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Exclusive Interview With Market Street Trust On All Things Wealth Management

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This month family office consultant Joseph W Reilly Jr interviews Robert Elliott, vice chairman of Market Street Trust, about families that go into wealth management, managing culture and major changes in the business over the course of his career.

Joe Reilly: You have been involved in senior roles with two successful firms that started out as single family offices, Bessemer and Market Street. Any lessons learned on the challenges encountered while going from a family office to an outside client business?

Robert Elliott: The common thread, and the most important lesson, is that it takes a unique family to understand the importance and the necessity of structuring the multi-family office in terms of what's best for all clients, not just the founding family. It's certainly in their best interest to see the office grow and be sustainable, and there has to be strong leadership and decision-making to understand why that's the right thing to do. All clients need to be treated equally and fairly, or it won't be the right experience for them. The Phipps and the Houghtons both understood that.

Joe Reilly: How important is culture in a wealth manager? How much effect does the founding family have on a firm?

Robert Elliott: When thinking about culture, the first thing that comes to mind is something Louis Gerstner said years ago about his arrival at IBM, which is obviously a company known for its unique culture. He said when he got there, he believed that culture was the most important thing. And then he quickly realized that culture was the only thing.

That's IBM, a technology firm, and culture is even more important to a wealth management firm. Culture determines motivation; it drives action and sustains lasting values. It's a framework within which the firm can recruit, train and develop its talent in order to have truly outstanding client service.

On top of that, it creates a reinforcing work environment; one where people with the right approach, the right support and the right incentives make the right decisions, and that keeps repeating itself in a virtuous cycle.

The founding family is, in great part, where that culture comes from, and we're lucky enough at Market Street to have a great founding family. At the same time, to Market Street's enormous credit and in conjunction with the founding family, Market Street has played a role in keeping the Houghton family legacy alive and vibrant.

Joe Reilly: Market Street has a unique corporate structure. Could you talk a bit about the benefits and challenges?

Robert Elliott: Market Street's structure is that the clients own the firm. It's what we call a shared family office. Among the benefits of that structure is that Market Street and client goals are completely aligned in the most pure way possible. Though Market Street wants to grow and be sustainable, there's no specific profit motive, so the staff's job is to keep the clients and owners – which are one in the same - happy.

That also allows us to keep our focus on the families we have, and to target growth on a moderate and responsible level. We are not asset-gatherers, so we can be careful about who we bring on as clients.

That structure also allows for a more collaborative environment with clients. Because many of our clients are entrepreneurial in nature, and in many cases have moved on from the businesses and ventures that created their wealth, Market Street allows for opportunities to become involved in overseeing the firm's operations, whether it's with a seat on the board or on a committee. That enables clients to be involved and active. Of course, not everyone chooses to get involved and that's just fine.

The weaknesses are that it can be a difficult structure to understand, coupled with the notion that clients have to put up a very small amount of capital at the time they elect to become clients.

Joe Reilly: Any thoughts on where the industry is heading post-endowment model?

Robert Elliott: I would suggest that it's not necessarily a post-endowment model – just that there's more awareness in the investment community of over-committing to alternative assets given their limited liquidity. Allocations for wealthy families should still include a commitment to illiquid investments, because most families have a long time horizon and can capture the incremental returns from private equity and real estate. As Swenson and others have noted, the key to alternatives is gaining access to top quartile managers, which many families fail to do.

Joe Reilly: You have spoken many times on trust in the industry and how to build it with clients and the general public. Do you think the industry has recovered the trust of its clients since 2008?

Robert Elliott: Somewhat. But not entirely. Wealthy families are longing for trustworthy advisors and some firms have improved transparency and better alignment of interest with their clients. MFOs, as a whole, are benefiting from this trend. But the continuation of bad conduct hits the news way too regularly to give clients comfort that there has really been a sea change. Whether its insider trading, LIBOR rate fixing, proprietary trading against a client and other shenanigans, bad practices continue.

There have been some initiatives out there to lend more confidence to investors. For example, increasing the standard for brokers from suitability to fiduciary would be a big step. But where is that process now? It's been six years, and it's gone nowhere– that doesn't help. And even though some investors are asking more questions, the bull market is probably hiding some bad behaviors out there. So, some trust has been recovered, but not all, and even what's been recovered feels tenuous.

Ironically, a lot of the regulation we're seeing that prevents money center banks and wirehouses from proprietary trading is resulting in a greater push toward building their wealth management businesses. That raises some concern, because too many times we've seen the push for profits override good ethics in an industry focused on boosting value for shareholders and management.

Joe Reilly: Great relationship managers - bred or bought?

Robert Elliott: I don't want this to sound like a cop out, but it's a little of both. There are a lot of skills that we can teach, but there are some that we can merely hone. The most important thing is that they need to have a natural interest and curiosity. Those things can develop, but they generally come from within. However, we need to then take what was bred and make it fit the culture of our firm and fit with the values of our clients. And because Market Street has such a distinct, client-centric culture, it's important for us to bring people along, and prepare them for long careers here. Wealthy families want long-term relationships with the firm and its people.

Part of that process includes a sort of apprenticeship – matching up a young advisor with someone senior. But there are also opportunities to find good fits from the outside that bring best practices from their prior firm.

Joe Reilly: Where do you see the strengths and weaknesses in the current MFO market?

Robert Elliott: One of the strengths of many multi-family offices is the exclusive focus on wealthy families. We are very targeted and focused on who we serve. We also generally have lower staff-to-client ratios and multi-family offices generally take an integrated, holistic wealth-management approach, which is increasingly important as the complexity of clients' financial and non-financial lives has escalated.

MFOs also, for the most part, are independent of larger firms and don't have the conflicts that many of them have – MFOs generally do not sell investment products to their clients. The firm's goals are a little more closely aligned with their clients, although none more so than Market Street, where we're actually a shared family office, owned by our clients, so the goal alignment is pure.

Weaknesses are sometimes that multi-family offices are not well understood, and part of that is a lack of marketing and business development. At the high end of the wealth management spectrum, the private banks have marketing machines, but few family offices develop business through grand marketing programs, so there's a bit of a lack of visibility.

Part of being smaller and more focused than the private banks means that multi-family offices also are resource-challenged, which is why you see them partnering up on some activities and ventures.

Joe Reilly: What is the biggest change in the wealth management space that you have observed since you began your career?

Robert Elliott: Well, one change from the mid-70s is the numbers on client statements have a lot more zeroes.

The biggest changes are related to the evolution of the business itself. There wasn't one, until the late 1970s. There was the trust business, then personal banking, then private banking and then wealth management. The stronger people in the investment business were focused on institutional clients in the 70s and 80s when little new wealth was being created. The better people went to other parts of the business.

But it's become a hot area for growth, and resources, training and personnel have improved. It has grown up tremendously after the lack of education and focus that existed in the 70s and 80s. There have been a number of wealth management programs started in the last several years at major universities around the world, demonstrating this expanded education, the most recent of which was announced the other day that the University of Toronto was starting a wealth management program.

At the same time, though, we've seen a big dilution in what the term "wealth management" means. Many RIAs and even insurance companies use this term to imply a deeper relationship with clients, but don't really provide full wealth management.

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