial services that historically were not commoditized. The commoditization of the asset management space, the commoditization of trading, the commoditization of custody. These are all trends in the marketplace, in which investors are becoming less and less concerned about the specific product or the specific custodian or the specific provider of the service, and what they are more focused on are the outcome and the impact.

On the what?

The outcome, meaning their return, from a nominal dollar perspective. And by the impact, I mean what that means for them and their quality of life.

While computers *might* at times be able to better match buyers and sellers, and custody is pretty much a no-brainer, isn't there a natural limit to commoditization when you're talking about the heart of the asset management business, whether at the institutional or at the RIA level? People like to believe they're unique.

Well, I think you have an interesting challenge if you look at the role of the human advisor versus the role of the algorithm in the future of financial services. The question is, what role will the human play, and what role will the algorithm play? Historically, that question might have been, "What's the relative importance of the human versus the relative importance of the company, or the brand of the company?"

What I mean is that, historically, the paradigm focused on the qualities of the human being who was providing the financial service versus the comfort or the security or the attractiveness of the firm for which that financial advisor worked — if they worked for a large firm or not, right? The independent financial advisor would have promoted that as an advantage — that they did not work for a large firm. But the broker would tout working for a large, well-branded, global brokerage firm as an advantage. That was the historical conversation. But that conversation is evolving into having a third component, which is — Do you really need to pay for a human financial advisor, when you might get a better-quality service for a much lower cost if you used an algorithm to provide you with the same types of services?

Especially because both of those other kinds of "advisors" often are also going to use essentially that same algorithm?
That raises an interesting point — if the human advisor is using a powerful algorithm, then what is the investor really buying? Is the investor buying the statistical output of the algorithm, or is the investor buying the peace of mind of working with a thoughtful human being?

At HighTower, I will tell you that we think it's absolutely *both*. You cannot separate the tools and the algorithms and the technology from the thoughtful human interaction of the financial advisor.

You're saying humans are still needed to profitably interpret the output of the algos?
I think what the investor wants is not simply the cold calculus of a number sitting on a website. What the investor wants is the ability to articulate aspirations and dreams about their future, articulate desires for philanthropy and charitable giving, articulate desires for their children, articulate risks and fears about health, about their longevity, about their marriage, about their various career opportunities. And listening to all of that emotionality is bound up in the service that a thoughtful human financial advisor provides when working with the client. It's not simply sharing with them the current performance numbers of their portfolios.

One of the things that separates HighTower from many, many other firms in the industry is that we focus on attracting the *best* financial advisors. And the best financial advisors recognize that their job is not necessarily only to "make their clients money," their job is also to give their clients "peace of mind" — and that peace of mind may flow from many different emotional sources.

In other words, your advisors have it all over robots when it comes to hand-holding?
I don't think hand-holding is really the right term, Kate. "Hand-holding" has a bit of a patronizing component to it. What I'm talking about is much more. It's much, much more thoughtful and sophisticated than hand-holding. If you take a look at all the dynamics they have to deal with — between married people and money, between married people and their children, how that changes when those children get married and have children, when they are downsizing a house, when they are dealing with illness or death or divorce, when they deal with career change or a loss of employment, when they deal with accumulation of wealth and philanthropy — the list can be endless.

I mean, there are many, many situations where a person's financial stability is really intrinsically bound up in much more important decisions in his life. Those situations require a financial advisor to be very thoughtful *and to listen*, and many times, to pick up on what may *not* be verbally articulated in a meeting. If an individual is sitting with a financial advisor, and it's been a productive year and the portfolios have done well, yet the client is not happy, or is looking pensive or concerned, there is no way for a software system to sense that. No way for a robot to then ask a question that prompts the investor to reveal he is worried that a parent is now ill. No way for the software to find out the client is thinking about how to pay for a parent's medical care, or that they're contemplating a divorce, or that they've discovered one of their children has some issues that may require help that they're not sure how to pay for.

I suppose some would bare their souls to a questionnaire, but not me.
Well, it's that attentive listening and being thoughtful and sensitive as a human being that really makes good financial advisors into great financial advisors. They are tuned in to those things their clients are concerned about; things that would never surface simply by tapping some keystrokes into a website to assess portfolio returns.

Tuned into things, I suppose, that scripted and corporatized advisors also have no time for?
Absolutely. I travel all around the country, speaking to groups of HighTower clients at our advisor's dinner events and the cocktail hours before them. I give a little talk, but mostly I listen to clients. I spend the entire cocktail hour meeting clients, and I cannot tell you how many thousands of times I

hear things like, "I been with my financial advisor for 25 years. Here's my daughter, she's now graduating high school, and when she was born, he helped us figure out how to start the college fund. Now she's going to college and she'll have her own account. We adore him." Or they say, "We trust him," or — I hear this expression all the time — "You've recruited a great financial advisor. When he told us he was leaving ________ (whatever firm he left), it wasn't even a question whether we would stay there, because we have so much faith in him; so much trust in him to help us navigate different challenges in life."

I hear that literally thousands of times when I'm out meeting the clients of HighTower Advisors. That's the characteristic that we're looking for when we recruit: We want those financial advisors who have genuinely, over decades, engendered that kind of good will and trust by providing service. It has very little to do with whether they are using a particular financial product or not. It has to do with the confidence that they instill in their clients; the confidence that gives their clients peace of mind.

A big part of your model, then, is providing services to clients, as opposed to selling whatever financial product comes rolling off the Wall Street assembly lines?
That is the essence — what you just said is the essence of where the conversation today has finally matured. Which is that it's about the fundamental difference between sales and service. In early 2011 — I put a video about the butcher versus the dietician up on our website.

Where it still resides, making your point unmistakably, if not exactly subtly.
Well, I was very clear. But I very much intended in that video to talk about both service and sales in very flattering ways. Because there's nothing intrinsically wrong or right about either, okay? To make the claim that "salespeople are bad; service people are good" is intellectually dishonest. It's simply not true.

Way too simplistic.
I believe that a good salesman or woman is a huge asset, and I call out two of them in the video. I mention that in my neighborhood is one of the best butcher shops in the world, called Paulina Meat Market. It's an institution in Chicago. I love going there, and I respect the butchers, who are *true* experts at what they do. They provide fantastic sales support when I'm looking to buy meat — but there's no confusion in my mind about what their jobs are, right?

Meaning you are clear that their purpose is to sell you slabs of meat?
It is, and they do so brilliantly. I have nothing but the highest regard and respect for the professionals that own that business; for the way they conduct that business. But I don't expect them to watch out for my cholesterol level and so tell me to take some of my business to the fishmonger down the street. So I think it's an oversimplification to sort of castigate Wall Street *brokers* in the same way you would castigate their *firms*. There is value to service, and there is value to sales. But you have to be able to differentiate what you're receiving. There are plenty of atrocious service providers, right? Think of all of the doctors who commit malpractice. They go through medical school, and then do things that absolutely violate the Hippocratic Oath.

Most blame their woes on greedy lawyers —
Yeah, right. There are plenty of doctors who willfully engage in behaviors that are not consistent with the Hippocratic Oath. They are "service providers" and they abuse that privilege in a way that is damaging to their clients.

My point is that it's time for the individual investor to take accountability. They are now equipped to determine, *are they being sold something?* And if so, they should be accountable for understanding the fact that the salesperson has a duty to the firm, not to them. There are no more excuses any more, I don't think. Or, are they being provided service? If so, is that service provider a fiduciary, and is that service provider sophisticated enough to provide them with the services that they need?

There's that term — fiduciary. There's a lot of concern in the financial industry about being held to a fiduciary standard. The Labor Department, in particular, is making a lot of people in Wall Street pretty nervous, talking about rewriting ERISA standards to classify brokers as fiduciaries.
I've been talking about the fiduciary duty for many, many years, and many others have been talking about the fiduciary duty for many years. But today — and I've been saying this for the past couple of years — it's really not going to be the Department of Labor or the SEC or any other arm of government that is the effective change agent when it comes to the fiduciary duty. It's really going to have to come from investors and from the marketplace understanding the difference between fidu-

ciary duty and other duties you may or may not owe to clients.

Banking industry lobbyists seem to be trying to graft all sorts of loopholes into the fiduciary standard.

All of the talk about different kinds of fiduciary duties or various nuances is really missing the point. And people have figured out that the banks just want more wiggle room. In other words, fiduciary duty is not a hard concept; it's a very simple one. The concept is that a provider of a service has a legal duty to put the interests of his or her clients in front of their own. People *understand* what that means. People understand that when they go see a lawyer, or they go see an accountant, or they go see a doctor, that if the doctor and the lawyer and the accountant are all conforming their behavior to their professional standards, the doctor, the lawyer, and the accountant will not be doing things to line their own pockets at their clients' expense. They'll be giving the clients advice that they should have confidence is in their best interests, right?

So, when you go see a trusted service provider that has a fiduciary duty, you may not be able to legally define what the fiduciary duty is, but you know how it feels.

You're saying the fiduciary duty is like Justice Stewarts' definition of pornography? "I know it when I see it."

I think there is an intellectual analogy to that case. You don't need to have a law degree or be able to recite a legal definition of fiduciary duty to know what it *feels* like to have the peace of mind that your interests are being placed first. I would like to give investors credit for not being stupid, in fact, for being smart. And, there's been more and more discussion of the fiduciary standard, as more and more information is written about it, more investors are asking the question of their providers of financial services: "Are you a legal fiduciary?" If the answer is, "Yes, I'm a legal fiduciary," then the smart, or the informed, investor says, "Well, does that mean — just so I'm clear —that you have to put my interests first?" If there is any sort of equivocating — well, the investor now is informed.

And should know enough to run for the hills?

Not necessarily. They may choose to stay with that financial advisor for whatever reasons. But at least then they can't claim they did not understand the issue. At least they're informed, and they can make a *choice*. I don't think investors were as informed years ago, when all of this was still a fairly murky topic. But today, it's time that investors own up to their accountability. Plenty of people that have written about it. The whole topic, because of Dodd-Frank, has been in the press now for three or four years. If an investor still doesn't understand it, or hasn't taken the time to educate himself, I believe it's on their own recognizance to become educated so they can make thoughtful and informed decisions.

At this point, HighTower is scarcely the only agglomeration of independent RIAs competing for client assets. For a while, there were entire herds of RIAs breaking away from the bank and brokerage behemoths, but that seems to have slowed. Where are you looking for growth?

Well, it comes in waves. We have two arguments on this topic. The first is the directionality of the trend, and the second is the rate of change of the trend. If you take a look at the directionality of the trend, over the past 5 years or 10 years, there's only one conclusion that you can come to, assuming that you look at the data in a dispassionate way.

Which is?

The trend is that assets are moving out of the old model and into a variety of new models. There's a reason why companies like Envestnet and LPL Financial and others are growing — as well as HighTower. Assets are moving out of the larger consolidated bank/brokerage firms, and they're moving into a variety of models that are *different than the old model*. HighTower happens to be one of the fastest-growing sources of advisors and high net worth assets, but we're just one example among many of the directionality of that trend. I think that the entire millennial generation and the sort of insurgent robo-technology companies coming out of Silicon Valley will be further accelerants to that trend.

What's your other argument for a continuating trend toward "liberating" RIAs?

The second is the question is of the rate. You can't argue about the directionality. The assets are not flowing *into* the big banks, they're flowing *out*. But the rate of that outflow is fairly modest. You're not talking about a consistent flow rate that is going to threaten the big banks any time in the near future. They're very large and very sophisticated. And, depending on the current economic conditions, either people are leaving rapidly, or they're leaving slowly. — But there's no doubt that the rise of the *independent* financial advisor, in several different business models, is where the future of the industry lies vis-à-vis the source of investment advice.

Aren't these new business models, pretty much across the board, just skimming the cream off the big banks' asset management businesses?
What do you mean by that?

Aiming to attract the most successful advisors; the ones with the largest — and most profitable—bases of usually the wealthiest clients?
Well, let's see. I haven't taken a close look at advisor head count movement outside of our target markets, which are at the higher end of the market. So I don't know whether or not an LPL Financial, for example, is growing because smaller advisors are leaving the big firms and going independent. I'd have to take a look at the data before I could say whether the outflow is because the cream of the crop assets are moving, or whether the outflow is distributed more widely across the household sector's economic segments.

I'm just guessing that, regardless of the size of the accounts he services, the only kind of advisor who has an easy time convincing clients to follow him along any kind of independent path has done pretty well for those clients.
But, you know what? I'd have to look at the data. I'm a firm believer in looking at the empirical data and forming opinions based on data, not just on what sounds good. In our industry, there are so many things that people say that sound good. But when you look, you can find no empirical basis for many opinions. So I'm reserved about articulating opinions without having done the work myself to determine the empirical basis for them.

Is it too soon for you to speculate on what sorts of independent advisory firms, if any, become the behemoths of tomorrow? Or is the field destined to fragment and stay fragmented?
I think it's early to form a conclusory opinion. We're right now in a period of — what's the word? What's the antonym of consolidation?

Fragmentation, dispersement, scattering —
Well, this isn't fragmentation. It's not as if we had been all together and now we're broken apart. We are in a in a period of innovation, evolution, restructuring, where the barriers to entry are modest and new players can take share fairly quickly. So there likely will be an evolution in financial services where, if the large firms don't evolve, stabilize on their core competencies and shut their non-core competencies, they'll go out of business. But if they do stabilize on their core competencies and recognize that rivals may be too severe a competitive threat to their non-core competencies, they have a shot. — That was a bit muddled. What am I trying to say here?

I'm cynically wondering if the mega banks have *any* core competencies at this point.
A traditional bank's core competency *should* be taking deposits, it should be lending; to the extent that it has some asset management business, it needs to be trading for hedging purposes — but *really* for hedging purposes — not for creating profits. The integration of investment advice inside of asset management is something that's probably going to go away. Because I think you have to separate the advice component from the asset-management component, or at least from the manufacturing of asset-management products.

There's a whole argument to be had that the business of *lending* and the business of *insurance* and the business of *trading* don't belong under one roof. That's the Glass-Steagall argument: Those businesses really belong in separate industries and in separate companies, each competing to sell a particular product or service. I think that if you can then further separate out the advice provider, hopefully into a true fiduciary that is not participating economically in any of those other business activities, you then have a commercial activity that should line up with delivering the best products and the best services for the client, and not with creating multiple layers of profit for the firm.

I hear you. But if wishes were horses…
Well, frankly, all of that exists today. There's no reason why any investor cannot, if they take accountability for their own financial future, and do some thoughtful questioning, can't find that today. It's not as if it's not available.

True. I was thinking more of the likelihood of the mega banks consenting to being dismembered, á la Ma Bell. Or Congress actually doing anything productive.
They won't volunteer any more than the phone company did. But the Wall Street titans' troubles are an old story. I think it's time for a new story, and that new story is about the renaissance of the investor. There's certainly a renaissance happening for the financial advisors, right? Today, a financial advisor can set up his or her own shop

and have complete autonomy. They can join partnerships like my firm, and get some of the security of infrastructure and the camaraderie of like-minded fiduciaries, and there is a groundswell of new technologies and new ideas. So I can't think of a more optimistic time for the future of financial services predicated on a combination of very thoughtful human professionals with some very sophisticated technology. I see that creating a future for financial services that's quite bright.

So this liberation of financial advisors couldn't have happened without the digital revolution?

Correct. The combination of the internet with some very disruptive technology providers creating tools that level the playing field is what enables an individual financial advisor to have a better view of the world than a financial advisor working inside of a large firm. That is already here and, in fact, many of the technologies now available to the independent financial advisor are superior to the technologies inside of the big brokerage firms.

Because they're often married to legacy systems based on old technology

Well, yes, they have legacy system issues, but it's also a question of what their systems are *intended* to do. Remember, many of these tools inside of the integrated bank and brokerage firms are designed to hide certain things to encourage and to facilitate the easy sale and distribution of whatever that firm wants to sell and distribute.

That's a very different intention than a software tool that's designed to empower or enable an independent financial advisor to perform a certain task. Those tools have very different objectives. We hear time and time again, when a financial advisor leaves a large firm and then for the first time logs onto our systems or uses an application in the independent space: "Holy smokes. This is so much better than what I had at my former firm." They can't even believe that such a tool exists —until they go independent. We hear that refrain during almost every transition.

Your tools are better because of what, specifically?

Well, they are more sophisticated, more customizable, give the advisor a broader reach. They're certainly not restricted just to one firm's offerings, just for starters. What we offer to advisors is the current version of the most sophisticated tools in the marketplace. These tools are not what was internally developed five years ago that now should go through some major internal overhaul that's not in the budget.

HighTower is no longer a small upstart shop. Your AUM are up to — what now?

Around $25 billion.

So isn't it pretty expensive to constantly be upgrading your RIA's technology? How are you avoiding legacy issues across such a huge platform?

Part of the answer is that our core business infrastructure is designed to accommodate multiple solutions. In English, what that means is that we support several different CRM systems. We support several different tools and applications for doing most everything an RIA needs to do. We believe in a business model that says that we're never going to create the newest, best, most sophisticated tool. There will be other innovative technology companies that will be tool creators. It's our job to have a flexible-enough platform to embrace the idea that the tool of choice today is not likely to be the tool of choice tomorrow. That's a very different philosophy than some of the larger firms', which widely integrate each of their tools and then have to live with that decision for a long time.

We assume that the tools of today have a shelf life, and so we don't get ourselves into a situation where we spend money and time on integration. Now, clearly, there are some tools that are emerging as industry best practices. For example, Salesforce, as a CRM, will have a very long shelf life. They're stable, they're a market leader, they're sophisticated, it's customizable. That said, if one of our financial advisors still is using ACT, which was a favored CRM for many, many years, we are able to support ACT and not force the financial advisor to abandon ACT in favor of Salesforce. It's actually easier and better business to just support both solutions than to try and convince a fan of ACT that they have to convert into Salesforce.

HighTower has opened up its platform to RIAs who aren't partners recently. Is that a response to it getting more difficult to attract RIAs as partners?

Well, the business model always contemplated expanding the core platform, which was largely a platform built by the best financial advisors coming together into a partnership. These core financial advisors, by virtue of bringing their books and their clients and their products and their needs into HighTower, helped mold the clay for the first five years of HighTower's evolution. That was the laboratory process that really created the refinements on the fundamental business model that made HighTower what it is today.

But?
But we always knew that — once we had a refined platform that was atuned to the most sophisticated financial advisors serving complex situations — others would want access to our platform. The HighTower Network, which is the next "line of business" we have, is where an advisor can set up his or her own business, own their own company, their LLC, yet avail themselves of all the benefits of our platform. That's a rapidly expanding part of our business.

The third prong of the platform is what we are calling the HighTower Alliance. It is where other businesses that want to participate in this secular shift of assets, whether they are currently financial services players or not, can avail themselves of our platform as an enterprise partner. This is a business-to-business relationship, where their business plugs into our platform so they can support a financial advisory business in whatever form they're planning on deploying it, instead of having to build their own platform.

So the business model is fundamentally a platform one, providing those services to our in-house partners who own the company with us, providing it to our non-equity partners, if you will, to make the analogy to other service business. You can think of that part of the business a little bit like a franchise. Network partners own their own physical plants, but the infrastructure they need to run their business is mostly provided by our middle and back offices. Then we also have an enterprise solution where we provide our platform behind somebody else's business.

And you can be comfortable with the lower levels of "quality control" that you essentially have at each step along that continuum?
Sure. The core requires that the network is all centralized through our compliance, our technology and through our research group, which we call GIS — the Global Investment Solutions team.

Research is centralized? I can't imagine independent-minded RIAs all want to use the same research providers.
It is not that — they don't. But many RIAs struggle, from a time allocation perspective, to service their existing clients, perform the research functions they find necessary to manage the portfolios, run the business, and still have time to go out and gather new clients. In fact, they find that very difficult when they grow to even a modest critical mass.

You're trying to help them make time for both portfolio management and sales? But don't a lot of RIAs who come from wirehouse backgrounds also go into sticker shock when they discover what good independent research can cost? They're used to getting bucketfuls, "for free", never mind that it was less than worthless.
Nor do they often appreciate how much time it takes to do real research. As you know from your profession, it's an arduous process that requires real commitment and real energy. So, without having a centralized group to help either streamline it or help organize it, it can be a tremendous drain on resources.

So what magic does your GIS group conjure?
No magic. It is more of a process of doing the filtering and doing the heavy lifting to make sure that our short lists of products or investment ideas or investment topics are synthesized and organized in ways that advisors can understand them and use them. Because we don't have any economic interest in any product or any asset allocation, or in anything that would create any conflict with the research group, GIS's objective is to make the research process more efficient for financial advisors. And they can avail themselves of its services as little or as much as they need.

It's not required that they drink only at the GIS trough?
Well, it's not — But I think we have to be careful to separate the RIA's choice of products from the diligence process. The advisors cannot use products without having that product subjected to GIS's diligence review. That keeps everybody safe. But in terms of the choice of investment products, advisors are free to discharge their fiduciary duty and pick whatever products they think make sense to their clients. What GIS makes sure of is that the RIAs are not having to spend their time or their energy making sure that each of the products they use has been fully due diligenced. A big part of what the GIS group does is provide the diligence back stop to the decisions of financial advisors.

It also provides them with good ideas, by effectively serving as "air traffic control" over the entire firm. So, if a financial advisor calls up or engages with GIS and needs a particular product type, GIS is in the position to tell them that another advisor in a different part of the country was working on exactly the same challenge a few months ago. "Here's some of the work we did for that advisor;

Why don't you give that advisor a phone call?" In other words, GIS encourages collaboration as a result of the process — because every advisor is dealing with a *different* situation, but none of them is really unique.

So you try to keep re-invention of the wheel to a minimum?

Exactly right, and that's where the efficiencies can be very helpful — especially when those efficiencies are devoid of any economic interest.

So if you had to sum up what has changed in the advisory business since the financial crisis —

A lot has changed; I think the change is positive. And I think that there's going to be more positive change in the future. Do I think that those changes have had the profound impact that we would all have liked to have seen in the industry? I think that's still premature, but the changes that have occurred are laying the foundation for some profound changes in the future that I'm optimistic will be quite beneficial for the individual investor.

Let's hope you're right, so that someday they can all can celebrate Independence Day with access to truly first-rate independent financial advisory services, whatever their needs, or the size of their nest eggs.

Yes. Earlier this morning, as I was putting some finishing touches on a 4th of July note to everybody at HighTower, I actually compared — in a very small way — what we're doing at HighTower to what the Founding Fathers did when they broke away from England. It takes time for things to change, and it's not easy. In fact, it's a fairly difficult and challenging process. When you look at how profound change actually occurs, there's always a period of conflict and stress before The New really becomes accepted as The New and The Old finally becomes truly The Old.

In our own industry, we're only in the beginning stages of a massive secular shift in the way financial advice is provided. The good news is, the changes are going in the right direction.

You're right, change is a long process. People tend to forget that the Declaration of Independence wasn't written in a day; that the struggle for independence took years — and that nation-building is a ceaseless project.

Well, right, and I think many people forget that. Absolutely. While it may be a bit grandiose to compare what's going on in the financial industry to the American Revolution, it is another kind of revolution in process. It's a mini-revolution inside of an industry that has needed some revolutionaries, and the good news is that it's going to be very difficult to unring this bell.

Thanks, Elliot, for disrupting your holiday to share that news.

WellingonWallSt. interviewee disclosure: Elliot Weissbluth is the Chief Executive Officer of HighTower, a national, advisor-owned financial services company serving high net worth and institutional clients. Prior to co-founding HighTower in 2005, Elliot was the President of US Fiduciary, a boutique broker-dealer, and Director of Marketing & Research at RogersCasey, one of the nation's leading investment research and institutional Registered Investment Advisory firms. HighTower Advisors, LLC, a Delaware limited liability company, is an investment adviser registered with the SEC under the Investment Advisers Act of 1940. Please note that registration with the SEC does not imply a certain level of skill or training. HighTower is a wholly-owned subsidiary of HighTower Holding, LLC, a private company. HighTower advisory services include investment consulting, discretionary advisory, pre-retirement and financial planning services. HighTower provide advisory services through numerous investment teams, each of which have their own advisory focus and strategies, driven primarily by the types of clients they service.

This interview was initiated by Welling on Wall St. and contains the current opinions of the interviewee at the time of the interview, but such opinions are subject to change without notice. This interview and all information and opinions discussed herein is being distributed for informational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed. In addition, forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, or as an offer or solicitation for the purchase or sale of any financial instrument.. Past performance is no guarantee of future results. For further information, see: www.HighTowerAdvisors.com.

Special disclosure re: Kate Wellng's personal portfolio: A portion of are Kate's assets are being managed by one of HighTower's RIA partners.