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ADVISOR RANKINGS: TOP INDEPENDENTS

Scaling the Heights

With stocks near record levels, the top 100 independent financial advisors are keeping focused on the long term. Our annual roster.

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By STEVE GARMHAUSEN
August 23, 2014

Top 100 Independent Financial Advisors for 2014

Top 100 Independent Financial Advisors for 2013

Top 100 Independent Financial Advisors for 2012

At this time last year, the bull market was running at full gallop and the nation's top independent financial advisors were urging clients not to get greedy. This year it's a different story. Fear is back in the picture.

"Many clients are concerned about whether we're hitting a market top," says Michael Nathanson, CEO of Colony Group, in Boston. Nathanson's advice to anxious clients: Invest money more gradually, but continue to take a long-term view and avoid trying to outguess the markets.

Sensible advice like that is the stock in trade of America's top independent advisors. A... Wall Street firms -- have the freedom to use investment research and products from a wide range of sources.

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Wall Street advisors must "rely on their products or research, which may or may not apply to [their] client or be the best solution out there," says No. 29–ranked Lori Van Dusen, principal at LVW Advisors, in Pittsford, N.Y. For Gregg Fisher, founder of New York–based Gerstein Fisher, the freedom to manage client assets exactly as he wishes outweighs the extra work of running an

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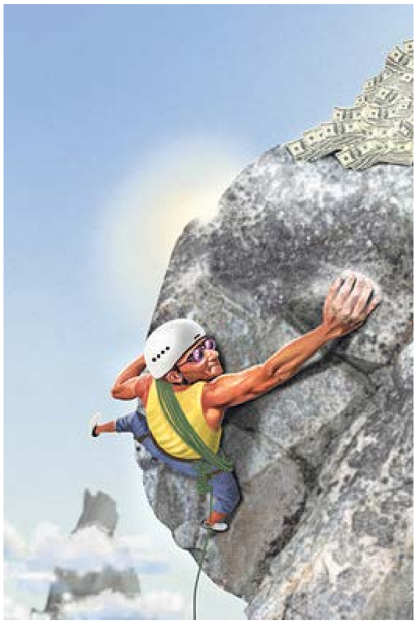

Illustration: Dale Stephanos for Barron's

independent firm. "We have a passion about creating our own strategies," says Fisher, No. 17 on this year's list.

Barron's has ranked independent advisors since 2007. As with our other advisor listings, which include names from big Wall Street firms, this one is based on assets under management, quality of practices, revenue that advisors generate for their firms, and other factors.

Investment performance is not an explicit criterion, because the clients of the advisors have widely differing goals. Since many are quite wealthy -- the typical customer of the top 100 has a net worth of $19.66 million -- the goal is often asset preservation.

But clients of the top 100 tend to be very satisfied, rewarding the advisors with lots of referrals. The top 100 indies as a group enjoy a client retention rate of 98%.

This year's top 100 independent advisors are thriving. Average team assets for 2014 were $4.3 billion, compared with $3.6 billion in 2013. Revenues jumped in 2014, as well, with the average team pulling in $20 million in 2014, up from $16.2 million in 2013.

The upward trend isn't new: Over the past five years, average assets among our top 100 independent advisors have risen a total of 43%, all at a time when the stock market rose by 116%.

As with past rankings, this year's lineup features some new names -- a total of 17 -- along with several who have bounded up the rankings:

Greg Miller, CEO of Massachusetts-based Wellesley Investment Advisors, vaulted to the 12th position on this year's list after ranking 37th last year.

Fisher went from No. 58 to No. 17. Grant Rawdin, founder of Philadelphia-based Wescott Financial Advisory Group, leaped from No. 42 to No. 22.

Van Dusen shot from No. 78 all the way to No. 29. Part of the reason: Her firm's assets jumped about 30% due to new clients, portfolio appreciation, and the addition of more advisors and their clients.

Our list includes both registered investment advisors and independent broker-dealer representatives. Though broker-dealers are traditionally known for charging commissions, many advisors now charge fees based on the amount of assets they manage; that arrangement is believed to be more advantageous to clients in many cases. Overall, the top independents are big believers in the fee-based model: Nearly 80% of their revenue is "annuitized," suggesting a heavy emphasis on fees rather than commissions.

Atop our ranking for the second straight year is Peter Mallouk, of Creative Planning, in Leawood, Kan. Mallouk's practice is known for its focus on limiting costs, minimizing taxes, and delivering consistent investment performance. We plan to profile Mallouk in a coming Best Advice article, so stay tuned.

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Forget the Housing, Here's Where the Real Money Will Be Made in Real Estate

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In the meantime, we've turned the spotlight on five other standouts from this year's list of top independent advisors, profiling them on this page and beyond.

Timothy Grimes (No. 41) hails from an early generation of independent advisors; he hung out his shingle at a time when it took special courage to do so.

John Lesser (No. 57) started his career by passing over several firms that he saw as insufficiently client-centered. Meanwhile, Nathanson (No. 53) and Rawdin (No. 22) have melded a legal background with wealth management to achieve striking success. And as you'll read, Fisher has turned a teenage obsession with tax, technology, and investing into a premier asset-management business for young investors, the ultrawealthy, and everyone in between.

Timothy Grimes

Enlarge Image

Photo: Jason Grow for Barron's

Grimes
Westborough, Mass.
Assets: $1.98 billion
Rank: 41

Thirty-five years ago, when he decided to become one of the earliest independent, fee-based financial advisors, Grimes realized he was jumping into uncharted territory.

"I was one of the few that was embracing the fee-based approach," says Grimes, 65, referring to the practice of forgoing fat sales commissions in favor of a long-term trickle of fees. "I remember having to give the whole concept an awful lot of thought."

If Grimes had been able to see the future, he wouldn't have worried one bit. Today, his firm manages nearly $2 billion for 1,448 clients, and counts 18 team members, including seven advisors. What's more, the industry as a whole has moved increasingly toward the fee-based business model -- validating Grimes' decision.

Grimes and his team are known for their fiercely independent investment management. "We work very hard to tune out the Wall Street noise," he says. "While we use some of its research, we process it in our own way and within our own culture."

A native of North Attleboro, Mass., Grimes started his career with life insurer Paul Revere, in Worcester, Mass. Among his duties: developing products such as disability-income plans and retirement plans.

Though he enjoyed the work, Grimes eventually developed an entrepreneurial itch, and decided he wanted to work one-on-one with individual clients to help solve their financial problems. Changing careers at age 30, the father of a young family knew that money would be tight at first. But Grimes had gotten to know medical professionals in the region's many hospitals in the early 1980s, when he had designed benefits packages for them -- and he worked hard to cultivate a clientele of physicians for his new advisory firm.

Today, Grimes is close friends with most of those early clients, often fishing with them or taking them to Red Sox baseball games. In fact, Grimes credits his friendships with clients for much of his business success.

The friendships help with client retention, but they also give Grimes special insight into what each client needs. "The more you know about an individual person, the better you can serve them," he says.

Grimes makes no bones about the fact that his firm's specialty is investment management rather than extensive financial planning. His son Kevin, 39, is the firm's chief investment officer.

The firm uses individual stocks as the core of its equity portfolios; they allow the firm to better control risk, taxes, and costs, and to tailor holdings to individual clients, Grimes explains. The firm uses mutual funds for tactical exposure, or the ability to seek shorter-term profits.

On the fixed-income side, the firm is using mutual funds and exchange-traded funds these days to more easily make the tactical allocations required in the challenging interest-rate environment. "That being said, as recently as three years ago, we were allocating to individual bonds, and this is something that we certainly will go back to in a different interest-rate environment," says Grimes.

Though he has no plans to retire, Grimes has had the opportunity to take stock of his long career. "My hope is that my clients' perspective is they're better off for having known me."

John Lesser

Enlarge Image

Photo: Glenn Triest for Barron's

Plante Moran Financial Advisors
Southfield, Mich.
Assets: $14.39 billion
Rank: 57

After graduating from college in 1992, Lesser had trouble finding a job -- a job he felt comfortable accepting, that is.

"When I graduated, all the finance jobs were commission-based," says Lesser, 45, who had earned degrees in finance and accounting from Oakland University in Michigan. "I wanted to be independent and objective and not work on commission."

Lesser ended up finding his ideal post with the wealth-management arm of Michigan-based accounting firm Plante Moran. More than two decades later, Lesser manages $3.9 billion of assets for ultrahigh-net-worth families, and he attributes his success to what he calls the client-first culture of his independent firm

Lesser's firm is owned by Plante Moran but is independent because they don't sell any in-house products.

Lesser has been an avid reader of the financial media since he was a child -- inspired by his auto-worker dad, who would research and trade stocks after hours. "It was his part-time passion," says Lesser.

It's Lesser's full-time passion. He takes pride in helping to deliver "personal CFO" service to wealthy clients, most of whom are business owners who have sold their companies and need help managing the windfall.

Together with his colleagues at Plante Moran, Lesser provides all of the oversight that an actual CFO would provide for a corporation. That includes investments, tax planning, risk management, and cash-flow planning, he explains.

Lesser thinks long term when creating investment portfolios for his clients but leaves enough flexibility to respond to immediate market conditions. That flexibility is useful in the current market, which is at a bit of a standstill.

"On both the fixed-income and equity sides, we're basically at full valuation," he says. "They have some room to grow, but they're certainly not on sale."

Accordingly, Lesser has been recommending more exposure to alternative investments such as long-short equity funds and tactical asset-allocation funds, which overweight or underweight different assets to respond to opportunities and risks in the market. Right now, his average client portfolio is 40% bonds, 40% equities, and 20% alternative investments, Lesser says.

Still, he cautions against some of the investments to which yield-starved investors have turned lately. Preferred stocks and high-dividend stocks are on that list. Also on the list are certain master limited partnerships and real estate investment trusts.

"In 12 or 18 months, when interest rates start to rise, there are going to be a lot of folks who don't understand what happened to their portfolios," he says.

Lesser and company have recently started to position client portfolios "slightly" for inflation, which the advisor believes may start to "heat up" over the next 12 to 18 months. That strategy means adding more "real assets," such as real estate and commodities, along with Treasury Inflation-Protected Securities, to client portfolios.

Lesser credits much of his success to choosing the right firm to work with. Virtually all of his clients have been referred from Plante Moran's accounting business. And the company's combination of wealth management, accounting, and other services allows Lesser and company to compete for clients with the likes of Goldman Sachs Group and JPMorgan Chase.

"We compete against them all the time after liquidity events [when business owners sell their equity]," says Lesser, sounding like the personal chief financial officer he strives to be. "We are able to connect the dots and provide maximum after-tax value of [potential clients'] personal balance sheets."

Michael Nathanson

Enlarge Image

Photo: Jason Grow for Barron's

Colony Group
Boston
Assets: $3.62 billion
Rank: 53

As CEO of a fast-growing independent advisory firm, Nathanson competes hard to bring in talented advisors and staff.

And to an unusual extent, he learns from them. Over the past decade, for example, the longtime advocate of buying individual securities has broadened his view to include investments like separate accounts, mutual funds, and hedge funds.

"I've had an open mind all along about the best ways to manage money," says Nathanson, who heads a 67-member team. "By using a broader approach, we've been able to grow our business faster and better."

Indeed, Colony Group has grown by about 300% over the past five years, and it's adding an average of $70 million in assets per month through new clients, investment performance, and acquisitions of advisor businesses. It now manages just over $3.6 billion for 1,575 clients.

Nathanson, 47, took a nontraditional path into wealth management. A 1991 graduate of Harvard Law School -- he sat a couple of seats away from another promising student, Barack Obama -- Nathanson began his career as a tax lawyer providing advice on income, estate, and gift taxes to private clients and businesses.

In 2004, he accepted an offer to join Colony Group, with the opportunity to eventually earn the top job. Nathanson became CEO in 2006 and chairman in 2011.

Nathanson and company are often engaged by large companies to advise executives about compensation arrangements such as restricted stock units, stock options, and deferred compensation, and to provide them with comprehensive wealth-management services. That has led to a healthy pipeline of wealth-management clients. Nathanson's typical client has a $3 million account and net worth of $8 million.

Colony's flexible investment approach has helped to set it apart within the industry. The firm uses individual securities for clients who stand to benefit from that approach, and funds for others. Likewise, it uses an active investing approach for certain clients and passive, index-based strategies for others. In some cases, Nathanson and his team recommend outside investment managers, while in others, they manage money in-house -- some of it in their proprietary hedge fund.

"We've built a platform that incorporates all those approaches," Nathanson says, "and we're paid the same no matter what."

These days, Nathanson is spending more time reassuring investors who are concerned about investing in an expensive market. "My advice is, 'Don't get hung up on where markets happen to be right now,' " he says. " 'Take a longer-term perspective.' "

When he's not in the office, Nathanson might be found practicing kung fu -- he, like two of his three children, is a black belt -- or participating in natural bodybuilding competitions. "The best that I have ever done is to finish second in my class," he says, "but my real competition is with myself."

Nathanson is the chairman of the National Brain Tumor Society, the largest nonprofit brain-tumor organization in the country. In 2000, he learned that a benign but inoperable tumor had been diagnosed in his brain. The tumor has been stable for 14 years and has responded well to medication; Nathanson experiences no side effects or significant limitations in his personal or professional life.

Nathanson says he is determined to fight against brain tumors as long as it takes to find a cure. "Initially, I worried about what it would be like to live with this tumor," he says, "but I eventually realized that it would be a source of great strength and purpose for me."

Grant Rawdin

Enlarge Image

Photo: Dave Moser for Barron's

Wescott Financial Advisory Group
Philadelphia
Assets: $2.18 billion
Rank: 22

Rawdin jumped from law into wealth management early in his career -- after deciding that investors needed zealous advocacy just as much as legal clients do.

"I was working with lots of high-net-worth people and was concerned that what was in their portfolios was not necessarily what was best for them," says Rawdin, who ran a tax and business practice at the national law firm of Duane Morris. "I thought that was a gap I could fill."

Filled it he has: Rawdin's 27-year-old practice, of which he's CEO, manages some $2.2 billion of assets for families and institutional clients such as pensions and foundations. It serves 345 households from offices in Philadelphia; Boca Raton, Fla.; Miami; and San Francisco. Rawdin, 54, is not the only attorney at his firm -- about a third of his 31-member team have law backgrounds.

Rawdin, a graduate of Temple University Beasley School of Law in Philadelphia, says the protracted recession in the legal field has allowed Wescott to snap up some of the brightest young attorneys as it grows. While the firm doesn't provide legal services, Rawdin and his colleagues use their legal training to identify and help plan for all their clients' needs, from estate planning to the sale of businesses.

"I use my law background every day in counseling clients, parsing out issues, and working through strategies," he says.

Equally important to clients is Rawdin's "advocate" attitude. As independent, fee-only advisors, he and his team don't sell or promote any investment or insurance product. Instead, they recommend the best available investments for each client based on research by an in-house team.

Westcott's investment approach is an unusual mix of active and passive strategies. Since managers who actively pick stocks and bonds charge more for their service, Rawdin and company use only those who can demonstrate a clear advantage over cheaper index funds.

"We have to be realistic about where you can achieve enhancement through active management," says Rawdin.

Today, about 65% of the typical client portfolio is actively managed. The balance of assets is invested in passive strategies managed by Dimensional Fund Advisors, a low-cost, passive manager based in Austin, Texas.

Rawdin believes that the market has "lots of performance left," and says new market highs don't always mean a plunge is in the works. "Anytime you're establishing new highs, people think you're going to fall back," he says. "But records are made to be broken; there will always be higher market levels over time."

Still, many investors fear a market slide that could seriously affect their retirements, and they're mistakenly turning to certain products designed to address that fear, he says. That includes products like equity-linked annuities, which are designed to guarantee a minimum level of return and protect the investor against the loss of principal. Critics point to the products' high costs and limited upside.

"If something out there seems innovative and addresses a fear, you've really got to dig in to it," says Rawdin. "The law of economics has not been repealed."

A married father of four, Rawdin spends his downtime on his 33-foot Sea Ray Sundancer motorboat along the Jersey Shore or showing off his travel-themed wine cellar. Rawdin's wine cellar has 1,600 bottles, acquired over 20 years. He jokes that his cellar is allocated like an investment portfolio -- 60% U.S. wines and 40% foreign. As for his professional life, Rawdin's greatest satisfaction is earning his clients' trust: "Our singular focus has always been on what's in their best interest."

Gregg Fisher

Enlarge Image

Photo: Jordan Hollender for Barron's

Gerstein Fisher
New York City
Assets: $3.03 billion
Rank: 17

On a trip to Bologna, Italy, a few years ago, after eating the best meal of his life, Fisher asked the chef how long he'd been cooking. "Ever since I came out of my mother's stomach!" the man proclaimed in Italian.

Fisher could relate: He has been in finance since age 14, when he started helping out in the family tax-preparation business in a Brooklyn, N.Y., brownstone. Assigned to complete clients' Schedule B forms (used to report interest and dividend income), Fisher decided to amuse himself by gathering and analyzing the information with the help of a then-novel home computer.

Fisher, now 43, found that the typical investor was earning subpar returns after fees and taxes. "They were making decisions independent of the tax considerations," he says, "and they were constantly attempting to invest based on predictions as opposed to observations."

Spoiler alert: The story ends with Fisher becoming an ace financial advisor. His firm, Gerstein Fisher, now manages about $3 billion of assets, a tribute to hard work, a sophisticated investment approach, and a strategy of acquiring other advisor firms.

Fisher created Gerstein Fisher in 1993, after earning a finance degree from the State University of New York at Buffalo. The Gerstein in the firm's name refers to Fisher's uncle, Ed Gerstein, who had employed his nephew in the family tax business.

"I chose the name to pay homage to him," explains Fisher. "I'd also noticed that a lot of firms had two names, and I thought I should have two names also."

As might be expected of a big successful firm, Gerstein Fisher serves very wealthy clients and institutions, and manages money for other advisors through its three mutual funds. A bit more unusual is the fact that the firm also caters to young clients with a fraction of wealthier investors' assets.

"My early clients were young accumulators," explains Fisher. "And I've remained passionate about being a firm that's willing to work with people who need help."

Fisher -- a technology geek since childhood -- uses a quantitative investing approach: He and his team employ computer-based models to evaluate potential investments.

Gerstein Fisher is known for its multifactor investing approach. In a nutshell, this means that the firm allocates assets with "tilts" toward what it sees as smart risks. Smart risks can include investing in smaller-company stocks, investing in stocks with positive recent price momentum, and investing in undervalued stocks rather than growth stocks.

Fisher is a big proponent of liquidity -- having a significant amount of assets that can be quickly turned into cash. Investors should have five years' of liquid reserves so they're not forced to cash out long-term holdings when the market is down, he says. To the contrary, he prefers to invest at such times in order to reap the market's "risk premium," or reward for supplying scarce liquidity.

Outside the office, Fisher enjoys drumming, but he's less devoted to any particular type of music than he is to finding complex rhythms to bang out. Drumming, it turns out, tickles the math area of his brain. "I love to just grab a snare drum and play syncopated rhythms," he says.

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