

## Ex-Smith Barney Stars Aim for \$10B Boutique

By **Tom Stabile** January 6, 2010

Three **Smith Barney** veterans – including two who had cracked the top 20 in *Barron's* annual advisor rankings – say they're ready to grow their \$4 billion multi-family office to \$10 billion under advisement and a national presence in a few years. **Constellation Wealth Advisors** would add up to six offices to its New York and Menlo Park, Calif., locations, as well as 15 to 20 partners and analysts in the ramp-up, which will start this year.

The growth will likely come from acquisitions of boutique firms and recruiting of high-end advisors, with a tilt toward wirehouse veterans who generally stand a better chance to win new client business than do private bankers, says **Jon Goldstein**, co-CEO of Constellation. He joined the firm in 2008, a year after co-CEO **Paul Tramontano** and CIO **Sam Katzman** founded it after leaving Smith Barney.



Jon Goldstein

The firm's planned growth is also promising for the dozen-plus managers supplying it with investment products. Constellation conducts its own due diligence on managers offering separately managed accounts (SMAs), alternative investments and other products.

Constellation spent much of the last two years transitioning clients and building up its products and systems, and now has 28 people, including five client-facing partners, Goldstein says. The firm serves high-net-worth families and charitable organizations, including small foundations, with strong bases of "self-made" clients on the West Coast in technology industry entrepreneurs and on the East Coast in financial industry executives.

"We're now at a major transition point, where we can add other offices, advisors and clients," Goldstein says.

The firm trades partly on the pedigree of two partners who snagged high rankings from *Barron's*, which purports to list "America's best financial advisors from brokerages and banks." Tramontano, who left **Merrill Lynch** in 1990 to join Smith Barney, ranked in the Top 25 for *Barron's* between 2004 and 2006, while Goldstein, a 15-year veteran of Smith Barney, placed 12th or higher on the list from 2004 to 2007. Tramontano

subsequently made the top 10 on Barron's list for independent advisors for the past two years. In the 2006 ranking, Barron's listed Tramontano with \$6 billion in assets and Goldstein with \$4.9 billion.

The trio embraced the family office model in part because all had a similar focus at Smith Barney, where they had Citi Family Office designations, a unit within the brokerage focused on high-end clients. Smith Barney has since merged with **Morgan Stanley** and folded the program into the Morgan Stanley Private Wealth Management unit.

Constellation's wirehouse roots are somewhat unique for a multi-family office, says **John Shields**, a principal of **MainStay Consulting Group**, a consulting firm. "Typically, the family office practices that we see are people who come up on the institutional asset management side or private banking," he says. But high-end wirehouse teams often try to match the quality and range of services as multi-family offices, he adds.



Paul Tramontano

The firm also differs from some multi-family offices that outsource the investment due diligence function, Tramontano says. Constellation has about 12 to 15 long-only SMA asset managers on its "platform," with money in about five or six at a given moment. It also has about 15% to 25% of its client assets in alternatives, while using mutual funds and exchange-traded funds mainly for smaller accounts. Most of its manager turnover comes from asset allocation-driven changes.

But the partners constantly review managers and strategies, and have conducted due diligence on "many dozens" already. Tramontano says the focus is on landing "elite" managers with strong performance and solid processes, generally tilting to firms serving an institutional clientele. He says many of these managers are not available in the wirehouse world because they have capacity constraints or don't want to cut their fees to be on the platforms.

"We were swimming upstream even at Smith Barney in terms of managers we wanted to use," he adds.

Tramontano says a classic example of a boutique separate account manager it now uses is New York's **Edgewood Management**, a firm that manages \$6.9 billion for institutions and high-net-worth clients. The firm's growth equity separate account is not on wirehouse platforms because it aims to "soft-close" its core strategy at \$8 billion and doesn't want to drop its 1% fee or \$5 million account minimums, says **Jim Carrier**, partner and director of marketing at Edgewood.

Constellation's partners themselves go on manager site visits, with at least two making the trip along with an analyst, Goldstein says. That's usually after the analyst team has reviewed a manager's performance, systems, investment process, and other checklist items.

The model is preferable to using an outside due diligence consultant or asset management platform, Tramontano says, largely because such firms often send out "young MBA types who are checking boxes" on visits.

Goldstein recounts one trip that the three senior partners took to interview a manager in the Northeast with solid performance, spending three hours on site. On the ride back to New York, the trio shared concerns regarding the manager's personality and chemistry, and opted not to invest. "An analyst would never have drawn that gut conclusion," he says.



Sam Katzman

Constellation's ability to select alternative managers is another big change from the wirehouse world, where it was difficult to get clearance for products not on the platform, Katzman says. The wirehouse menus often had only the bigger hedge funds, excluding many top performers or managers with interesting and timely strategies, he says.

MainStay's Shields says Constellation's size probably allows it to access high-end asset managers and offer broad services beyond investments, such as tax or estate planning. "At less than \$1 billion [in assets], it would be hard to offer a wide array of services and products," he adds. "But north of \$3 billion or \$4 billion, you have plenty of revenue base and more latitude."

Constellation has in-house strategies as well, such as a service for "plain vanilla" fixed income holdings and a dividend-oriented equity portfolio, which Katzman runs.

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