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Wealth management pays dividends for Morgan Stanley

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Kevin M. Peters, a managing director and wealth adviser with Morgan Stanley Wealth Management.

As the banking powers-that-be distance themselves from the risky bets that contributed to the financial crisis, wealth management has increasingly become a haven for institutions in search of a safer, more consistent – albeit less lucrative – source of income.

But to describe Morgan Stanley's wealth management arm as a safety net would be an understatement.

The firm's wealth management unit accounted for 41 percent of Morgan Stanley's revenues in the first quarter, up from 34 percent when CEO James P. Gorman took the helm three years ago.

The trend is likely not an accident. Prior to being named CEO in January 2010 and chairman two years later, Gorman got his start with Morgan Stanley as president and COO of Global Wealth Management.

If a four-word phrase could cut to the core of the wealth management unit's success, this would be it: "Clients don't leave us."

The simple, yet powerful, declaration comes courtesy of Kevin M. Peters, a Morgan Stanley managing partner and wealth adviser, who knows a thing or two about wealth management himself.

The Peters Group, with five staff and two junior executives – "And when I say junior, one has 18 years' experience and one has five years' experience and is a former CEO" – oversees more than \$3 billion in assets for its clients, whose ranks include some of Morgan Stanley's most senior executives.

"We have many families now in the second, third and fourth generations," Peters said. "We are very good at what we do and I've built people around me that help support what I do and what we do for our clients. We treat clients like family – if it's legal and ethical, we want to be sure to provide it to our clients."

Peters attributed his team's and the wealth management unit's successes to a thoughtful integration of Morgan Stanley's capital markets staff and its financial advisers.

Prominently featured within the Morgan Stanley Wealth Management headquarters in Purchase, N.Y., is a 135-person trading desk.

"Morgan Stanley is 76 years old right now," Peters said. "We are a venerable investment bank. We have that capital markets blood in the company."

With a capital markets staff tasked specifically with helping Morgan Stanley's financial advisers to grow their clients' assets, "Think about what we have now," Peters said. "No one else can say that. We've got the best of both sides of the business coming to Morgan Stanley wealth management."

Matthew McAndrew, an executive director who works on the Purchase trading floor, said the key is in the "connectivity."

"Because we are embedded within wealth management, we're all aligned really well to make sure we're disseminating anything we can to (Morgan Stanley financial advisers)," McAndrew said.

A culture of information-sharing between traders, analysts and financial advisers "is the norm," he said.

"In turn, the benefit to the client there is it leads to a quicker and more informed decision, which puts you in a better position to capitalize on a market opportunity," McAndrew said. "Hopefully, we are a couple steps ahead because market opportunities come and go quickly."

Buying on the upswing

When Morgan Stanley struck a deal last September to buy Citigroup's stake in the firms' joint retail brokerage, Gorman called it "a significant milestone for Morgan Stanley in the implementation of our strategy."

The purchase of Citi's remaining 35 percent stake in Morgan Stanley Smith Barney L.L.C. isn't expected to be finalized until the end of 2013 at the earliest, but the strategy referenced by Gorman is already paying dividends.

Morgan Stanley wealth management posted a pre-tax margin of 17 percent in the first quarter – the highest in the unit's history – exceeding analysts' projections and even Gorman's own goal for a 15 percent margin.

The firm's bread and butter – its institutional securities unit – saw revenues and profit decline 14 percent and 30 percent, respectively, in the first quarter. In contrast, the wealth management group reported that revenues rose 5 percent and profit was up a whopping 48 percent compared with the first quarter of 2012.

Peters and McAndrew emphasized that Morgan Stanley's focus on its wealth management unit has allowed the firm's financial advisers to treat individuals in the same way that institutions – such as pension funds or endowments – are accustomed to being handled.