In the News

Greg Phipps, The Pioneer Of The PM Business, To Head Consulting At Montgomery Securities

L MacGregor Phipps has been named managing director of Investment Management Consulting of the Private Client Group of Montgomery Securities, an investment banking and brokerage affiliate of Bank of America. Montgomery is one of the four highly successful investment banking firms which have been in the forefront of financing a broad range of technological innovation over the past 20 years, which have played a significant role in the emergence of the new economy, the resurgence of the NASDAQ and the renewal of the entrepreneurial spirit in American industry. Today, Montgomery Securities, Hambrecht & Quist, Alex Brown, Robertson Stevens – all have been acquired by larger financial services organizations for their banking experience and their exposure to the fastest growing economic engine in the world – the technology business sector of the U.S. economy. These firms, in large part, have created the technology business sector. This economic engine alone accounts for more than half the increase in U.S. gross domestic product that we all have enjoyed. It is in this dynamic environment that Montgomery Securities has had the foresight to engage the vision of Greg Phipps to expand the investment management consulting initiative of the firm's Private Client Group directed at clients with $25 million or more in liquid assets.

Montgomery has chosen wisely. Phipps has the distinction of being the pioneer of the PM business on Wall Street, and more recently was director of investment management consulting at Sutro & Company. Phipps was a peer of Len Reinhart at the genesis of investment management consulting at E.F. Hutton, both reporting to Jim Lockwood.

Montgomery Securities' Private Client Group, like Goldman Sach's, is primarily directed to the principals of companies they have financed with venture capital and/or have taken public. The wealth that Montgomery has created in helping companies explore and develop technology niches is stunning. The largest move in a company's value comes before its initial public offering when the company creates a working prototype, hires its management team, proves its market and aggressively expands. It is not uncommon for these dauntless entrepreneurs of new ventures to experience a 10,000%-20,000% return (100-200 times) over 18-24 months on the venture capital invested. Thus, Phipps will be serving not just wealthier clients but also the most progressive thinkers in business who have very high expectations of service and will not accept

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GAO Finds Mutual Funds Industry Is Not Responsive To Basic Information Needs

Imagine an industry like the mutual fund industry that is made for economies of scale, which has grown 20 times from $371 billion in 1984 to $6.8 trillion today, that has not yet found a way to realize economies of scale which would reduce the cost of its offerings. At some point in asset management, there is no additional cost associated with managing another dollar of assets. The United States Congress has asked the General Accounting Office (GAO), the primary investigative arm of the legislative branch, to research the costs of mutual fund offerings. The GAO, with all its resources and clout, was unable to determine if fund costs had increased more or less rapidly than assets have grown because information on the mutual fund cost structure is not collected by regulators or otherwise publicly disclosed. It is terribly embarrassing for all financial services professionals that the mutual fund industry and its trade association, The Investment Company Institute (ICI), would not be totally cooperative, when the leading research organization of the Congress of the United States cannot get simple, straightforward answers about the cost structure of its offerings. This information is not only required under ERISA and UPIA, but by being unresponsive to GAO's request, the sacred trust with which the mutual fund industry has been vested over all these years, has been violated. There is a clear fiduciary responsibility for all financial advisors to always put the investor's interest first before that of their own. By not being forthcoming with information which is essential to maintaining the public's trust, what is the mutual fund industry saying? If mutual fund shareholders pay over half of The Investment Company Institute's budget, isn't the ICI supposed to be responsive to the investing public? If it is not, does that not imply that the interests of the fund companies supercede that of the investor? We all know that the average mutual fund costs four times more (including trading cost) than the average managed account which provide the same administrative, investment and reporting services and then some. There is no question that fund expenses and administrative cost can be more effectively managed, nor is there a question that the mutual fund industry is not interested in Congress or investors knowing anything about their stewardship of the public's trust as it pertains to managing fund expenses. Even worse, mutual fund companies are acting as there is no accountability for their behavior.

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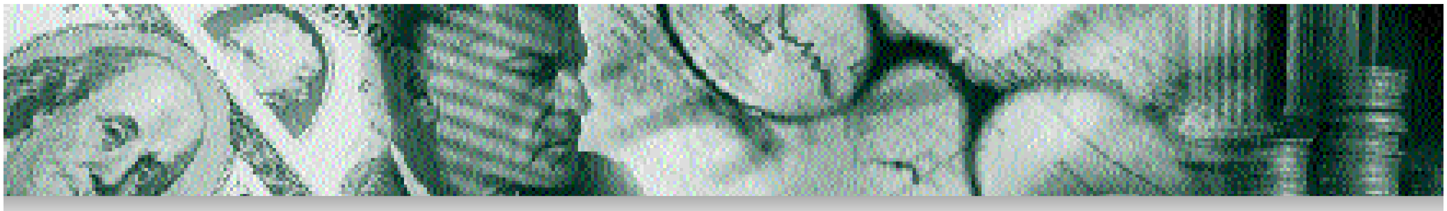

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anything less than the best advice available. These clients are less risk adverse and more sophisticated than the general population, and require more exposure to venture capital, private equity and initial public offerings of promising companies – all of which Montgomery brings to the table.

Phipps brings his intellect as a consultant and portfolio manager to the table to meld the unique needs of Montgomery's private clients with innovative consulting process and methodology which, knowing Phipps, promises to be extraordinary. With Phipp's being on the job just a few days, he could not be specific about his plans, other than saying, "As I create a vision for investment management consulting within Montgomery, it is inspiring to know that no one has a monopoly on wisdom. I will draw upon the considerable knowledge of our Private Client Group brokers and hope to be daring in a wise but unrestricted tact, in responding to all the needs of our clients."

Phipps is one of our industry's treasures in his experience, his unpretentious manner and his genuine interest in the broker and their clients. Phipps is not the typical empty suit that is all hype and no substance, which is so common in the financial services industry. Seventeen years ago, before there was such a thing as investment management consulting, before wrap fee programs, Jim Lockwood, Len Reinhart, Jim Seiffert, Jay Abbis, Dick Schilffarth and Greg Phipps worked out of 17 Battery Park Place at E.F. Hutton where the group was responsible for proprietary asset management and marketing institutional money managers through the Hutton brokers. John Ellis in Chicago was responsible for sales. Jim Lockwood, formerly the top mutual fund salesman at Dempsey-Tegler, who along with Dick Schilffarth, pioneered the sale of institutional separate account management, ran the operation. Lockwood was looking for someone to run Hutton Portfolio Management, a new program where Hutton brokers acted as portfolio managers for their clients using individual securities. Dick Schilffarth, who had created Hutton Portfolio Management for brokers who would not use outside managers, had just conceived a new idea called a wrap fee program and wanted to pursue its development, thus leaving open the opportunity to build the PM business. With Phipps' background as a portfolio manager at Hutton Investment Management, he brought with him the technical background in asset management that would help Hutton more fully flesh out the PM business model. Lockwood gave Phipps the option of being national sales manager of Hutton Investment Management (the firm's proprietary asset management affiliate) or running Hutton Portfolio Management (the firm's PM model). Phipps chose to run the whole show in creating and building the firm's fledgling PM business with just $103 million in assets rather than run marketing for Hutton Investment Management, and Dennis Bertrum took the Hutton Investment Management sales management position. Dennis White soon joined the group which was to pioneer investment management consulting.

Phipps fought the battle that made Hutton Portfolio Management the first discretionary PM program on the street and built upon a very impressive 140-hour, nine-course training program concluding with a series of examinations created by Schilffarth for brokers who were among the top five in their branches with five years or more experience. This was the first program of its kind that taught brokers how to manage portfolios rather than sell securities. The focus was on how to use research to construct portfolios, not how to become an analyst. This specialized area of the brokerage business attracted Hutton's top producers in an era where technology and brokerage commission rates were not as conductive to consulting and the PM business as it is today.

The entire Consulting Services Group to include John Ellis of Chicago was later moved to Wilmington, Delaware as part of E.F. Hutton's efforts to gain trust powers. Bob Fulman and George Ball, respectively chairman and president of Hutton, had engaged Irving Shapiro, an attorney and former chairman of DuPont, to lobby the Delaware state legislature to grant Hutton trust powers. In doing so, Hutton promised to create 100 new jobs in Wilmington. Thus, the reason why the much venerated Consulting Services Division of today's Solomon Smith Barney is headquartered in Wilmington, Delaware. Phipps' marriage to a California girl required his moving to San Francisco, from which he built and ran the national PM business for Prudential for his old boss George Ball who had assumed the reins of Prudential.

More recently, Phipps ran investment management consulting for Sutro, replacing Tom Steinberger who started Hambrecht & Quist's consulting efforts. At Prudential, Phipps worked with Dennis Bertrum, Judy Rice, Steve Winks, Tom Roginski, Fred Weiss, Vic Rosasco, Rick Cortez (who runs Goldman Sachs's consulting efforts) and Halvard Kvaale (who runs the Alex Brown consulting efforts). Phipps literally has worked with and has lasting friendships with many of the leading people in the investment management consulting industry which represents an impressive pool of talent from which to draw good advice and counsel on any topic imaginable. This bodes well for Montgomery and, most importantly, for its brokers who will reap the benefits of wise investment counsel and the joy of a highly collaborative environment in which to work.

Montgomery Securities has 70 brokers in seven offices located in San Francisco, Boston, New York, Chicago, Dallas, Atlanta and St. Louis. We should see some intriguing developments as Phipps pursues his "wise but unrestrained tact" while being responsive to the needs of private clients and brokers. ■

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