Top of the rock

PAM's Stephanie Bartup sits down with Kevin Scanlon, executive vice president and director of investment bank Stephens' private client group, to discuss the firm's approach to building its affluent client base

Slow and steady wins the race, as the saying goes; and while Stephens Inc. may operate on a smaller scale than other investment banking conglomerates, the Little Rock, Arkansas-based family operation has grown organically over 82 years to serve clients across the country, with plans to expand further.

The Stephens brand grew out of Little Rock to become one of the city's most notable creations, and is now one of the largest privately-owned investment banks in the US.

"Stephens really embraced the idea of private equity when it was barely a concept, which undoubtedly cleared the way for many other investment banks," says Kevin Scanlon, executive vice president and director of Stephens' private client group.

The family-owned business has several high-profile transactions under its belt – in 1970, it handled the initial public offering for Wal-Mart, which would go on to become the world's largest retailer. The following year, it assisted in underwriting $113m in municipal bonds in New Orleans, Louisiana; funding which went towards building the state's Superdome.

Over the following four decades, the investment bank branched out its service offering, expanding its investment banking services and establishing a research division, an insurance division, capital management, mutual funds and the creation of a private client group. Today the firm has 25 offices strategically located throughout the US, and an affiliate in London.

Scanlon's focus, the private client division, has grown its assets under management by 140% since 2006 – a tremendous achievement considering how many corporations are fighting to retain accounts as many choose independence over the wirehouses.

"Since our founding, we have evolved from a family firm in a small city where everybody knows the Stephens name; we have an excellent reputation and wanted to take our business model to investors outside of Arkansas," says Scanlon.

Stephens private client group is a natural extension of the investment bank's roots and was established on a day etched in Scanlon's memory. "We launched the day before the 9/11 terror attacks," he recalls. "It was a time when investors needed a trusted partner more than ever."

In the following years, he says, the business evolved from a select group of private client advisors that came from the Stephens Inc. origins, to operating out of 18 of the company's 26 offices. Scanlon says that having the 'referral system' at Stephens – whereby private investors are referred over to the private client group – has been a great source of business for the division.

"Our branch system allows us to have our flag in the ground with the Stephens name in many different areas," he explains. "We're a closely run firm and build up the trust in a lot of areas of a client's life."

Scanlon, who has worked for the investment bank for 28 years, says clients with investible assets of around $1m are a starting point for the firm, but this number can vary.

"There really isn't a 'traditional' client for us; we launched at a time where there were so many opportunities arising and so much change – the tech bubble was evolving, entrepreneurs were finding themselves part of this cash windfall," he says. "We initially started out with a focus on a transactional approach of stocks, bonds and mutual funds, but over time we've evolved to a more holistic approach that includes wealth management planning, and also offers an advisory, fee-based model."

Scanlon says that following the financial crash of 2008, the firm won favor with its no-nonsense approach to uncertain risk taking. After Lehman Brothers' collapse, Stephens' current CEO Warren Stephens drafted a memo which he posted online, noting that while many Wall Street firms were leveraged 30-1, his business was leveraged just 2-1, with over 50% of its assets in government securities.

"We weren't one of the four big-name private banks, which ultimately stood us in good stead," says Scanlon. "Some investors may have assumed it would be the smaller firms, like us, that would not survive, but it was the big names which were in trouble." He says that over the past seven years, the firm has grown to become "bigger, stronger and more vibrant than ever before".

"[Former Stephens Inc.'s president] Jack Stephens, told everyone at the firm that your first job is to make sure you're still in business tomorrow," explains Scanlon. "He said, 'Don't take uncertain risks; clients are real relationships. It resonated well with people. Some traders at other firms got a little too aggressive or transaction-obsessed. We had a much more solid approach, and looked at the whole picture."

It isn't just the firm's clients which favor its familial approach. As advisors continue to leave Stephens' wirehouse competitors with clients in tow, he says the firm has been presented with an opportunity. "Large organizations like Legg Mason and Smith Barney were merged or acquired, and weren't the same organizations that their advisors had signed up to work at [following the 2008 financial crisis]," observes Scanlon. "Previously, these advisors might have worked for them as one of a team of 600 or so; after the various mergers, they became one of 16,000 in some cases; it wasn't how they'd envisaged working, and many became disillusioned and disenfranchised."

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This disparity, says Scanlon, presented opportunities for the smaller firms such as Stephens. The firm is typically hiring advisors from larger firms, he notes, who are seeking a more relationship-driven working environment.

"Our philosophy is to ensure that everyone we hire is strategic and significant," he says. "But we're not going to tell them what to sell – they do what they think is right for the client."

Having expanded slowly through the central and east of the country, the private client group occupies 18 bases in the US; from Little Rock to Atlanta, South Carolina to Mississippi and Dallas.

Stephens Inc. also has several other locations in which the private client group is interested, and Scanlon has a keen eye on geographical opportunities for his division. "We are opportunistic, but when we go into a market, we want to be strategic and significant," he says. "Stephens has a presence in San Francisco, Chicago and Boston, which the private client group does not, as yet; I'd be very interested in exploring those markets. I'd also like to go further into Texas; we do a lot of business in Houston and have had a great experience in the state," he adds. "Most opportunities for us lie in the South, but not exclusively; we will continue to migrate west."

As the business continues to grow, Scanlon is aware of the issues facing the private client group; while a lack of exceptional new talent coming through the doors is a worry for many parts of the financial services sector, he says Stephens is committed to finding, educating and training the next generation of advisors.

"For a while it was quite 'cool' to leave university as an investment banking analyst and go into hedge funds or private equity – that trend has slowed down in the last five years or so," he notes.

"We need to make sure that we are addressing the challenge of an ageing industry and take the time to train and invest in the new generation. Clients want someone who has been through volatile markets, and has experience – we make sure all our advisors are appropriately armed."

The firm has two industry-leading educational initiatives that it created to address the problem. All of its broker graduates attend 'Stephens University' in their third year at the firm, during which time they 'go back to basics and learn about what made the firm the place it is today', says Scanlon.

"They learn everything from the planning, portfolio management, accounting and investment sides of the business. From reading financial statements to shadowing senior executives – they gain exceptional experience on this program," he adds.

A second educational program – which is in its second year – is the firm's analyst program, which gives at least two apprentice students the opportunity to work within the private client group and form part of the support team for two years.

"They are trained in all areas they would be expected to learn about as an advisor, and at the end of the course, decide if that is the right path for them," Scanlon explains. "If not, they may be offered an alternative support staff role."

Of the two graduates accepted onto last year's program he says, one accepted an advisor role, while another went into the wealth management division; later this year, the program will double its student intake to four.

"There are so many benefits to recruiting millennials and generation X members," says Scanlon. "It's the best way to ensure good continuation of business, and they inevitably relate better to younger affluent clients; it's an issue we'd rather face head on than ignore until it's too late." ■