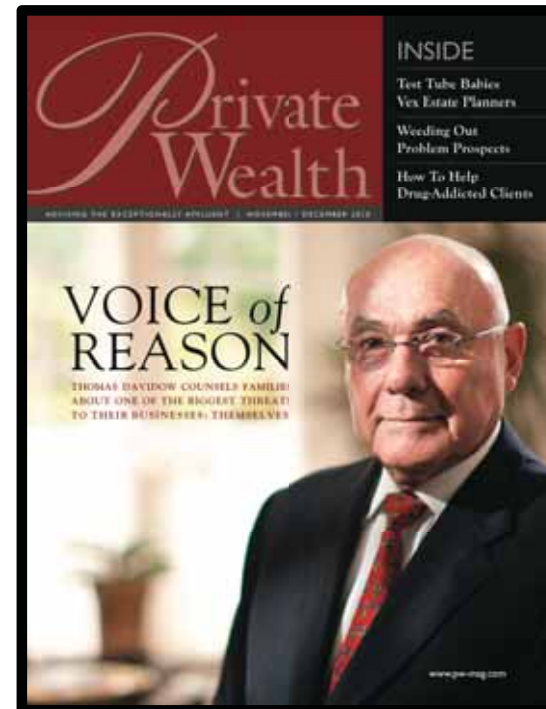


Introduction & Industry Commentary



Produced by



Introduction & Industry Commentary



Scott Dell'Orfano

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The Future of Financial Advice in America

Elliot Weissbluth, CEO



November 9, 2010



HIGHTOWER

AN UNOBSTRUCTED VIEW

1. Does the advisor work for an **independent** firm free from material and structural conflicts?
2. Does the advisor have a legal **duty** to put the client's interest first?
3. Is the advisor and the firm **sophisticated** enough to serve the client?
4. Are you benefiting from Wall Street **competition** or are you a captive customer (vs. client) of a financial services firm?

1. The Marketplace
2. Dodd/Frank Act and the Fiduciary Conversation
3. Independent Advisor Firm of the Future
 - A. Hybrid Advisors
 - B. Multi-clearing/multi-custodian

The Marketplace



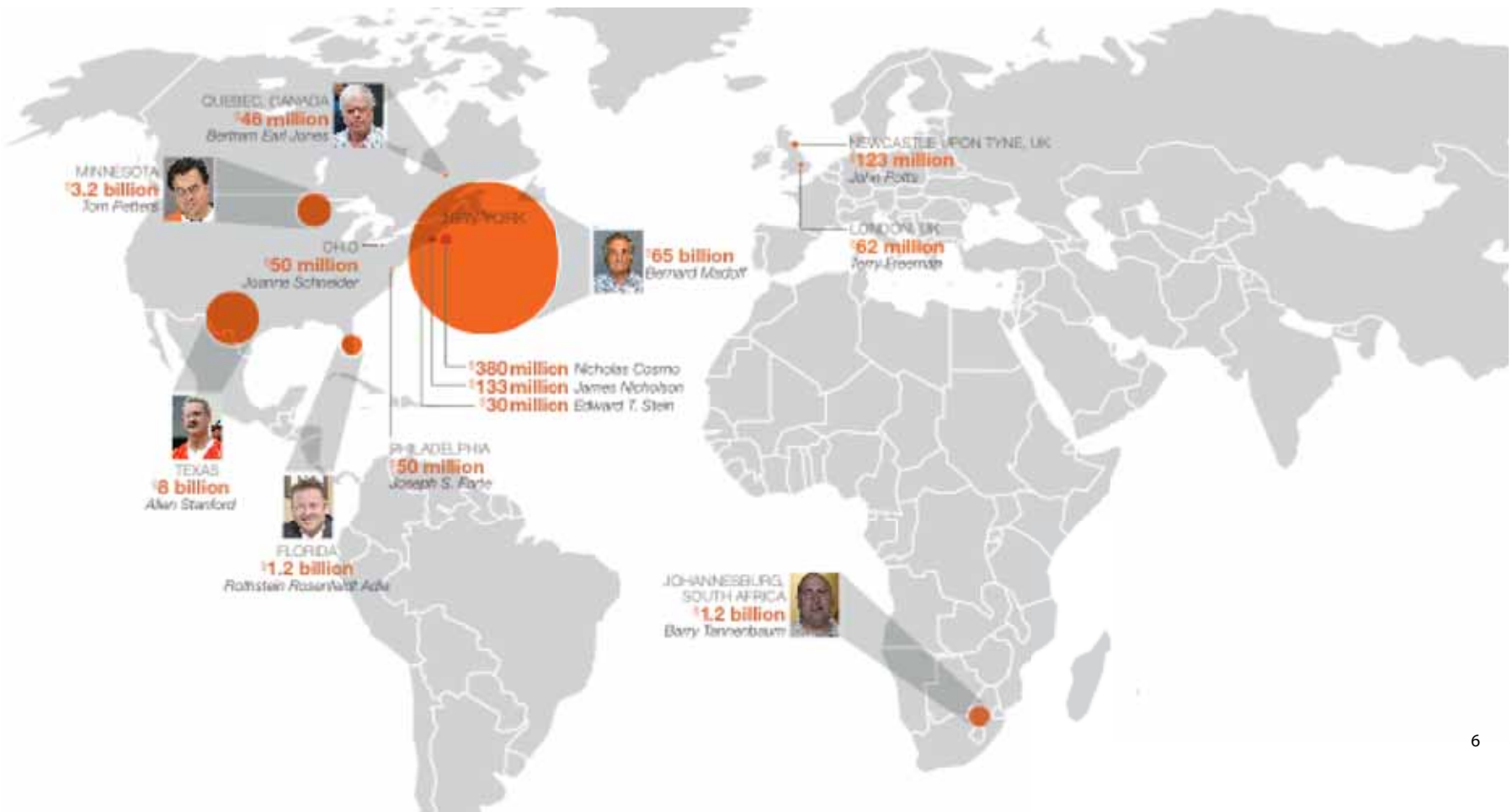
Convergence of Confidence Busters!

The Subprime Meltdown of 2008 and Wall Street Reform (Dodd-Frank Act) have accelerated the 40-year trend toward independent financial advice.



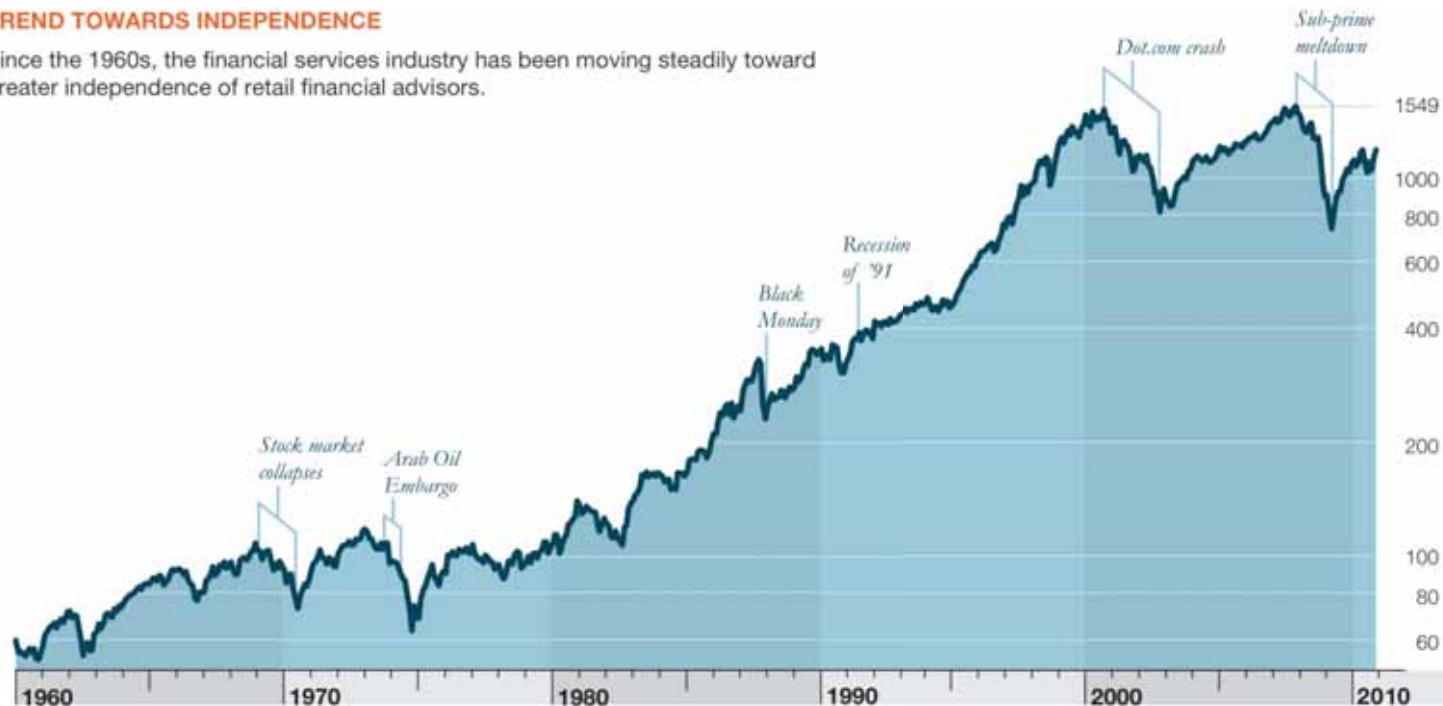
The Ponzi Pandemic of 2009

1. FBI opened 2,100 securities fraud investigations; up 20% from 2008.
2. SEC issued 82% more restraining orders against Ponzi and fraud cases than in 2008.
3. Ponzi scheme investigations make up 21% of SEC workload vs. 9% in 2005.
4. CFTC filed 31 actions against Ponzi schemes, more than double the 2008 total.



TREND TOWARDS INDEPENDENCE

Since the 1960s, the financial services industry has been moving steadily toward greater independence of retail financial advisors.



60's The stock market reaches all-time high.

Led by the "Nifty Fifty" DJIA stocks, and the spreading acceptance of mutual funds, the S&P 500 Index broke 100 for the first time in market history.

70's Birth of financial planning.

Fund salesmen launch comprehensive planning, followed by the LAFP and the College for Financial Planning.

80's Rise of Technology

The HP 12c, Lotus 123, and the Internet shift securities information from wirehouse mainframes onto the desks of independent advisors.

90's The Shift to Fees

Lead by NAFPA, better practice economics and stronger identity with the client shifted the industry to fees, culminating with Merrill Lynch and the other wirehouse going "fee only."

2010 The Dodd-Frank Wall Street Reform Act

Section 913 calls on the SEC to study a fiduciary standard for brokers, raising awareness of the client-first issue in the media and among consumers.

Since 2007, Half of America's Major Brokerages Have Closed Their Doors

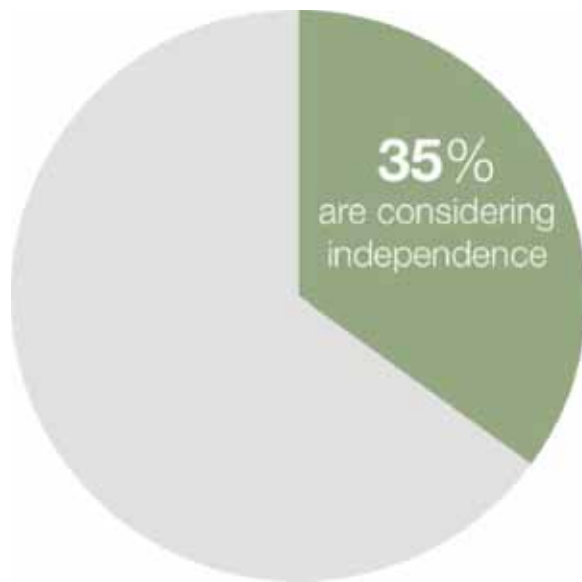
MAJOR WIRE HOUSES

- Surviving firms (2010)
- Shuttered firms (2007)

Assets under management
(in billions)

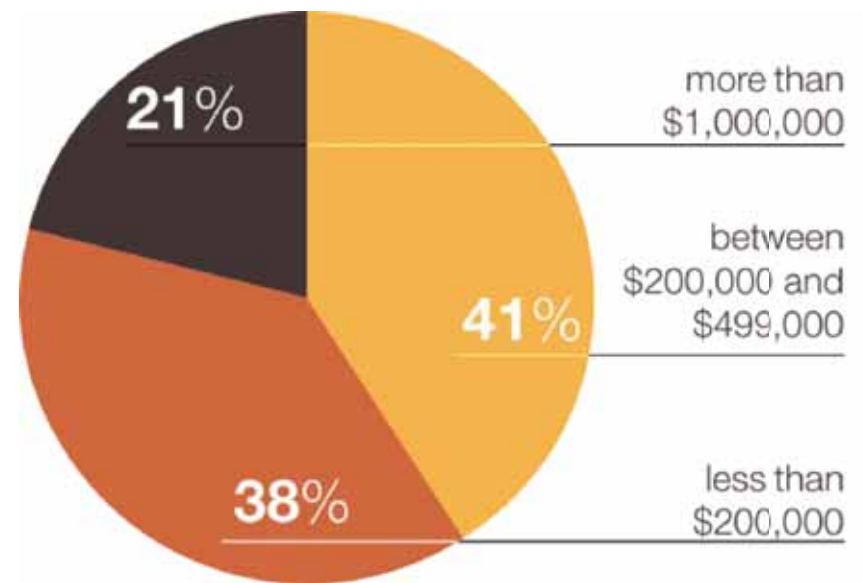


Note: *Lehman Brothers was not absorbed



Brokers at major firms who are considering independence*

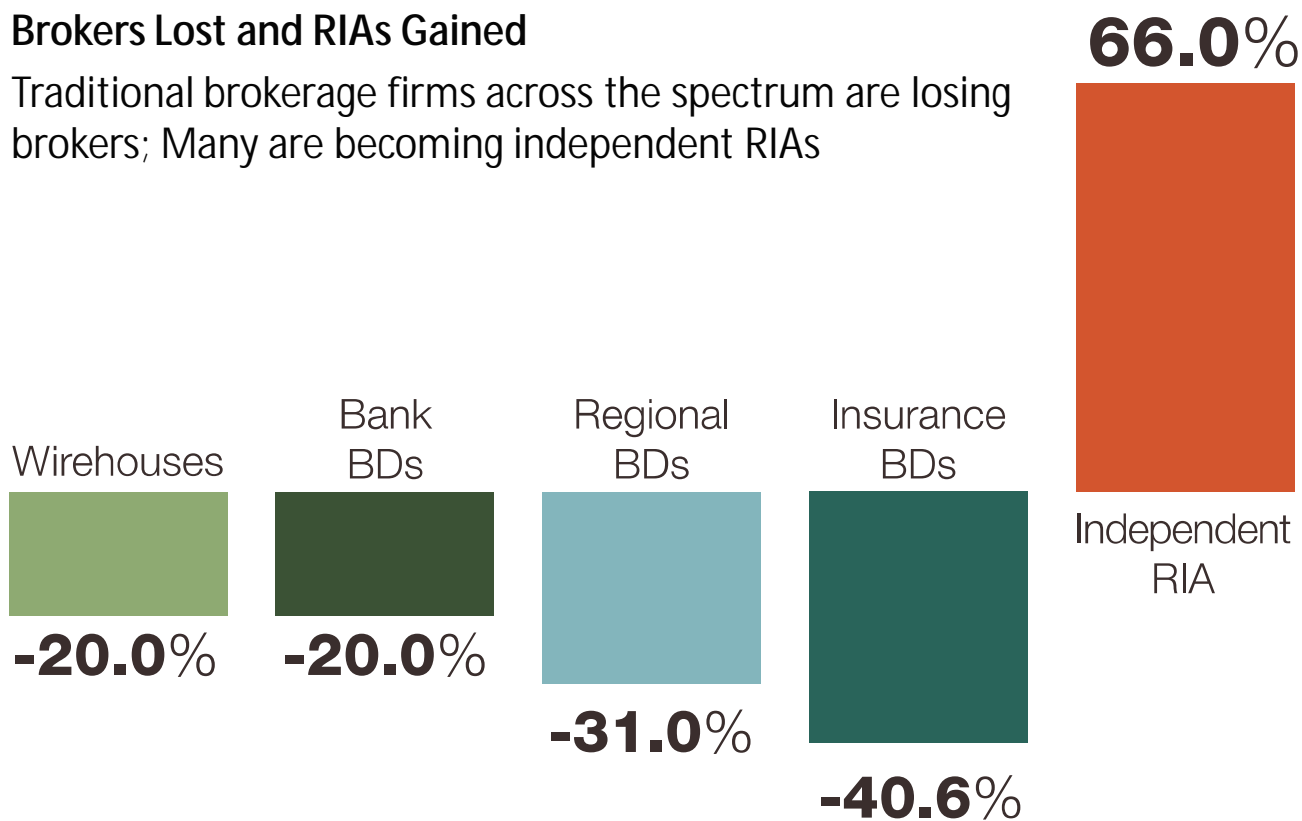
* denotes: 10,000+ reps



Average client size of breakaway brokers

Brokers Lost and RIAs Gained

Traditional brokerage firms across the spectrum are losing brokers; Many are becoming independent RIAs

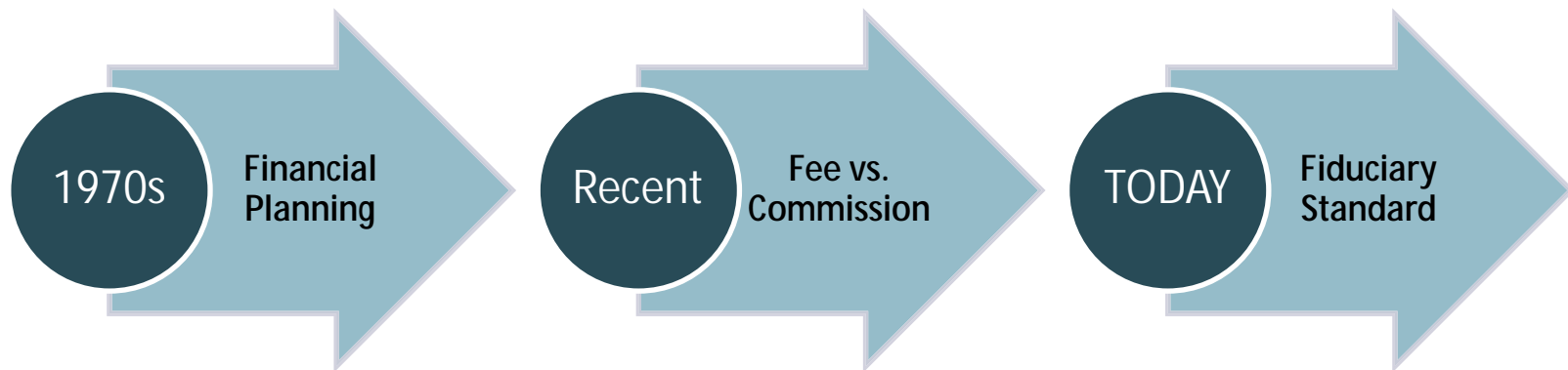


Source: May 2009, TowerGroup Study (from 2002 to 2009)

Over 7,300 brokers left the four wirehouse firms -- MSSB, BoA/Merrill Lynch, Wells Fargo Advisors and UBS -- from the beginning of 2009 through June 2010. Aite Group, 2010

While the combined AUM of the four firms fell 16% from 2007 to \$4.75 trillion through 2009, the independent firms grew their AUM 14% to \$1.54 trillion over the same period. Aite Group, 2010

Which Brings Us to the Fiduciary Standard...



Dodd/Frank and the Fiduciary Conversation



1. **60%** of retail investors think that insurance agents have a fiduciary duty to their clients. Opinion Research Corp., 2010.
2. **66.7%** think that stockbrokers have a fiduciary duty. IBID.
3. **76%** think that anyone who calls themselves a “financial advisor,” “financial planner,” or “investment advisor,” has a fiduciary duty. IBID.
4. **Most investors** don’t understand the difference between a “fiduciary” and a “broker”. Rand Report, 2009.
5. **Most investors** do not appreciate the internal structural conflicts of interest between the “broker” and the “desk”. Various.

“Lord, make me chaste... but not yet.”
— St. Augustine of Hippo

Updated St. Augustine’s famous prayer to:

“SEC, make us fiduciaries, but not most of the time.”

1. 2300 pages, 14 dedicated to the “Fiduciary” standard section.
2. Directs SEC to “consider” adopting a uniform Fiduciary Standard.
3. 14 categories of “considerations” the SEC should “consider” during its “study” of existing regulatory gaps and inconsistent standards of care.
4. Only instruction is to “study” and report findings in January.
5. Conveys “rulemaking” authority, but does not require the SEC to actually make any rules.
6. Beyond the study, no mandate to actually do anything.

Example:

"... Such rules shall provide that such standard of conduct shall be not less stringent than the standard applicable to investment advisors under section 206(1) and 206(2)..."

What it DOES NOT reference is section 206(3), the applicable rules for principal trading.

"[wirehouse] strongly believes that when implementing a new, harmonized standard of care, the Commission should issue specific guidance or relief *to ensure firms' ability to continue to transact investment products as principal.*"

Translation: preserving the lack of fiduciary duty for principal trading so our desks can continue to do what is in the firm's interest.

Another major wirehouse firm's letter:

"We believe that any principal trading relief granted in connection with the adoption of a new, harmonized standard of care *should allow clients to purchase a firm's proprietary products and securities from the firm's own inventory.*"

Translation: we should not owe a duty to our clients when we sell them OUR products or product we bought to sell to our clients for a profit.

" Giving financial professionals flexibility in how to satisfy a fiduciary standard of care would permit them to truly act in their client's best interest and also would ensure that investor choice is preserved."

Translation: Sometimes clients choose to do things that in are our interest, not theirs, and we don't want to lose that flexibility.

"The Dodd-Frank Act also specifies that a broker-dealer would not be required to have a continuing duty of care or loyalty to a retail investor after providing personalized investment advice. Wirehouse supports incorporating such a provision into any rulemaking, as we believe clients should be able to elect to receive (and pay for) personalized investment advice *only when they want it.*"

Translation: Preserving the absence of a fiduciary duty when it serves the bank's interest to do so.

Industry Comment Letter (Aug. 30, 2010)

Rightly, section 913(g) of the Dodd-Frank Act does not require the standard of care to include the principal trading restrictions of section 206(3) of the Advisers Act. Congress did not include section 206(3) **because it would have inappropriately deprived retail customers of the benefits of access to broker-dealer inventories of a range of securities.** Accordingly, trade-by-trade disclosure and consent requirements of section 206(3) of the Advisers Act should not be applied to principal transactions that are subject to the uniform standard of care where the broker-dealer or investment adviser does not have discretionary authority regarding the customer account.

Translation: Your Brokers may have a duty to you, but their Trading Desks do not.

"We'll act like a fiduciary, just don't call us one."



Industry Association Comment Letter (Aug. 30, 2010)

In Determining the Appropriate Standard of Care for Broker-Dealers, the **Commission should not increase investor confusion by labeling the standard as Fiduciary.** We are concerned that if broker-dealers are, in the future, deemed to be "fiduciaries," **retail customers will be confused when different financial services providers, e.g., broker-dealers, investment advisers, and bank trust departments, represent to their customers that they are fiduciaries.**

Translation: "Let brokers act like investment advisers without having to meet the standards of investment advisers."

“Being a Fiduciary means you get fewer products”

Wirehouse Comment Letter (Aug. 30 2010)

The rules relating to the standard of care must be carefully designed to allow retail clients full access to the wide range of investment products and services they enjoy today. Retail clients are not looking for “one size fits all” investment solutions, and any rule-making should be “business-model neutral.”

“We told you so ...”

Industry Comment Letter (Aug. 30, 2010)

Retail customers should be provided with disclosure at the very outset of their relationship – when they open an account with the investment adviser or broker-dealer. This would provide retail customers with the clear understanding from the beginning of their relationship with the broker-dealer or investment adviser of the obligations and duties of the broker-dealer or investment adviser. In addition, *the retail customer would have an opportunity to make an informed choice after assessing whether any material conflicts of interest are not appropriate in light of his or her investment objectives.*

Translation: “When we first meet, you’ll sign a document that says we’ve told you we might have conflicts. We won’t tell you when conflicts actually arise—it will be up to you to spot them. ”

“Just check out our website ...”

Industry Comment Letter (Aug. 30, 2010)

The disclosures in account opening documents *could be permitted to reference a website where more detailed disclosure is available*, including more *specific disclosure of conflicts of interest relative to particular products*.

Translation: “When we first meet, you’ll sign a document that says we’ve told you we might have conflicts of interest and provides a reference to our website for a description of potential conflicts. Our website that will guarantee you won’t fully understand the conflicts.”

How will you know when your broker is not acting as a fiduciary?

Financial Services Roundtable Comment Letter (Aug. 30, 2010)

The findings indicate that the risk and actual effects of customer confusion are less severe than imagined, and that the focus should instead be on ensuring that customers understand three critical issues before engaging a financial professional. First, what services am I contracting for? Second, at what cost? And third, what conflicts of interest may impact what you recommend to me?

The answers to these three questions are at the core of any relationship with a trusted provider of services. *Strengthening disclosure rules to provide this information in a clear and simple format may be more useful to customers than applying a uniform fiduciary standard on broker-dealers and investment advisers, because the information is very similar to the type of information customers seek whenever they contract for services, whether they are contracting with an auto mechanic, a babysitter, or a real estate agent.*

"Trusted Service Providers"



Financial Services Roundtable Comment Letter (Aug. 30, 2010)

These worthy goals can be achieved without subjecting broker-dealers and investment advisers to identical legislative and regulatory regimes that may not acknowledge the different services and products provided by these professionals.

Weissbluth's Pictogram

Sales = “broker” = butcher
(Frank)



Service = “fiduciary” = dietitian
(Sue)



Bad News: "Fiduciary Lite" = Low Tar Cigarettes



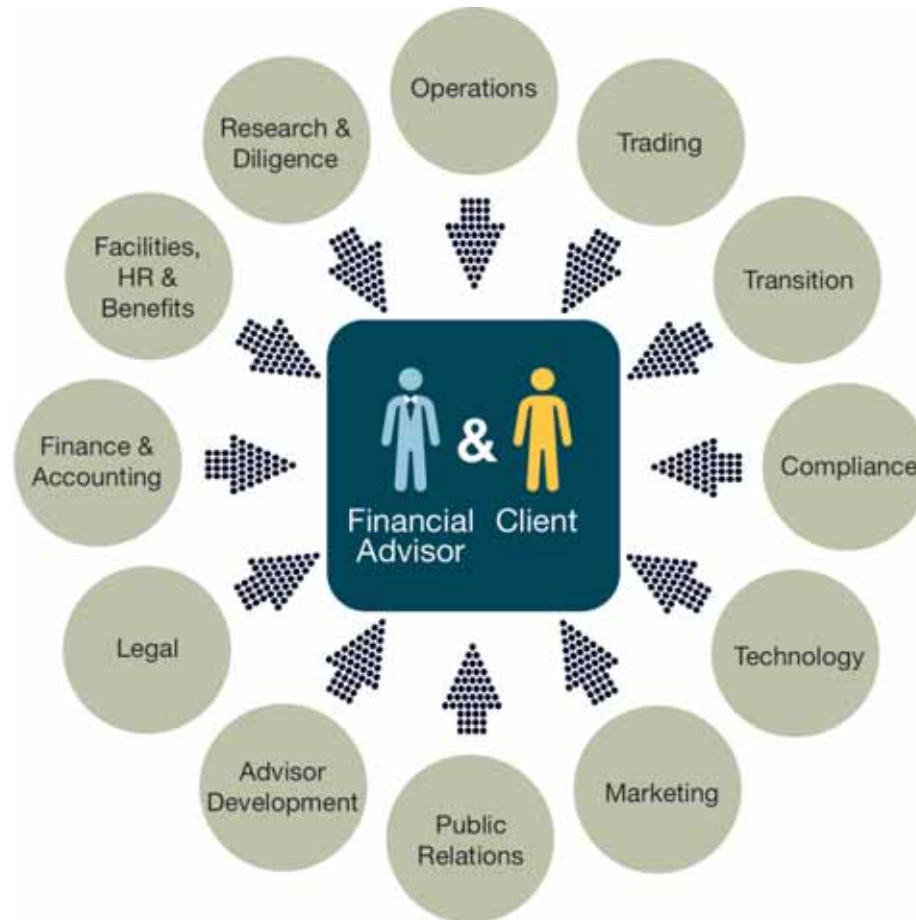
Today, the media and the public are trying to UNDERSTAND what a true fiduciary is and who isn't a fiduciary.

1. More questions and areas of diligence.
2. What is a "Fiduciary"?
3. Is my advisor a "Fiduciary" or not?
4. If so, is that really good for me? (Sue)
5. If not, is that really bad for me? (Frank)

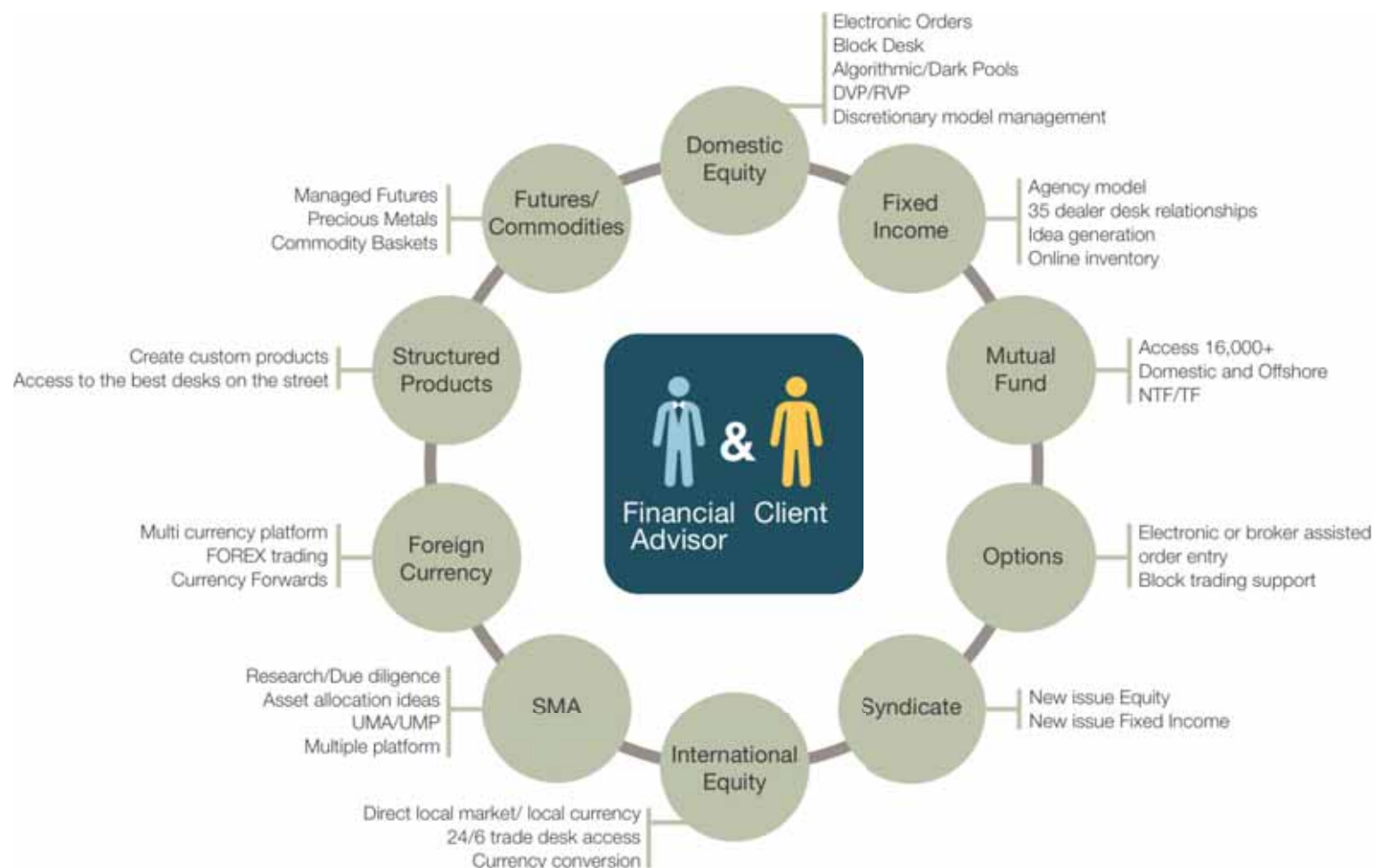
Independent Advisor Firm of the Future:

Hybrid
Multi-Clearing/Multi-Custodial





Robust Trading Capabilities



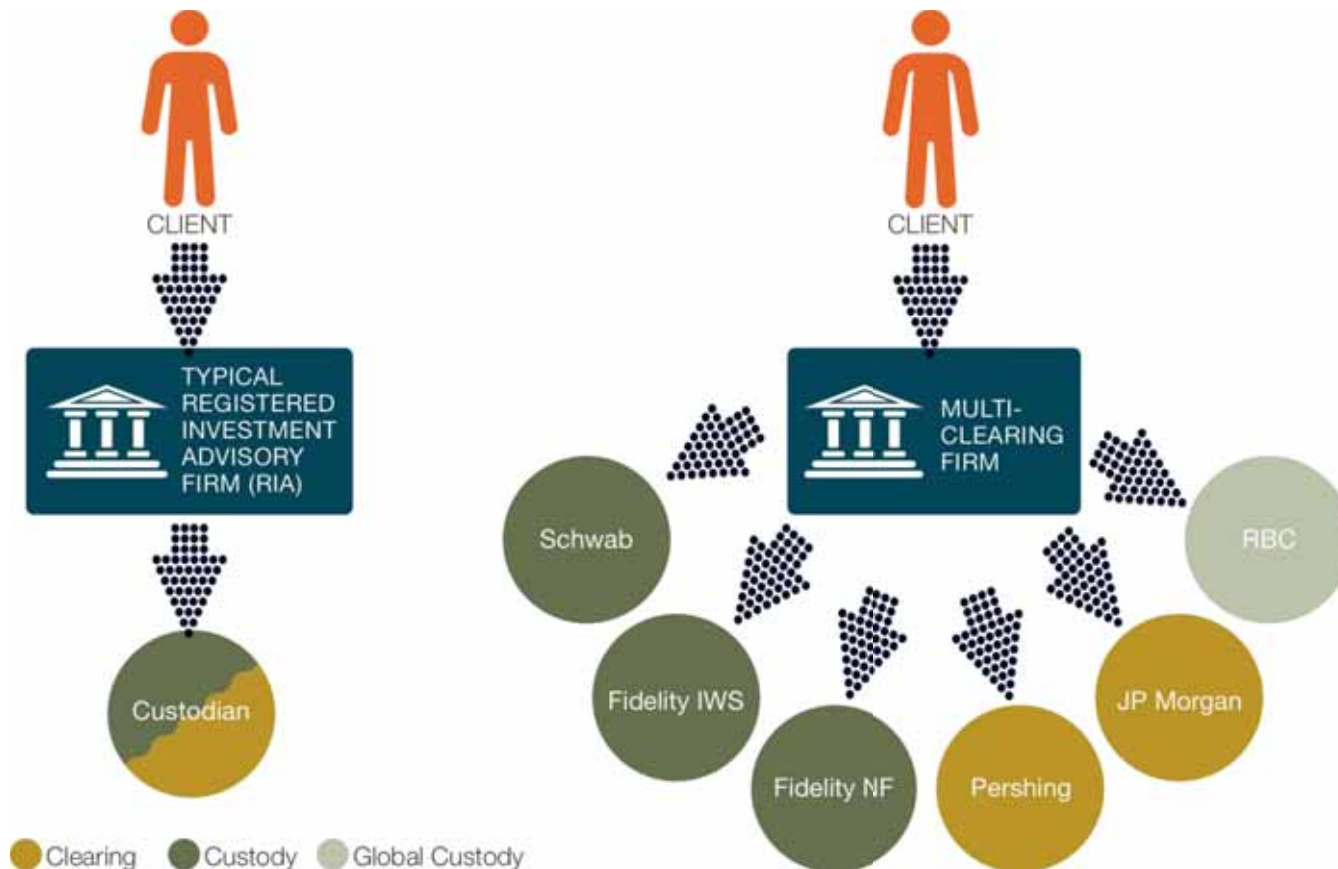
Sophisticated, High Net Worth Capabilities



1. **Advisor Owned**
2. **A Clear Legal Duty to put Clients Interests First**
3. **No Structural Conflicts**
4. **National Scope and Scale**
5. **A Broad Unconflicted Service Menu**
6. **Open Source/Open Architecture fostering competition**
 - Multi-Custodial
 - Multi-Clearing

RIA vs. Multi-Clearing

Smaller RIA firms lack the scope to offer their clients options and competitive pricing.



Multi-Clearing/Multi-Custodial Infrastructure

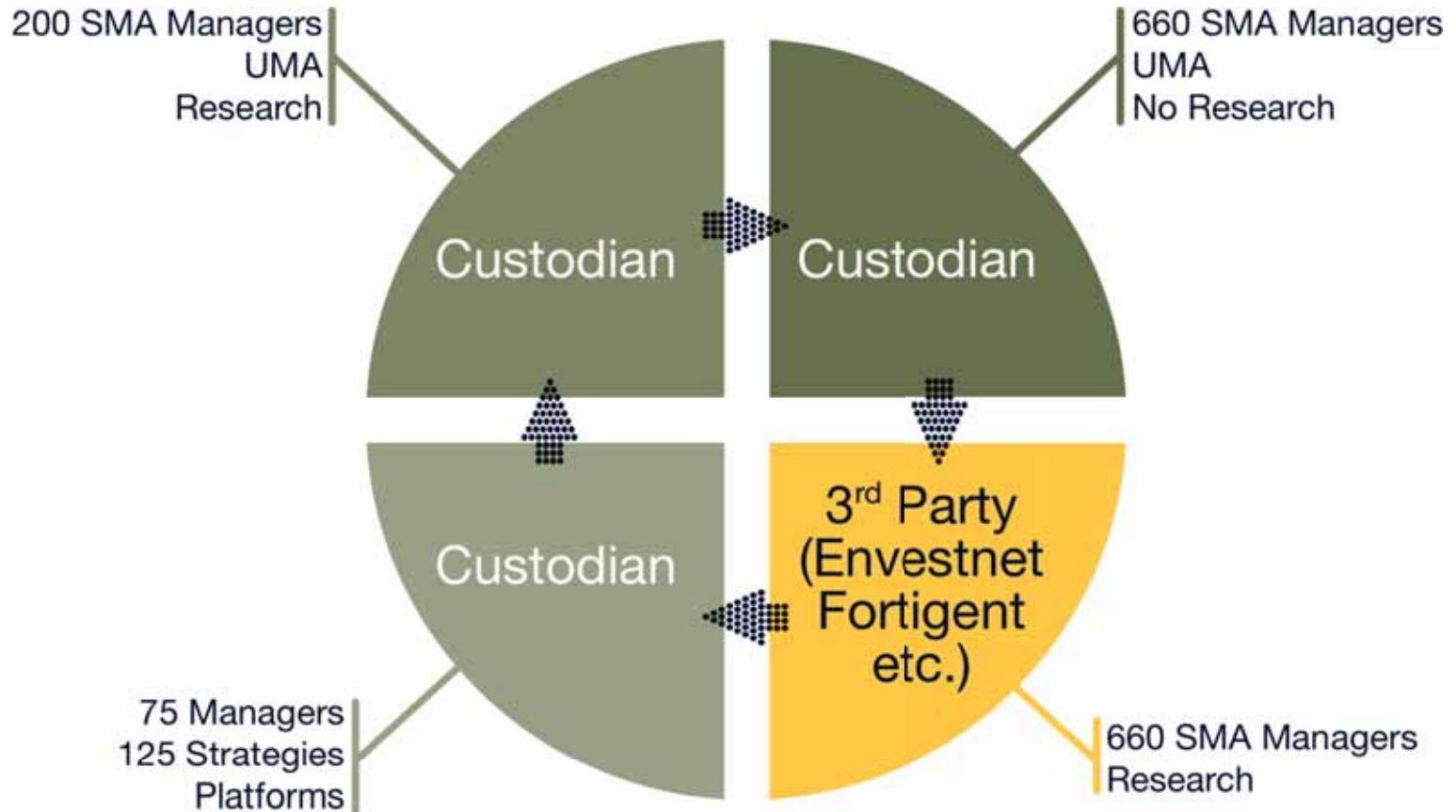


Access

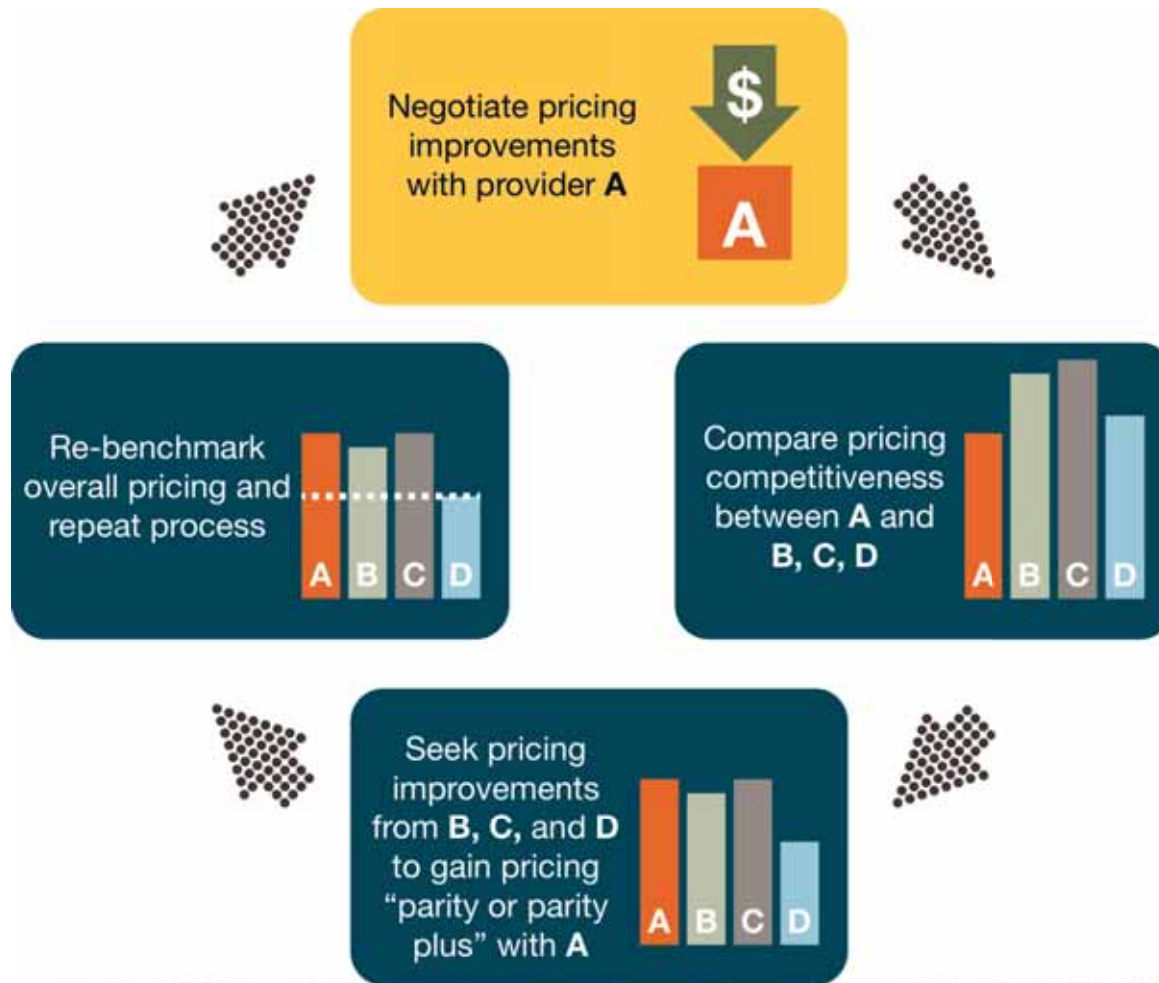
Competition

ACCESS

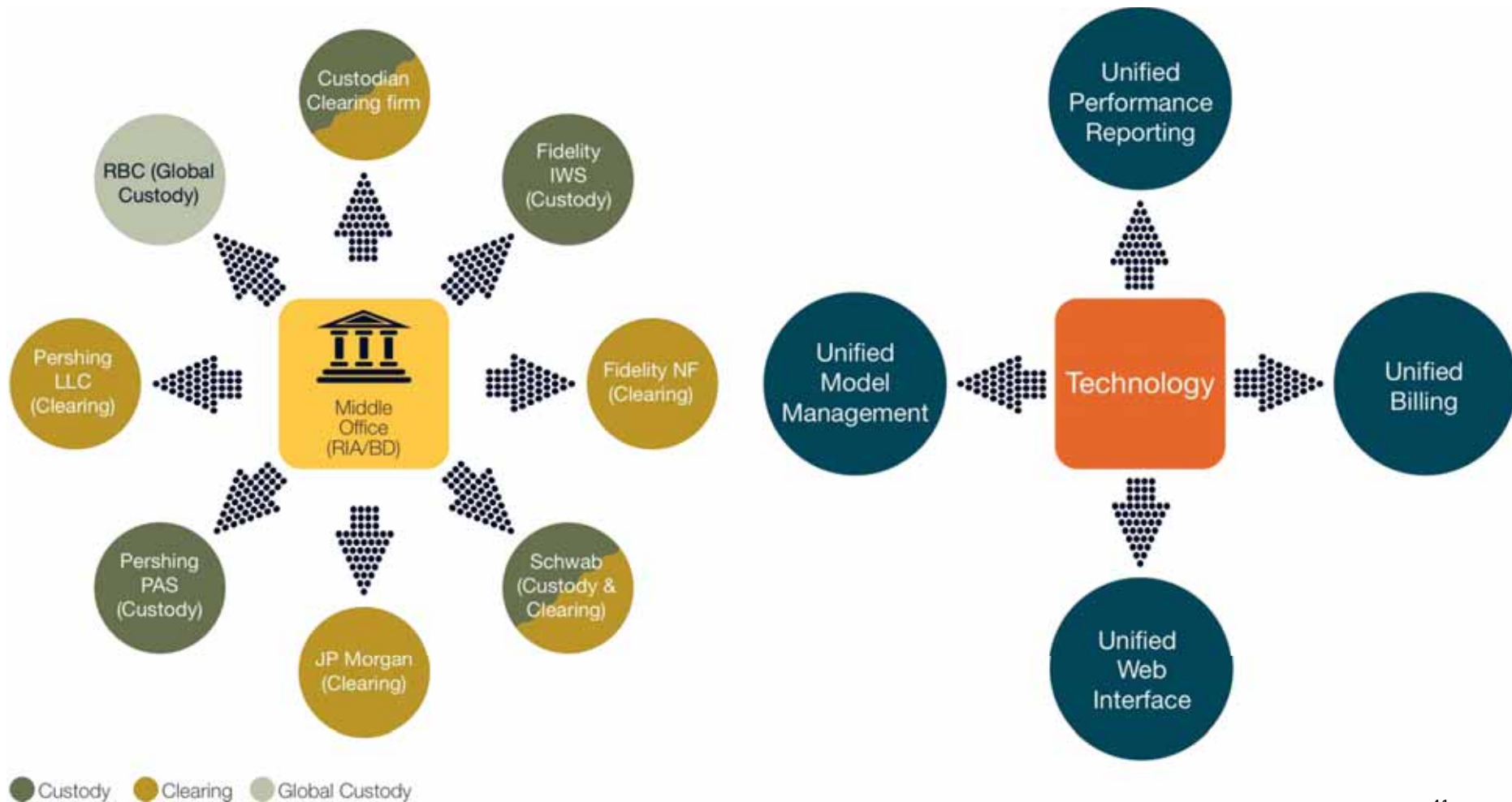
Example: Independents Access to SMA Access



Power of Competition: Pricing Leverage



Unifying the Client's Points of Contact Not Proprietary



To serve high net worth and institutional clients, tomorrow's financial advisors need the independence of smaller RIAs and sophistication of large brokerage.

**Tomorrow's independent advisory firm
will offer them both.**

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