COMPANY PROFILE

SUPPORTING CAST

BY DAN ROTTENBERG

OXFORD FINANCIAL'S TEAM OF ADVISERS IS IMMERSED IN RICH WATERS. THE QUESTION IS, WHY AREN'T MORE FIRMS JUMPING INTO THE POND?

IN 1981 JEFF THOMASSON WAS A HUNGRY 22-YEAR-OLD INSURANCE agent fresh out of business school with a bundle of unpaid student loans, a new wife, a skeptical father-in-law, and a bizarre dream. His M.B.A. thesis at Indiana University had envisioned a financial-services firm that made most of its money not by peddling insurance or mutual funds but by selling objective financial-planning advice to wealthy clients.

Thomasson wasn't convinced he could realize this dream. Nonetheless he hung out his shingle in Indianapolis and spent two years making cold calls to "everybody that I thought had money" and pitching fee-based advice as a way of differentiating himself from his commissioned rivals. By 1985 Thomasson had a six-person

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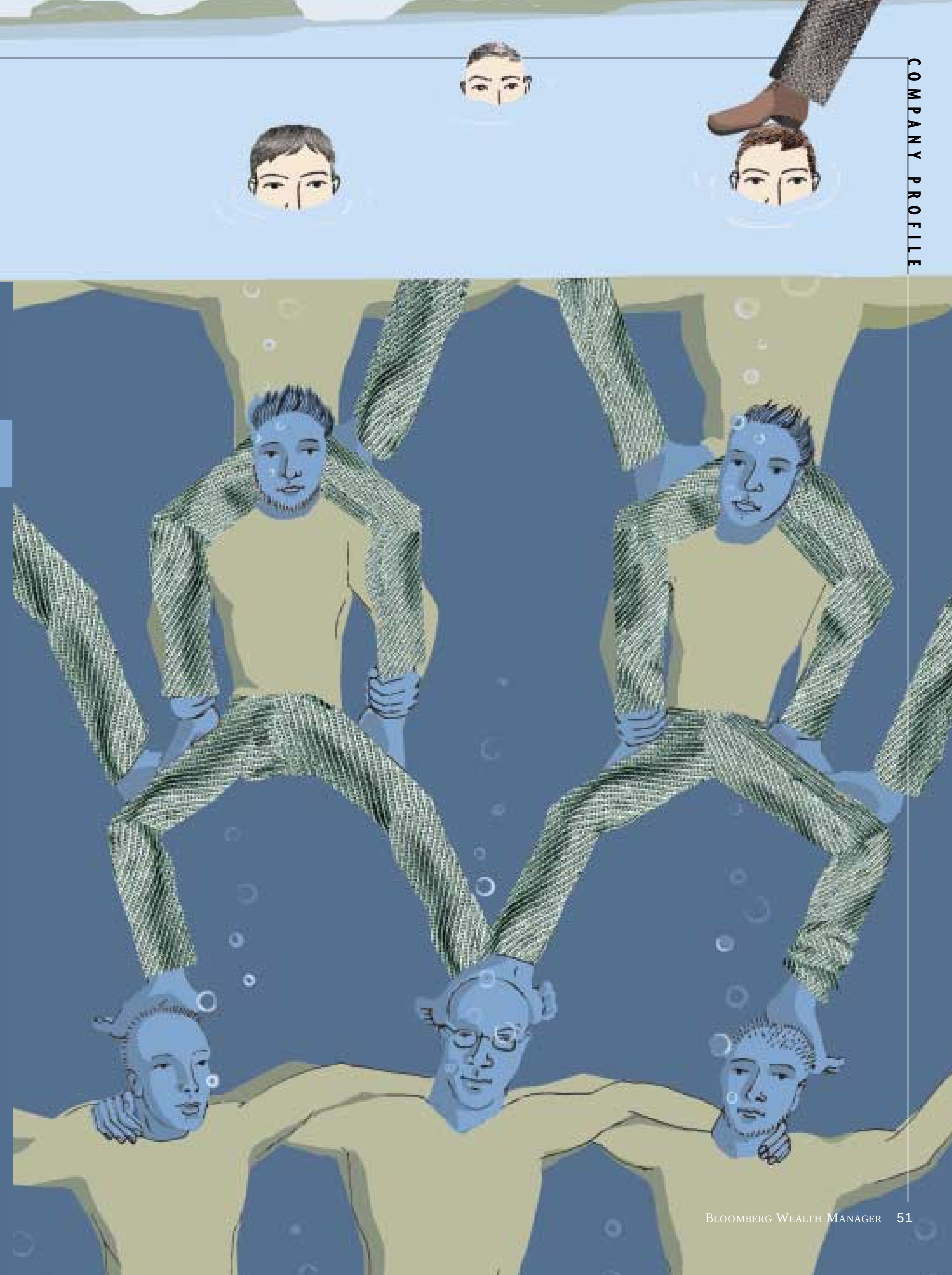


office, a raft of referrals from law firms and accountants, and annual revenues of some $650,000 derived half from commissions and half from fees. His moment of truth came later that year when one of his CPA sources asked him, "Do you guys get a commission on this product if you recommend it to my client?"

"Well," Thomasson replied, "sometimes we do and sometimes we don't."

"I think it would clean up your story if you didn't," the CPA told him.

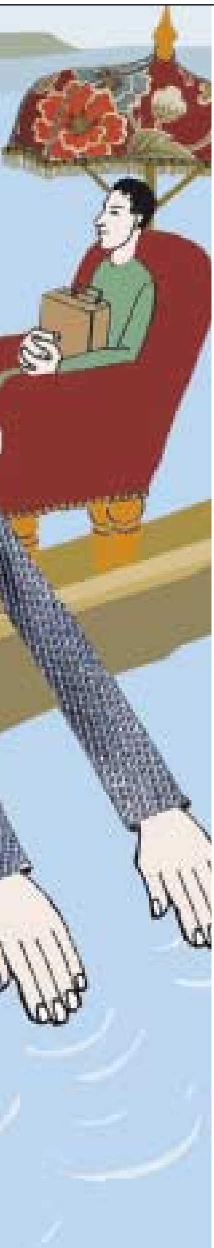
The CPA's suggestion reinforced for Thomasson the idea he had advocated in his MBA thesis. That gentle nudge was all Thomasson needed to go the rest of the way and take the then-unheard-of step of converting from a fee-based practice to a fee-only advisory shop. The changeover cost Thomasson half his revenues—more than $300,000 in commissions—that first year. But within a year his new advisory fees more than compensated for the lost commissions. "The kind of clients we were dealing with could afford to pay the fees, whether it was $3,000 or $100,000. So why confuse them?" asks Thomasson. Why give clients any reason to doubt that you're acting entirely in their interests?

Today we know that Thomasson was about 10 years ahead of the curve. Thanks to the 1990s explosion of millionaires—folks who are happy to pay fees for independent advice and suspicious of brokers with hidden agendas—Thomasson's operation now exceeds his wildest fantasies. His Oxford Financial Group may be America's largest independent financial adviser, providing a near-seamless smorgasbord of fee-only advisory services to about 630 wealthy Midwest families and institutions with some $7.5 billion in investable assets at the end of May and about $14 billion in total assets.

"We're in a playing field that's not very heavily populated," says Kirk Hill, Oxford's director of business development. In fact, the staffs of many fee-only shops number five to 10 people, whereas Oxford now has a staff of 115 full-timers. Even though Oxford's revenues run in the low eight figures, Thomasson himself at age 43 is still pushing hard, just as he was 20 years ago, continually adding new services and talent in a relentless quest to differentiate Oxford from its competitors in the minds of its clients as well as those who refer clients to the firm.

If this approach sounds familiar, that's because Oxford bears an uncanny resemblance to the model firm of the future so famously envisioned in a controversial 1999 study, *The Future of the Financial Advisory Business and the Delivery of Advice to the Semi-Affluent Investor.* In it, Mark Hurley, CEO of Undiscovered Managers in Dallas, argued that the industry's 11,500 boutique advisers are likely to be squeezed out by 2009. Financial-advice supermarkets will institutionalize clients by wedding them and their families to the firm instead of to a single adviser (for more on how Hurley's predictions have played out, see "Are We There Yet?" page 21).

That linkage of client and institution is pretty much the way things work at Oxford, a firm that manages to sell steak and sizzle simultaneously. But Hurley's study projected some 40 or 50 such regional powerhouses, and so far only Oxford has come close to meeting Hurley's projection. The firm's continually expanding service menu includes financial planning, asset allocation, due diligence in choosing and evaluating money managers, and a wide range of family-office services. In 1997 Thomasson and his partners spent some $2 million to set up their own trust company, which now handles about $450 million in assets. Oxford recently started offering innovations like alternative private investments and philanthropic



“WE’RE ONLY ADVISERS.

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counseling. The goal, says president Chris LaMothe, is to become “the best organization in the U.S. at whatever we do.”

That means Oxford pointedly avoids performing legal work or accounting—cannily feeding that work to outsiders who reciprocate by sending clients to Oxford. “We’re only advisers,” says Managing Director Michael Sears, who has been at Oxford since the 1985 fee-only conversion. “We’re not writing trusts or preparing tax returns, because other people are good at that.” And Oxford doesn’t manage a cent, even among its trust assets. Instead it functions as a manager of outside money managers.

This strategy ensures the purity of Oxford’s sales pitch: “We don’t have any products—proprietary or otherwise—and we never will,” Thomasson pledges. The approach also liberates Oxford from close government scrutiny. As nothing more than a registered investment adviser, Oxford has been visited by the Securities and Exchange Commission only three times in 20 years, Thomasson says. Indiana state officials regularly examine Oxford’s trust company, but that’s the extent of the firm’s government regulation.

Oxford has grown not so much by promoting from within as by carefully attracting highly paid, seasoned outsiders whose personalities mesh with Oxford’s culture—some recruits have worked with Oxford for years as outside suppliers or consultants. When Oxford recruited Joseph Sharma from Orlando, Fla., in 1998, “it was important to them that my wife wanted to move as much as I did,” recalls Sharma, now a money manager with Systematic Financial Management in Teaneck, N.J. “They were hiring us as a team. I’m not sure how many other firms would do that.”

Within the past year alone, Oxford has lured LaMothe, its new president, from the Indiana Chamber of Commerce, where he’d been president and CEO for nine years; the highly regarded chief investment officer Howard Harpster, who formerly supervised $4 billion for BP America Pension Fund in Cleveland; and Carole Tanner, who critiqued Oxford’s operations as an outside consultant, then came on board full-time last November as Oxford’s chief strategy officer. All three of these arrivals stepped into jobs newly created for them.

YET, TO A LARGE EXTENT, FOUNDER Thomasson remains Oxford’s man behind the curtain. “Jeff Thomasson is the Michael Dell of this business,” says Hurley. “He had the vision to build a fee-only business, and he went out and executed it. He’s put together a team that follows him. He built a consensus in the firm that bringing in outsiders is what they need to do—so they don’t have mass defections. They’re continually reinventing themselves; there’s a perpetual sense of discontent to change and make things better. A lot of RIAs get to between $200 million and $300 million in size, but this is a whole other ball game: $10 billion, 100 employees, and they’ve still kept the culture intact.”

Thomasson’s greatest virtue appears to be a kind of creative insecurity that prompts him to ask questions and genuinely listen for answers. “When you see him interact with his partners,” Hurley says, “there’s charismatic leadership going on. He listens. I was intimidated; this guy’s the whole deal.”

Thomasson still spends 75 percent of his time on the road, talking to clients, vendors, outside advisers, and competitors, many of whom are happy to share their deepest secrets with him. “I could be a spy from the CIA and they wouldn’t have known it,” he grins. He adds that he’d be happy to share his insights with others, but “they just don’t ask.”

Oxford’s culture—a boutique-like blend of big-league competence and down-home hospitality—is largely self-styled. In some respects the firm emulates the clubby, hand-holding obsequiousness of giant multiclient family offices like Bessemer Trust Co., Glenmede Corp., and Pitcairn Trust. But whereas Bessemer and its ilk grew up serving a single captive—and often painfully sheltered—family, Oxford has been rooted from day one in serving clients who vote with their feet. Oxford is one of the few planning firms dealing with both public and private—that is, alternative—investments. Like the technology-based adviser SEI Investments Co. (see "Over the Top," July/August 2001), Oxford monitors outside money managers via computer screens and databases. But unlike SEI, Oxford also offers the subjective judgment of veterans like Harpster, who've met and worked with money managers in the flesh. And whereas SEI's rural Pennsylvania headquarters deliberately projects a disposable image with its computer stations, exposed wires, rolling metal desks, and 30-something computer geeks in khakis and T-shirts, Oxford provides soothing suburban surroundings, where trust services and advice are proffered by unfailingly polite, business-suited client-service advisers in their 40s and 50s.

Oxford's two-floor headquarters—in a glass office tower in the Indianapolis suburb of Carmel—exudes an earnest sobriety. Its traditionally furnished hallways and client meeting rooms are adorned with plants, urns, patterned wallpaper, leather sofas, deep woods, and framed English pastoral landscapes. Oxford's name—as well as the Winston Churchill quotations heavily sprinkled through its brochures, perhaps the only affectation in this otherwise unpretentious firm—derives from Thomasson's love of British history.

Oxford is also that rare advisory firm that caters to both garden-variety millionaires, making up about 75 percent of its family clients, and superwealthy families with $50 million or more, which constitute about 25 percent. Most firms specialize in one group or the other on the assumption that a "wide-scale" firm can't deliver the time and personal attention that the superrich invariably demand. Oxford treats its billionaires and its millionaires more or less alike, without apparent repercussions.

Whereas many advisory firms rely on an individual relationship manager to serve as liaison between the client and the staff, Oxford assigns each client to two teams consisting of a half-dozen experts each—one team for investment advice and one for family-office services, each headed by a client-service adviser. Each team is in turn supported by a cell of back-office support troops. The teams and cells often overlap, but the approach provides a depth of service to the client that cements the client's relationship to the firm. "When you hire Oxford, you're not hiring a person, you're hiring a team," says Sharma. "They've essentially done for high-net-worth clients what institutional money managers have done for theirs: they've institutionalized the business."

Ironically, some of Oxford's most successful practices evolved from the firm's own limitations. Lacking the capital to maintain satellite offices in a number of distant cities, Oxford reaches its Midwest clientele by dispatching three- to six-person advisory teams for three-day monthly visits to client hotbeds like Fort Wayne, Ind.; Evansville, Ind.; Elkhart, Ind.; Dayton, Ohio; Cincinnati; Chicago; St. Louis; and even Naples, Fla., where Oxford maintains a satellite office to serve its snowbird clients. The teams meet clients in their homes or in the office of the client's banker, accountant, or tax attorney—a practice that further endears Oxford to these outside professionals, who feed the firm about a third of its clients.

The team-travel strategy also endears Oxford to small-city clients who want to keep their personal finances private. "They don't worry that we'll show up at their country club on the weekend, chitchatting with their friends, because we leave town," notes Hill. The expense of this team travel is huge, but it makes an equally huge impression on clients. Another side benefit: the team spirit and camaraderie generated by Oxford's team dinners on the road.

In exchange for such pampering, Oxford charges an investment-advisory fee based on assets under advisement, on a scale starting at 1 percent and sliding to 0.1 percent or less. And it's one of the few firms that charge a separate, flat annual retainer fee for its family-office services—anywhere from $10,000 up to $75,000 or more in advance, depending on the anticipated complexity of the client's needs—as opposed to a percentage of assets or hourly billing. Many firms shrink from a flat retainer for fear they'll be inundated with picky questions from petty clients, but Oxford managing director Debora Bennett says that's precisely the idea. "We want them to call us," says Bennett, who heads Oxford's family-office services. "We want them to keep us apprised. We want

OXFORD FINANCIAL GROUP AT A GLANCE

- Headquarters: Indianapolis
- Founded: 1981
- Core services: Investment planning and evaluation, family-office services, trust company, philanthropic counsel
- Minimum client size: $1 million in liquid assets, or $5 million total assets, or $300,000 to $500,000 in annual income. Exceptions are sometimes made in anticipation of a liquidity event.
- Family-office clients: 500
- Family-office assets under advisement: about $7.5 billion
- Institutional clients: 130 (two-thirds qualified pension plans, one-third not-for-profits)
- Institutional assets under advisement: $4.5 billion
- Trust-company clients (many of whom are also family-office clients): 212
- Trust-company assets: $450 million

to know what's going on in their lives so we can add value."

Oxford's policies have evolved "not so much because we had some brilliant idea that said, 'We're going to lead this industry,' " says Managing Director Jeffery Stroman, who supervises Oxford's investment advisers. "It had a whole lot to do with how we would want to be treated if we were consumers of these services."

But some observers contend that Oxford's hands-off approach to money management isn't necessarily what's best for consumers. "Having a core investing ability has advantages," says Robert Elliott, senior executive vice president at Bessemer Trust. "Most people can do strategic asset allocation. But to add value requires in-house investment capability."

Not surprisingly, Elliott's ideal model is Bessemer, which guarantees that within a given asset class every client's portfolio is essentially identical to that of Bessemer's controlling Phipps family. Thomasson, by contrast, is under no obligation to mirror his investments to those of his clients. "We take the view that we'll do the best for you, because at the end of the day we're fully accountable to our owners," Elliott says. "Some consultant-driven firms are not."

Other critics fault Thomasson for continuing to run Oxford as a benevolent dictatorship. Although the firm continues to offer its key managers an enlightened combination of sweat and investment equity and other incentives, Thomasson still holds 60 percent of Oxford's voting stock. Two other Oxford managers own the remaining 40 percent of the voting stock; eight others share in the profits of the company. In theory, the firm is governed by five managing directors—Thomasson and four of his salaried veterans—as well as four senior managers. Eventually, Thomasson says, all senior managers and client-service advisers will own a piece of the firm, through a complicated formula that rewards performance.

But Oxford's governance, like everything else at the firm, appears to be a work in progress. LaMothe—who, by the way, isn't a managing director—says he's moving to decentralize the firm's management to "push authority down as far as possible, so that people feel comfortable taking initiative." That includes overhauling the compensation system and the criteria for becoming equity or income partners.

Before LaMothe arrived, says Sears, "we had the potential to become a group of little kingdoms. Now, with Chris, we have a general to oversee us."

Tanner is similarly overhauling the firm's technology. Statement information that was previously outsourced through Schwab, Fidelity, and at least 100 other client custodians will soon be maintained in-house, both to control and streamline statements and to protect clients' privacy. "In the new model, we will be the only ones that know our clients' holdings," Tanner says. "With our type of client, that's a critical issue, so that's a huge selling point."

At the same time, Oxford is moving away from its proprietary software systems. Because the firm competes with major investment houses on a relatively limited budget, Tanner says, "we have to make sure that every single thing we implement is truly value-added to the client." Oxford's proprietary software, she says, took too many resources to maintain it. "It was giving us a lot of customization opportunities but really not that much more sophistication than what we could buy."

Oxford needs to continue to pull out all the stops; plenty

THANKS TO FOLKS HAPPY TO PAY FOR INDEPENDENT ADVICE AND SUSPICIOUS OF BROKERS, OXFORD NOW EXCEEDS THOMASSON'S WILDEST FANTASIES

could still go wrong. As the firm's Midwest clients retire and move to the Sun Belt, it will need to expand geographically to accommodate them (as, say, Bessemer and Chicago's Northern Trust Corp. have done). But building consensus within a growing organization, as LaMothe is doing, could slow down decisions to expand or seize new opportunities. Meanwhile, accounting firms, banks, insurers, and major Wall Street investment houses have been adding financial-planning services and may be less willing to share clients with Oxford in the future. Oxford has countered by experimenting with alliances with a CPA firm and a law firm, but such ties run the risk of undermining Oxford's unique culture. "You can't easily find other organizations that have models similar to ours," Thomasson says.

But Oxford's biggest potential problem is the likelihood that, as Tanner puts it, "somebody's going to figure this out." In theory, at least, there's nothing to prevent competitors from imitating Oxford's model, right down to the town map of medieval Oxford hanging in the firm's front hallway. (Cambridge, anyone?) "I'm amazed that it hasn't already happened," Tanner says. "So we have to stay a step ahead and continually ask, How do we grow in a way that we don't lose our competitive advantage over the big firms?"

On this question, at least, Oxford's habitually insecure founder seems uncharacteristically laid back. "I've not been convinced," Thomasson says, "that any of the brokerage houses know what's going on."

Dan Rottenberg is editor of Family Business *and the author of eight books, most recently* The Man Who Made Wall Street: Anthony J. Drexel and the Rise of Modern Finance (University of Pennsylvania Press).