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How Wealth Managers Succeed in a Tech-Heavy Market

SAN FRANCISCO - Advisors in any market with a local tech industry can take a page from the playbook of the wealth managers who succeed in the Bay Area.

Indeed, the allures in the northern California wealth management market are plentiful: existing wealth, new wealth creation and money in motion after liquidity events. But that also brings intense competition, starting with the large Wall Street firms.

This summer alone, three new firms, all aligned with Dynasty Financial Partners, opened their doors here: Summit Trail Advisors, Intellectus Partners and One Wealth Advisors. More are sure to follow.

So what exactly does it take for a wealth management firm to be successful in a market like this?

Silicon Valley savvy – Expertise in the specialized – often very specialized - needs of clients working, or owning, technology companies in San Francisco and Silicon Valley is essential.

Company stock is the coin of the realm in the Bay Area. As a result, “advisors must be able to diversify their tech clients out of concentrated stock positions,” notes investment banker Steven Levitt, managing director of Park Sutton Advisors, “so Reg D [regulations governing a private stock offering] acumen is paramount.”

“This is the tech capital of the world, and you need to understand that world and have your finger on its pulse and its needs, or you’re in trouble,” says Tom Palecek, a Summit Trail founder partner.

Tech credibility – “Being up to speed and tech savvy is non-negotiable here,” declares Jeff Spears, chief executive of Sanctuary Wealth Services, a San Francisco-based accelerator that helps brokers transition to RIAs. State of the art reporting and presentation capabilities “are de rigueur in the Bay Area,” says Levitt, and clients demand “cutting edge stuff” adds John Scarborough, a Summit Trail founding partner.

“You can get by with a 20th century website in a market that is less tech-obsessed, but in San Francisco you better have a great website,” says David Steele, chief executive of One Wealth. “User interface, automated services and visual elegance are really important here.”

Domain expertise – With Goldman Sachs and other Wall Street heavyweights offering initial public offerings and global asset management, plus a host of formidable independents already well-established, it's critical for new firms to carve out their own identity and areas of expertise that will resonate.

For example, Intellectus, founded by Deutsche Bank and Lehman Brothers alumnus David La Placa, is targeting entrepreneurs and business owners, offering “lifecycle advisory services” to optimize their wealth.

“Income patterns and sources of income for entrepreneurs are subject to very different economic cycles,” La Placa says. “We’re constantly focused on their business and the personal side of their portfolio, such as trust and estate planning.”

In addition to being a wealth manager, David Steele, who left J.P. Morgan to start One Wealth, also owns restaurants in San Francisco, consults for others and is building a chain of yoga and fitness studios.

That experience, he says, gives him an edge when targeting small and mid-sized business owners with over $2 million to invest. “I work with entrepreneurs on their business planning process,” Steele says, “and I treat their financial planning as if it’s a business plan for their family.

Summit Trail’s value-add stems from the team that left Barclays Wealth Management to open the new firm’s offices in San Francisco, New York and Chicago, according to Scarborough.

The team’s experience in equity research, private assets, alternative investments and sophisticated financial planning is helping Summit Train attract corporate executives, entrepreneurs and owners of large farms from the nearby Central Valley of California, Scarborough says. “If you’re new in town, you need to be able to bring intellectual capital to the table.”

Connections – Networks, connections and an ability to get referrals are important in every wealth management market, but in San Francisco, all roads seem to lead to tech companies and private equity firms in the city or Silicon Valley. “It’s a tight-knit community,” says La Placa.

“A lot of wealth is created here, but getting access is incredibly competitive,” Scarborough points out. “If you’re not holding someone’s hand in an early round stage of financing, you don’t stand a chance. So networking to make introductions and get referrals is key.”

An entrepreneur’s wealth may be locked up in his business and an engineer at a software company may have be wealthy on paper, but without cash until his or her company goes public or stock options are exercised.

“The conundrum in the Bay Area is that a lot wealth creation is on paper, and the incubation period before a private or public sale or stock offering is lengthening,” says Sanctuary CEO Spears.

Wealth managers say they’re willing to wait – and may not have a choice.

“We take on clients when they’re starting out, and maybe we don’t get paid in the traditional sense for a couple of years,” says La Placa, “but we don’t care.”

Building relationships early on is critical in the Bay Area, Scarborough agrees. “In the world we live in, you’re putting in time and energy early on in the hope that five years down the road there’s a liquidity event.”

The tradition of social concerns in San Francisco also holds true in wealth management clients. Clients expect their advisors to be knowledgeable about socially responsible and impact investing and innovative philanthropy options. “The importance of philanthropy is huge here,” La Placa says, “and provides a big context to what we do and where we are going.”

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