

Seattle Wealth Management Market: Can Explosive Growth Continue?

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The Seattle wealth management sector has grown rapidly and its prowess is underscored by a number of M&A deals and launches. But as readers know, the city has had its share of problems. How should industry figures approach the market and what are its prospects? This article takes a detailed look.

The best part about the metropolitan Seattle market for wealth management firms?

“It’s where you have to be,” according to John Patnaude, managing director for Bernstein Private Wealth Management.

The biggest challenge? “It’s where you have to be,” Patnaude said ruefully.

Wealth managers are flocking to Seattle for good reason: the metropolitan area is one of the wealthiest, and fastest-growing in the United States.

The region has old, multi-generational wealth from the timber, retail and aerospace industries; a second wave of millionaires from the spectacular success of local companies like Microsoft, Amazon and Starbucks and a more recent surge of newly-created wealth from entrepreneurs in a wide variety high tech businesses including cloud computing, biotech and gaming.

The Puget Sound region, which includes such wealthy communities as Bellevue, home base for Microsoft, has the country’s third-highest median household income at just under \$100,000; the median net worth in the biggest counties is nearly \$400,000 and the number of venture investments in startups rose to 433 last year, up 18 per cent from 2015.

Led by The Bill & Melinda Gates Foundation and The University of Washington, Seattle is a world leader in philanthropy and research. The region is also home to over 150 global health organizations and ranks as having one of the most highly educated populations in the US, with 56 per cent of residents having at least a bachelor’s degree.

The city’s Pacific Northwest location makes it distinctive among American markets: the Port of Seattle is second only to Los Angeles as the gateway for trade with Asia and the metro area is the leading US market for mainland Chinese homebuyers. Another distinction: software developer is the most common occupation in the city.

Oh, and Washington doesn’t have a personal or corporate state income tax.

Challenges - and optimism

Not everything is sweetness and light, of course.

Long-simmering political tensions in Seattle erupted in violence, looting and civil unrest over the summer, sparked by protests over the murder of George Floyd. The longstanding clash between Seattle’s populist City Council and pro-business interests shows no signs of abating. Nor does the region’s housing crunch: Seattle is one of the most expensive cities in the country to buy or rent and the homeless population continues to grow and spill onto the streets.

And while the Seattle market has been fortunate that companies like Amazon and Microsoft, which each employ over 60,000 people in the region and continue to thrive during the pandemic, COVID-19 has definitely taken a toll.

The area's unemployment rate, which was around 3 per cent before the virus struck in March, has now tripled. More than \$13 billion in gross business revenue was lost in the first six months of the year, compared with the same period in 2019, according to the Chamber of Commerce. Many of the region's industries, the Chamber reports, "are experiencing major disruptions that may extend for months or even years."

Wealth managers are clearly optimistic, however.

"The Seattle market is a really important place to be," said Ken Hart, managing director for Pathstone and the former CEO for Cornerstone, a local RIA fixture which was acquired by Pathstone this year. "It's incredibly diverse and desirable and it's thriving. Seattle is not without challenges: it's been a small town for long time and now it's grappling with what it's like to be a big city."

Bernstein's Patnaude points to the market's "incredible growth story" resulting from what he describes as the successive waves of wealth creation, culminating in the most recent surge of tech and cloud-based start-ups, M&A activity and liquidity events.

"There's a very big halo effect," Patnaude said. "It impacts real estate, executives with equity in their companies and families who now have to think about multi-generational wealth."

Indeed, those entrepreneurs, executives and newly-minted millionaires appear to be the primary target clients for the local RIAs battling each other - and established national banks and financial firms - for share in this lucrative market.

Metro Seattle has at least 23 RIAs with more than \$1 billion in AuM - a number that, relative to the size of the region, appears to be more than any other market in the US. And the wealth accumulated by entrepreneurs keeps surging. Seattle-area companies have already raised \$3.2 billion in venture capital through September, up 14% from the same period last year, according to the *Puget Sound Business Journal*.

Progressive legacy

The region's legacy of progressivism and philanthropy plays well to RIAs' strengths, according to Kristen Bauer, CEO of Laird Norton Wealth Management, one of the largest and oldest independent local advisory firms with over \$5 billion in assets under management.

"Seattle is a market where clients want to align their investments with their values," Bauer said. "They think creatively about their impact on the world and they have really great role models here with organizations like the Gates Foundation. And they want to have like-minded partners when they make their decisions."

Independent advisory firms also believe that they are well positioned to attract affluent, younger tech employees and executives who are accumulating wealth, especially those who are spinning off their own businesses, but are not yet in the crosshairs of large Wall Street firms.

"Most of these employees need help understanding stock equity and options, which has been a boon for firms like ours," said Anne Marie Stonich, managing director for Paracle Advisors. "These people are busy with their jobs and need an accountability partner to help them reach their goals."

Wall Street presence

But when it comes to first generation wealth, owners and executives of large businesses and ultra-high net worth clients, RIAs face intense competition from big national banks, wirehouses and financial service firms.

JP Morgan Private Bank, BNY Mellon, Morgan Stanley, Northern Trust, Merrill Lynch, Bernstein and UBS are all major players. And Goldman Sachs' reported planned expansion into Seattle underscores just how important the market is to Wall Street.

"First generation wealth tends to be attracted to brand names," said UHNW industry consultant Jamie McLaughlin. "The Wall Street brokers often get the first look."

What's more, the lending and investment banking capabilities of large Wall Street firms gives them access to wealthy clients and businesses in Seattle that RIAs have a hard time matching.

"There are a lot of situations where Wall Street firms are a shoe-in because of the banking relationships they have with family-owned businesses," noted Laird Norton's Bauer.

Many RIAs simply don't have the same exposure to the upper end of the market as big national firms "with a capital group and structure," agreed Erica Coogan, the head of Seattle accounting firm Moss Adam's wealth management division.

"Our biggest challenge in this market is gaining the attention of the ultra-high net worth," said Teresa Wells, managing director for Tiedemann Advisors' Seattle office. "So much of the region's wealth is still in the founder's generation and they are either still working to grow their first company or looking to launch another. For that reason their time is precious. [As a result] it's a big challenge just getting time with them to explain all the reasons [why] they need a wealth advisor to plan for future generations."

Local firms fight back

A number of larger RIAs, including Tiedemann, which has over \$17 billion in AuM, are making a concerted effort to challenge their Wall Street rivals for a piece of the UHNW market.

Tiedemann acquired Threshold, a longtime RIA leader in the Seattle market with over \$3 billion in AuM when it was bought in 2018. The firm's minimum client size is \$25 million, according to Wells, and offers wealthy clients trust company services, estate, tax and philanthropic planning and education and governance for families.

Pathstone, which has around \$15 billion in AuM, is also a new entrant in the market as a result of its merger with Bellevue-based multi-family office Cornerstone and it's approximately \$4 billion in assets, this summer. Hart, a 26-year veteran of the Seattle market said that Pathstone's size, scale and family office history will allow the firm to pursue wealthy families.

As a result of the merger - and capital provided by Pathstone's private equity investor Lovell Minnick - the firm can now "more confidently go upstream with single family office partners," Hart said.

Laird Norton also targets UHNW families, leveraging its old timber family money roots from the early 20th century to its evolution as a 50-year old trust company turned wealth management firm.

While that history means that Laird Norton understands the needs of wealthy families and how to work with them, Bauer said Laird still needs to "educate" prospects that RIAs are fee-based and "conflict free."

Target markets

Most metro Seattle advisory firms, however, pursue prospects ranging from mass affluent to entrepreneurs, executives, employees and owners with assets up to \$25 million.

Bernstein, for example, targets mid-level to C-suite executives who need help managing their equity compensation as well as owners who are selling their businesses.

"We do pre and post liquidity event planning using complex forecasting tools for different deal structures," Patnaude said. "There are also after-sale family issues involving philanthropy and next generation goals that are also a big part of M&A."

Moss Adams focuses on business owners, executives and multi-generational families, said Coogan. The firm also plans to offer more traditional family office services, drawing on the expertise of Gretchen Lewis, who joined Moss Adams from Boston Private and is based in northern California.

Paracle specializes in tax expertise, strategic planning and company benefit plans. "Our target market includes executives aged 45 to 55 "who have reached a point in their lives where they are willing to delegate the management of their investments and are looking for financial guidance," said Stonich.

“Our typical new client has excess cash flow they want to put to work in a tax-advantaged way, a myriad of company benefits and maybe be holding a concentrated position because it’s the only investment they have been comfortable with and they aren’t sure how to diversify,” she explained. “They are too busy with their day-to-day routine to focus on areas of their financial life like estate planning and insurance.”

Importance of impact investing

One theme all Seattle area firms appear to have in common: impact investing.

“There’s a lot of younger people in the region and socially responsible investing is a big priority,” said Bernstein’s Patnaude.

Firms who want to succeed in Seattle need to have a “solid impact proposition,” agreed Tiedemann’s Wells. Clients are discerning, she added, and advisory firms who claim ESG expertise need to make sure “the organization’s values align” with what they preach.

Philanthropy is “front and center” in Seattle, said Laird Norton’s Bauer, and clients often want to have their investments reflect their values. She cited low-income housing as an example of a “stacked investment” that can make an impact on society. While such an investment may not provide high returns, Bauer explained, clients are pleased that it benefits society, providing shelter for people who really need it.

Thinking of opening a Seattle office?

What should RIAs considering opening an office in metro Seattle keep in mind?

“The market is incredibly fragmented,” said Patnaude. “No one has significant market share.”

Despite the high number of billion dollar firms, the region’s explosive growth and robust economy has kept the demand for wealth management services strong, said Mark Tibergien, the former CEO of Pershing Advisor Services.

“The market is hardly saturated,” said Tibergien, a former principal with Moss Adams who has kept a home in Seattle for more than 30 years, returning after he retired from Pershing earlier in the year. “Very few firms have a dominant brand. There’s a real opportunity to be recognized.”

But to do so, and compete effectively against brand name national firms, RIAs must emphasize holistic planning expertise in areas such as equity compensation, tax planning and working with non-citizens from Asia, he said.

“If you lead with investing, you’re going to be measured by performance, not value,” Tibergien warned.

Like all US markets the need for quality advisors exceeds the supply, especially homegrown talent. Despite the difficulty, Wells cautions that “Seattle can be a tough market to navigate for firms from out of town” and advises newcomers to “source local talent.”

Further consolidation, along the lines of the recent Tiedemann-Threshold and Pathstone-Cornerstone mergers, is inevitable, many executives in the market are convinced.

Durability in a fast-changing landscape will be the biggest challenge for RIAs in the market, according to Pathstone’s Hart.

The Seattle market only has about a half dozen RIAs that are “real businesses and not practices,” Hart maintained. The “concentrated ownership” in those firms will lead to “succession planning headwinds” resulting in “a lot of transactions” with big national firms, he predicted.

Smaller advisory firms will face similar M&A pressure in an increasingly competitive market, Hart asserted.

“RIAs are going to need scale, brand presence, the gravity to attract talent and be a destination firm in the market,” he said. “Otherwise they will not be durable enterprise firms.”