

# Battling for Billionaires

By Anthony Effinger and Gregory Cresci

◆ Beneath a pine-fringed park in Gig Harbor, Washington, on the banks of Puget Sound, George Russell is hunting for megamillionaires.

Russell, 73, runs Threshold Group, an investment boutique catering to some of the most-exclusive—and -sought-after—clients in private banking: families worth more than \$100 million.

The street-level park, with waterfalls and a reflecting pool, is actually the roof of Threshold's headquarters. Russell commissioned the ecofriendly building, constructed from recycled steel and wind-fallen timber, after making his own fortune at Frank Russell Co., the pension adviser famous for the Russell stock indexes. He sold that firm, which was founded by his grandfather, for about \$1 billion in 1998.

For generations, family offices, as firms such as Threshold are known, have quietly minded the personal fortunes of Mellons and Rockefellers. Now, a growing number of them are stepping out of the drawing room to try to grab business—and profits—from Wall Street. Part investment adviser and part concierge, the family office has opened a new front in an escalating battle for the assets of the superrich.

Originally established to tend Russell's riches, Threshold is trying to wrest other families' lucre from Wall Street brokers and money managers. To take on giants such as UBS AG, the world's biggest manager of rich people's money, Threshold offers services the ordinary bank doesn't. For an average annual fee of about \$720,000, Russell's 25 employees and contractors do more than find investments and manage trust funds for clients; they also build vacation getaways, compile family histories and choose caretakers for private islands. For their boss, they look after a 105-foot (32-meter) yacht, *Shadowfax*, which has a full-time captain and mate.



Family offices are vying with Wall Street private bankers to manage \$92 trillion for the world's richest clans.

'I want \$200 million families,' says Threshold founder **George Russell**.





UBS's **Anthony DeChellis** says few family offices turn a profit.

Since January 2004, Threshold has lured five families, each worth at least \$100 million, Russell says. He wants 40. Demand for his firm's services is so brisk that he's considering doubling his minimum, he says. "I want \$200 million families," says Russell, who says he counts among his friends U.S. Secretary of State Condoleezza Rice and imprisoned Russian oil tycoon Mikhail Khodorkovsky.

At stake is a large—and growing—market of überaffluent people. About 1 million families around the globe are worth more than \$10 million, says Russ Prince, president of Prince & Associates Inc., a Redding, Connecticut-based consulting firm, and the author of more than 30 books on private wealth. Together, those people control \$92 trillion in assets, he says. By 2008, the number of \$10 million broods will swell to 1.9 million, Prince predicts. Those families will have at their disposal a combined \$154 trillion, an amount equal to 13 times the 2004 output of the entire U.S. economy. If those families were to pay annual fees equal to 0.25 percent of their assets for financial advice, the current industry minimum, brokers and money managers will be chasing total commissions of \$385 billion.

Family offices are vying for a bigger slice of that fortune. As many as 100 of these firms, most of which were created by individual families, have begun to woo other rich people and become multifamily offices, says Thomas Livergood, founder of Family Wealth Alliance LLC, an Oak Brook, Illinois-based firm that finds financial advisers for the affluent. Among them is the granddaddy of U.S. family offices: New York-based Rockefeller

& Co., which handles the finances of the roughly 140 direct descendants of John D. Rockefeller and manages about \$15 billion.

Livergood estimates there are 5,000 or so family offices worldwide. The assets of these obscure, often secretive companies are growing faster than those of some big-name securities firms. The client assets of 69 multifamily offices tracked by Bloomberg grew by an average of 26.6 percent in 2004. Total assets under management at the individual investor unit of Merrill Lynch & Co. rose 8 percent, while those at Morgan Stanley were up about 7 percent.

Banks, mutual fund companies and securities firms are fighting back. In 2004, Zurich-based UBS launched a U.S. unit catering to people with \$10 million or more. The 152-year-old U.S. Trust Corp., owned by discount broker Charles Schwab Corp., has formed a division that helps the wealthy find hedge funds, real estate and timberland. Wilmington, Delaware-based Wilmington Trust Corp. has gone Hollywood and bought Beverly Hills, California-based Grant Tani Barash & Altman Inc., which caters mostly to actors, directors, musicians

and movie executives.

Fidelity Investments, the Boston-based mutual fund giant, plans to roll out a family office service in 2006, spokeswoman Jennifer Engle says. And Merrill Lynch and Morgan Stanley are aiming at the rich to bolster profit and sustain their thousands of retail brokers.

All of these firms want wealthy customers for the same reason: Managing money for the rich is lucrative. With pretax profit margins of 35 percent and up, a private bank is about twice as profitable as an ordinary brokerage, where margins are as thin as 18 percent, according to an October report by Andrew Collins, a senior research analyst at Piper Jaffray Cos. in New York.

The concierge services offered by family offices and some of their Wall Street imitators destroy those margins, says Anthony DeChellis, head of U.S. private wealth management at UBS. Family offices typically spend so much

catering to clients that few make any money. "I'd be shocked if one in 10 is profitable," DeChellis, 43, says.

DeChellis says his company doesn't try to do everything a family office does, such as walking the Weimaraner down Park Avenue. "We do not do concierge," he says.

Family office fans say Wall Street firms will have to sacrifice their fat private-banking margins to win over the wealthy. Some banks and securities firms are already struggling to hold on to their richest clients, says Maria Lagomasino, former chief executive officer of JPMorgan Private Bank, a unit of New York-based JPMorgan Chase & Co. The meteoric rise

By 2008, the number of \$10 million families will swell to 1.9 million worldwide. Those people will sit atop a combined \$154 trillion.

and fall of companies such as WorldCom Inc. laid bare the conflicts of interest that pervaded the securities industry during the 1990s. In 2003, Citigroup Inc. and nine other Wall Street banks agreed to pay \$1.4 billion, without admitting or denying wrongdoing, to settle regulators' claims that their analysts issued biased stock research to win investment banking business. After such revelations, some rich clients began to flee Wall Street for family offices. Family offices offer independent advice and, unlike Wall Street firms, don't push their own investment products, Lagomasino, 56, says. "The clients are voting with their feet," she says.

Private bankers such as Lagomasino have done the same. She left JPMorgan in March and in November became CEO of Asset Management Advisers LLC, a Palm Beach, Florida-based multifamily office founded by Hap Perry, whose extended family started the Ballantine beer company. Last May, Peter Scaturro, the former CEO of Citigroup's global private bank, joined U.S. Trust as CEO.

These days, *family office* has become a catchphrase in financial services. During the 1980s, investment advisers angling for rich customers took to calling themselves financial planners. Then, in the '90s, financial planners started billing themselves as wealth managers. "In this decade, you call yourself a family office," Livengood says.

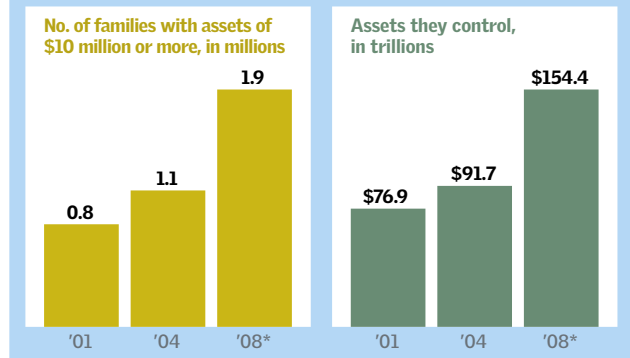
So many firms are calling themselves family offices nowadays that Livengood has proposed a set of standards to the industry. Among other things, full-service multifamily offices should focus on at least 10 families with median assets of \$20 million and handle everything from money management to philanthropy, he says. He estimates that only about 30 family offices meet all of the criteria. "There are a lot of pretenders," he says.

As competition heats up, making money off the rich will get tougher for everyone. Most financial companies charge a flat fee for managing wealthy clients' money, usually from 0.25 percent to 1 percent of assets under management. Adding another client doesn't necessarily mean adding more staff, so profit margins widen as assets swell.

Trouble is, catering to rich people's other needs is far less profitable, says Kaycee Krysty, CEO of Seattle-based Laird Norton Tyee, one of the oldest multifamily offices in the U.S. The Lairds and the Nortons, sawmill owners from Winona, Minnesota, helped Frederick Weyerhaeuser buy 900,000 acres (364,217 hectares) of timberland in 1900. That purchase became the basis for Weyerhaeuser Co., the world's largest lumber company. The Laird Norton clan set up a family office in 1967 and has been courting other families since 1979. "There is the impression in the financial services industry that there is a fat hog to cut," Krysty, 54, says. "It's not an easy business to make money in."

Scions of wealth demand personal attention, and that costs money, Krysty says. "Nobody is going to go through a voice-mail tree," she says. "They just want stuff handled."

**Getting richer** The number of families with total assets of \$10 million or more is expected to jump 73 percent by 2008.



\*Projection. Asset figures exclude fortunes larger than \$2.4 billion. Source: Prince & Associates

Teri LaMar agrees. LaMar, 37, is a partner at Seattle-based Bristlecone Advisors, a multifamily office that grew out of the family office of a wealthy venture capital investor. Several years ago, when LaMar was at another family office, one of her clients called from Mexico. The woman had left her favorite sun hat—a straw one with purple dragonflies—in her closet back home. LaMar went to the woman's house, retrieved the hat and overnighted it to Mexico.

Grant Tani is one of the most-hands-on firms out there, partly because it deals with young actors and directors who suddenly have a lot of money and not a lot of time, says Howard Altman, one of the firm's partners. "There are a lot of human beings, hands and eyeballs that are involved in this," Altman, 41, says. Wilmington Trust said in November it plans to expand Grant Tani's services to the East Coast.

Patricia Soldano, CEO of Cymric Family Office Services, a multifamily office in Costa Mesa, California, has canceled the credit cards of deceased clients and helped relatives decide who gets what spot in the family burial plot. "The margins are in the asset management," Soldano, 56, says.

Wall Street has been chasing those fat margins for years. Merrill Lynch set up its multifamily office division in 1993.



Consultant **Natasha Pearl** helps rich people find chefs and private jets.

## Family fortunes

These family offices cater to some of the wealthiest clients.

Firm (location)	Year started
<b>U.S. Trust</b> <sup>1</sup> (New York)	1853
<b>Rockefeller &amp; Co.</b> (New York)	1884
<b>Whittier Trust</b> (South Pasadena, California)	1935
<b>Laird Norton Tyee</b> (Seattle)	1967
<b>Mahoney Cohen Family Office Services</b> (New York)	1969
<b>Gries Financial</b> (Cleveland)	1978
<b>Cymric Family Office Services</b> (Costa Mesa, California)	1987
<b>Asset Management Advisors</b> <sup>2</sup> (Palm Beach, Florida)	1989
<b>Frye-Louis Capital Management</b> <sup>3</sup> (Chicago)	1992
<b>Threshold Group</b> (Gig Harbor, Washington)	1998

<sup>1</sup>Now part of Charles Schwab Corp. <sup>2</sup>Now part of SunTrust Banks. <sup>3</sup>Now part of Credit Suisse Group. Sources: Family Office Exchange, firms

Today, New York-based Merrill has a total of about \$1.7 trillion in assets under management. The firm doesn't break out the share held by wealthy clients. Those with \$75 million or more get top treatment.

"We're the ones who know what the bill ought to be for your electricity," says Thomas Sweeney, 47, who runs Merrill's family office group. "We've helped people with adoptions. We can help you with your aircraft strategy. People say, 'Do I buy? Do I lease? Do I charter? Do I just ride first-class?' We can do analysis on that."

**D**eChellis says he gets calls every week from people who are considering a multifamily office. He says he tries to win them over with UBS's network of 150 private wealth advisers and history of dealing with some of the richest families in the world.

G. Moffett Cochran says Wall Street firms will have to offer more than just money management to keep wealthy clients. Cochran, 55, knows something about money—old and new. He left Credit Suisse First Boston, where he was the head of Credit Suisse Asset Management LLC, in 2001 and took 31 people with him to start Silvercrest Asset Management Group LLC in New York.

Silvercrest's offices, 38 stories above Sixth Avenue, have decorative touches that recall the antebellum South. A portrait of Archibald Stuart, Cochran's great-great-great-grandfather, hangs in the reception area. Stuart was a friend of U.S. President Thomas Jefferson, and family lore has it that Jefferson designed Cochran's ancestral home, which was built in Virginia in 1792.

Silvercrest controls costs partly by segmenting its business. Clients with at least \$10 million get investment advice

and access to most services. Those with \$25 million and up have no limits. The receptionist is a trained travel agent who has airline booking software on her computer.

One client called a day before the seventh and final baseball game of the 2003 American League Championship Series between the New York Yankees and the Boston Red Sox, looking for tickets. And not just any tickets: The seats had to be on the third-base line, Cochran says. "To my great surprise, we were able to do it," he says. "The tickets weren't cheap, but we were able to do it, and I think they were duly impressed."

Families often open offices after the number of offspring sharing the wealth gets unwieldy. Mellon Family Office, a division of Pittsburgh-based Mellon Financial Corp., started as the family office for the Mellons, whose most famous member, financier Andrew Mellon, served as U.S. Treasury secretary in the 1920s and early '30s. By 1970, there were so many people with trusts from the family fortune that the bank started a division to administer them and handle family philanthropy. Soon after, the division opened its doors to other wealthy families.

The minimum net worth today is \$100 million. Despite that high minimum, Mellon Family Office added more new families in 2005 than any other year in its history, says Don Heberle, executive director of the family office unit. "We're having a very good year," Heberle, 39, says.

After building his own fortune, George Russell set out to court fellow mega-millionaires. His road to riches started in 1958, when he graduated from Harvard Business School and went to work for his grandfather, Frank Russell, who bought and sold stocks in a small office in Tacoma, Washington. Three months later, Frank Russell died, and George took over the firm. He couldn't afford a new chair for his grandfather's desk, which was too high for the young man. So he cut 4 inches off each of the legs.

Russell spent the next four decades building his grandfather's firm into the largest U.S. pension adviser. Early on, he decided to



Silvercrest's **G. Moffett Cochran** says the wealthy want more than money management.



go for just 40 big clients. By 1974, he had signed up General Motors Corp., International Business Machines Corp. and 38 others. "People call me a peddler, and I probably am," Russell says. By the time he sold the company in 1998, it was advising institutions and individuals with a total of more than \$1 trillion.

Russell bought a dilapidated building, once home to Puget Sound Herring, in Gig Harbor, close to the waterfront farm where Russell lives with his second wife, Dion. His first wife, Jane, died of cancer in May 2002. Russell razed the herring company plant and built Threshold.

Russell is using the same strategy at Threshold that he did at Frank Russell, his previous company. He wants a small number of deep-pocketed clients. He also wants to get along with them. "We've turned down a couple," Russell says. "Their value system was different from ours."

Russell is an old-school multimillionaire. He still hunts for the best price, even though he's loaded. After he wrote a book about his first wife, he at first negotiated with a printer that wanted \$50,000 to produce 3,600 copies. Threshold's staff found one in China that would print *Jane Russell's Way* for \$38,000. Russell was thrilled.

As Wall Street firms and family offices square off, consultants are also springing up to woo the wealthy. Natasha Pearl, a Harvard MBA who's worked at American Express Co. and auction house Sotheby's Holdings Inc., started New York-based Aston Pearl in 2001 to help wealthy clients buy horses and yachts, find chefs and security firms and sell household treasures. There's no Aston. She says she chose the name because it sounded upscale and European. And a graphic

designer said Pearl needed five additional letters in the name for proper feng shui.

Pearl, 45, has found a personal chef (Pearl's fee: \$10,000), helped a disgruntled high school junior find and get into a new school (\$30,000) and renegotiated a fractional aircraft lease (\$2,000). One of her biggest jobs was shipping \$375,000 worth of antiques, jewelry and paintings from a client's homes in Aspen, Colorado, the Hamptons and New York to a climate-controlled warehouse in Manhattan, where it was all sold to dealers. Her cut: \$70,000.

Pearl maintains a list of 3,800 experts on everything from aircraft interior design to Arabian horses, to college admissions. Her expert on Ferraris has 10 of them in his garage. "He's a maven," Pearl says. She says she's worth her fees because Aston Pearl offers unvarnished advice. "We're the only people in town who will say, 'No, don't sell the Matisse,'" she says.

Russell, meantime, is upping the ante with Wall Street. In August, he hired Lee Miller, an 18-year veteran of U.S. Trust, to open an office in New York and go after wealthy clients on the East Coast. A fan of Flemish painting who volunteers as a tour guide at the Metropolitan Museum of Art on weekends, Miller, 49, met Russell through a friend and then lunched with him at the Cosmopolitan Club, her club on the moneyed Upper East Side. "We're very confident that we'll attract the right families," Miller says. For Russell, *right families* means those with \$200 million. He might just get them, if Wall Street doesn't grab them first. ▶

ANTHONY EFFINGER is a senior writer at Bloomberg News in Portland. GREGORY CRESCI covers investment banks in New York.  
aeffinger@bloomberg.net  
gcresci@bloomberg.net

## BLOOMBERG TOOLS

### Calculate Your Net Worth

To determine your net worth, type NWC <Go>. Enter assets in the fields on the left and liabilities in those on the right. Use the fields in the Optional section of the screen to convert your net worth to another currency. Press <Go> to display your net worth at the bottom of the screen.

Type PWEA <Go>, as shown below, to apply this net worth to a personal financial overview that enables you to enter your own information for monthly income and expenses, investments and spending goals. The Personal Wealth function then calculates the expected future growth of your investments and net worth. From the main PWEA screen, you can select from the categories at the top of the screen to enter your own data or type 1 <Go> to use the Personal Wealth Wizard for a

step-by-step way to feed your data into the calculator.

To calculate the amount that you or a client would need to invest now to fund a project on a future date, type FUTF <Go>. Enter the data for the number of payout periods for the project, annual cost of the project, tax rates and types of investments used for funding, and press <Go> to display the amount needed to make each payout on the project.

JOHN DIXON



For the Retirement Income Planner function, type RIP <Go>.