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ADVISOR RANKINGS: TOP INDEPENDENTS

Top 100 Independent Advisors

As market share for the independent channel continues to grow, so do the practices of Barron's ranked advisors.

By STEVE GARMHAUSEN
August 27, 2016

Independent financial advisors are a fast-growing group. And many of them attribute their success to delivering a "fiduciary" standard of client care—in which clients' interests are placed first and foremost.

Top 100 Independent Financial Advisors for 2016

Top 100 Independent Financial Advisors for 2015

Top 100 Independent Financial Advisors for 2014

"I strongly feel we have a significant competitive advantage in clients' eyes," says advisor Chuck Bean, in Westwood, Mass., who ranks 60 on this year's annual listing of America's Top 100 Independent Financial Advisors. "There is a dire need for fiduciary advice, free from conflicts of interest."

But Bean and his fellow indies might soon have a bit more trouble distinguishing themselves from traditional Wall Street brokers, whose objectivity has been questioned by critics. That's due to new government rules compelling all advisors who dispense retirement advice to meet more client-friendly standards. Nonetheless, our Top 100 see nothing but opportunity ahead. As Bean puts it, "It's an excellent time to be an independent financial advisor."

Barron's ranking of the Top 100 independents is based on assets under management, the quality of the advisors' practices, and the revenue they generate for their firms. Investment performance isn't an explicit criterion, since clients' investment objectives differ: For some clients, simply keeping abreast of inflation is sufficient.

Financial advisor Michael Yoshikami makes the case for Abbott Laboratories, J&J, Apple, and Google. Why he's avoiding commodities and financial stocks.

Our Top 100 have much to celebrate. On average, their teams manage more than $3.4 billion of assets and generate $16.5 million in annual revenue. With the help of technology improvements, they serve 1,172 households on average—up from 929 in 2012.

Further, registered independent advisors, or RIAs, are growing at a rapid pace. Their market share increased 5.4% from 2007 to 2015, and they now control 14.7% of the overall advisory market, according to Aite Group. The largest and most influential of these practices are growing into full-fledged independent firms, and that trend has become so pronounced that we have created a ranking of independent advisory firms, on page S23.

Independents generally position themselves as objective champions of their clients' financial success. Thus, they were abuzz in April, when the Labor Department announced a new set of rules that would expand the fiduciary standard to apply to a wider swath of the wealth management industry.

Financial advisor Valerie Newell says institutional investors are starting to question what exactly they are getting in return for high fees and no transparency.

By 2018, all advisors who dispense guidance on assets in 401(k)s, IRAs, and certain other retirement accounts will have to fully adopt the department's tougher client-care standards. At the heart of the rules is a responsibility to avoid—or to clearly disclose—conflicts of interest.

Independent RIAs say the mandate will help level the playing field, but only to a point. The rules don't apply to taxable accounts, for instance, and commission-based sales will be allowed to continue, although brokers will have to provide a contract stating that their advice is in their client's best interests.

Independent advisors like Robert Clarfeld, in Tarrytown, N.Y.—our fourth-ranked advisor—welcome the rules. "It's terrific for us because it doesn't create any additional burden and raises an issue where we fall on the right side of the gods," says Clarfeld.

Calling All Financial Advisors!

Social Security Planning Ever-More Important

The Costs of Too Much Rebalancing

On the investment front, indies face the same challenges as all wealth managers—among them, generating returns from nontraditional sources. "We're in a weird situation," says Atlanta-based Robert Balentine, who ranks No. 40 this year. "This is the first time since the late 1950s when stocks are yielding more than bonds."

Not that stock returns are very helpful. A traditional 60/40 portfolio of stocks and bonds could return just 4% annually over the coming several years, says Balentine. The muted environment has clients asking how they can meet their funding objectives—for retirement, philanthropy, estate planning, and more.

Naturally, our advisors are pulling out all the stops to attack the problem. For more detail on the moves of five of our Top 100 advisors, read on.

"I recently had clients tell me, 'You saved my retirement.' That's definitely the most rewarding experience an advisor can have." —James Stack *Photo: Andrew Geiger for Barron□s*

James B. Stack
Stack Financial Management
Whitefish, Mont.
Assets: $1.1 billion
Rank: 41

Jim Stack's fiercely independent calls—like being 75% in cash at the height of the tech bubble—have been a boon to his clients.

"I recently had clients tell me, 'You saved my retirement,' " says the 64-year-old Montana native—whose clients experienced just a fraction of the damage suffered on average during the dot-com crash of 2000. "That's definitely the most rewarding experience an advisor can have."

Stack is a man apart from the Wall Street herd, both figuratively and literally: His equity-investing firm is based in bucolic Whitefish, Mont., 2,384 miles from Manhattan and 35 minutes from Glacier National Park. The view from his office window—of a glassy, tree-lined mountain lake—is postcard perfect.

The area's quality of life has helped Stack attract a team of eight from around the country. Together, they serve 775 households with a typical account size of $1.5 million.

Stack, an engineer by training, began his professional career as a project manager in the research division of International Business Machines, and he holds multiple patents related to photocopier engines. But his frustration with losing his savings in the 1973-75 bear market led him to an extraordinary decision: After five years, he left Big Blue to start a research firm focused on the stock market.

His well-respected InvesTech Research newsletter attracted thousands of do-it-yourself subscribers, and many of them eventually began pressing Stack to manage their money directly. While still publishing his research, Stack now invests $1.1 billion for clients.

Stack's track record is built on managing risk—an apt approach for the moment, given the market's lofty levels. "We focus on trying to capture as much of a bull market's gain as possible while still positioning to weather the next bear in good condition," he explains.

That has clearly worked well: From January 2000 through June of this year, his portfolios gained 196.4% after commissions and management fees. The Standard & Poor's 500 index, meanwhile, gained 96.3% even with the reinvestment of dividends.

While high valuations make it challenging to find attractive stocks, Stack sees some attractive large-cap value names in defensive sectors like industrials and consumer staples. But more important than finding winners right now is avoiding stocks that are sailing along on headlines and momentum, he argues: "Investors in those stocks always get burned when the music stops."

Stack believes the bull market is on borrowed time, buoyed by continued low interest rates. Rising wage pressures and other factors could push the Federal Reserve to go ahead and raise rates by September, he says. That could spell a top to the bull in 2017, he adds.

The S&P 500 is about 35% above its historical price/earnings ratio of 17.1, Stack notes, and adds, "That does not portend good news for the next bear, regardless of when it happens or what triggers it."

"Liquid alts have delivered some of our best performance over the past two years." —Chuck Bean *Photo: Jason Grow for Barron's*

Chuck Bean
Heritage Financial Services
Westwood, Mass.
Assets: $1 billion
Rank: 60

Before investing a penny of their clients' money, Chuck Bean and his team spend six weeks learning about the client and conducting comprehensive wealth planning. "I don't think most advisors do that," says Bean, 48. "I think most advisors are after the assets."

Bean wants to do things right, and that includes investing for a clear purpose that's spelled out in depth in clients' financial plans. That approach has paid off: Bean's Heritage Financial Services passed $1 billion in assets under management last year. It has steady asset growth in each of the past several years, and rarely loses a client.

The Westwood, Mass., native grew up on a small farm and has reached the heights of his field despite suffering from multiple sclerosis. In a way, he says, the disease has given him a clear perspective that has helped him to be a better advisor. "Dealing with a chronic illness keeps my mind sharp and focused on helping people," says the 26-year veteran advisor.

Bean's career choice was inspired by a grandfather, a former manager with MetLife. "He was my inspiration, coach, and mentor," says Bean. "He saw I loved finance and helping people, and he encouraged me."

After earning a finance degree from Boston College in 1990, Bean started his career at John Hancock Financial Services. He became an independent advisor in 1995 in order to provide conflict-free advice to clients.

Bean and his team of 23 see more market volatility ahead, and are using liquid-alternative assets like reinsurance and managed futures, with low correlations to stocks and bonds, to strengthen their client portfolios. "Liquid alts have delivered some of our best performance over the past two years," he says, adding that he's using those investments for up to 30% of clients' portfolios, the firm's biggest-ever such allocation.

In the equity arena, the team favors emerging market stocks: Their valuations are more compelling than developed-market stocks, boast better dividend yields, and are backed by "strong demographics supporting long-term growth," he says.

Heritage Financial is overweight to small-cap stocks and believes the pendulum has swung from growth stocks to value stocks.

As for bonds, Bean and company are keeping durations short and quality high. If interest rates start to rise or bond investors get spooked, "there could be days of reckoning coming," he says.

Bean takes pride in helping clients steer clear of such risks on the way to achieving their financial goals. He regularly receives photos of successful clients enjoying adventures—from riding a camel in Egypt to touring vineyards in Napa Valley, Calif. “They send me pictures of beautiful places they’ve traveled to around the world and say thanks for the hard work and guidance,” says Bean.

“I really wanted to build my own business, and not be one of thousands of partners. I loved working directly with individuals with complex income and estate-tax challenges.“ Robert Clarfeld *Photo: Gary Spector for Barron’s*

Robert A. Clarfeld
Clarfeld Financial Advisors
Tarrytown, N.Y.
Assets: $6.6 billion
Rank: 4

Robert Clarfeld isn’t known as a hotshot investor, and that’s fine with him. “What we do is the antithesis of pure money management,” he says.

Clarfeld, now 64, started his career 40 years ago in accounting. He eased into the wealth management business, adding investment services to the mix in 1991. His 35-year-old firm is unusual, even among independents, for its unbundled pricing.

Many advisors charge a fixed fee based on assets under management, regardless of the complexity of a client’s financial needs. Clarfeld gains just half of its revenue this way; the rest come from financial planning, estate planning, multifamily-office services, and tax work. This approach, he maintains, can result in more customized—and fairer—compensation for both client and advisor.

A native of Brooklyn, N.Y., Clarfeld earned a psychology degree and an M.B.A. from the City University of New York. Early in his career, he worked at Arthur Young and Peat Marwick Mitchell, two of the then-Big Eight accounting firms.

He found he liked tax work and interacting with clients, but longed for independence. “I really wanted to build my own business, and not be one of thousands of partners,” he says. “I loved working directly with individuals with complex income and estate-tax challenges.”

Clarfeld set up his company in 1981; it now employs 106 and serves 375 client households.

Neither the stock market nor the bond market look very inviting to Clarfeld right now. His firm is resisting any temptation to sacrifice credit quality for yield—the trade-off just isn’t worth it, he says. “The amount of risk you’re picking up relative to the marginal yield tops out pretty quickly,” he says.

He does see relative value in emerging markets, and believes that specific commodities evince some potential. One worth exploring, he says, is water—specifically through companies that focus on conservation and desalination. Other interesting commodities right now include metals and timber, and those in the agricultural sector, he adds.

Clarfeld’s holistic-planning approach means that he often spots big challenges and opportunities that new clients weren’t aware of. For example: the wealthy, 50-something couple that came to him seeking advice on education funding for their two teenagers. A few minutes into the discussion, Clarfeld discovered two

major gaps in their wealth planning: they lacked a proper will and didn't have an umbrella liability insurance policy. "Funding education was the least of it," he says.

Outside the office, Clarfeld is a huge fan of Cavalier King Charles spaniels. He has owned the breed for the past 30 years, and they share his home with the Staffordshire porcelain spaniel figurines that he collects on business trips to London.

"We think it's going to be very hard in the next five to 10 years with a traditional [60% stocks and 40% bonds] portfolio to allow investors to meet their objectives." Robert Balentine *Photo: Stan Kaady for Barron's*

Robert Balentine
Balentine
Atlanta
Assets: $2.4 Billion
Rank: 40

Robert Balentine remembers his dad, a broker with Merrill Lynch, lamenting the dreary markets back in the early 1970s. But he also noticed something else: "He loved it, despite how hard it was."

Balentine, 58, followed in his father's footsteps and hasn't been disappointed. Leading a firm that invests more than $2 billion for 216 client households, he is one of the most successful independent advisors in the business.

A major reason: He has maintained a very stable investment team. Half of the firm's six-member management committee has worked together for 16 years, and three of the six voting members of its investment-strategy team have worked together for more than 11 years.

That continuity, he says, has had a major impact on the consistency of service the firm provides to clients.

In college, Balentine flirted with the idea of going into international business. He earned an undergraduate degree in the French language from Washington and Lee University in 1979, but ultimately chose a different path. Soon after graduation, he applied to Merrill Lynch's training program and, at age 28, became the youngest vice president in the company's history.

In 1987, he co-founded an independent shop with his dad. One reason was to focus on asset allocation and manager selection—an investing approach he found more effective than trying to pick stocks.

"That seems self-evident today, but in the 1980s it was a real differentiator," says Balentine.

By the late 1990s, the business managed more than $4 billion and had drawn the attention of big institutions like Wilmington Trust, which bought the firm in 2002.

Finally, amid the banking crisis in 2009, Balentine and 16 colleagues left to form Balentine, the current firm.

These days, the team's very wealthy clients—Balentine's typical account size is $16 million—are concerned about funding their philanthropic and estate-planning goals amid low stock returns and bond yields. Their concern is well founded, says Balentine: "We think it's going to be very hard in the next five to 10 years with a traditional [60% stocks and 40% bonds] portfolio to allow investors to meet their objectives."

Accordingly, the Balentine team is complementing traditional assets with allocations to reinsurance, infrastructure, direct lending, and private capital. Some of these investments are yielding as much as 8% to 10%, he says.

Balentine is watching the presidential race, but is more interested in statistical trends than ideology. "History has shown that, on average, when a new president is elected after a two-term president, the equity market declines an average of 4%," he says.

A more important, long-term concern, he says, is whether Congress will muster the backbone to address fiscal reforms: dealing with entitlement programs and corporate tax rates, and potentially generating spending through infrastructure outlays.

One of the greatest values that Balentine and company provide to clients is ensuring that their experts—wealth managers, accountants, insurance advisors, and lawyers—are giving coordinated advice. "They really appreciate the value of having a meeting with all of their advisors around the same table," says Balentine of his clients.

"The danger with people wanting higher returns is that they're taking on a higher level of risk than they can afford;" it's usually preferable to tone down one's lifestyle. Dale Yahnke *Photo: Scott Witter for Barron's*

Dale Yahnke
Dowling & Yahnke
San Diego
Assets: $3.2 billion
Rank: 34

A former college basketball player and coach, Yahnke has applied a winning mentality to his advisory business. "I love building teams and competing," says the 59-year-old San Diego native.

Few have been more successful than Yahnke, who, along with a 43-person team, serves 1,039 households and manages just over $3 billion of investment assets. Yahnke's success is noteworthy in light of a patient, conservative investing approach that he admits is "boring." He does get approached by people who want an active, beat-the-market approach. "I tell those people they need find another advisor," he says.

The son of Ernest Yahnke, who once ran the San Diego region for Bank of America, Yahnke bought his first two stocks—Standard Oil and Ford Motor —at age 9. Years later, the proceeds helped to fund his college education; Yahnke holds an economics degree from Claremont McKenna College in Claremont, Calif. He also played point guard on the school's Division III basketball team.

After graduation in 1979, and a brief, unsatisfying stint as an accountant, he became the assistant basketball coach at his alma mater. But Yahnke, it turns out, was fated to make his mark in the financial industry. Starting in 1985, he worked as a financial analyst for the large San Diego law firm now known as DLA Piper U.S.

There, he was assigned the job of setting up the firm's 401(k) plan; the project included giving seminars on the basics of investing and saving for retirement to plan participants. "I loved doing that and realized that is what I wanted to do in some form or another," says Yahnke.

In 1991, armed with an M.B.A. from San Diego State University and a certified-financial-planner designation, Yahnke started an independent firm with partner Mark Dowling. The duo drummed up business by touting their professional credentials, competitive fees, and the fact that they were fiduciaries—legally bound to put client interests first.

In his 25 years as an advisor, Yahnke has steered clients through the thick and thin of the markets. (Dowling retired last year.) The key, says Yahnke, is staying globally allocated, trusting markets, and minimizing risk.

"The danger with people wanting higher returns is that they're taking on a higher level of risk than they can afford," he says. It's usually preferable to tone down one's lifestyle than to take on extra risk, he adds.

Almost all of Yahnke's investments are in stocks and bonds. "We put a big premium on liquidity," Yahnke says. Hedge funds and other investments with lockup periods "we wouldn't touch with a 10-foot pole."

Yahnke and his team take pride in financial planning and making realistic financial projections. "We deliver hard messages about spending and retirement dates," he says. "We don't pander to people; we tell them the truth."

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