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BARRON'S COVER

The Best Advisers

By SUZANNE MCGEE

The 100 top advisers in our latest ranking are rethinking diversification -- and finding smarter ways to hedge their bets. (Video)

WHAT DO YOU DO WHEN THE RULES DON'T work any more? The question has been on many investors' mind after the shellacking of 2008. Almost nothing worked last year -- not U.S. stocks (down 34%), not global stocks (down 42%), not commodities (down 37%) and not hedge funds (down 19%).

The upshot: The once-hallowed concept of diversification, or spreading your bets, has been called into serious question. "This was something smart people did because they knew it worked," says Bruce Lee, a Chicago-based financial adviser with Credit Suisse. "When one part of the portfolio was in a slump, another would pick up the slack." But not in 2008.

So Lee and other top advisers -- see our exclusive listings -- are giving diversification a thorough rethinking. It's not as simple as owning a bunch of different investments. For example, there's "tactical diversification," or moving swiftly to take advantage of price moves in particular markets. Some advisers are also diversifying by working with greater numbers of outside investment managers. Miami adviser Patrick Dwyer of Merrill Lynch uses no fewer than four managers for his clients' municipal bonds. "Some people will say I'm over-diversified and have too many managers," he says. "But what they don't realize is each of those managers is going to generate different kinds of returns through different strategies."

Finding smarter ways to hedge bets is one of the most important things an adviser can do to stand out in today's volatile markets. The 100 advisers in *Barron's* annual listing are certainly managing to stand out. Hailing from big brokerage houses, banks and independent firms, these pros and their teams are overseeing huge amounts of client assets -- in some cases, tens of billions -- and following the industry's best practices.

We culled the list from more than 800 nominations from the firms, examining assets under management, the revenues that advisers generated, regulatory records and less-tangible things like community involvement. Investment returns aren't an explicit criterion, because advisers aren't required to file audited statements. But honest advisers operating on this scale tend to have strong returns -- that's how they get and keep so many clients.

The ranking features a new No. 1 -- Gregory Vaughan of Morgan Stanley in Menlo Park, Calif. A picture of stability, he has been with the firm and with the same team for 25 years, and last year he helped clients reduce equity exposure ahead of the meltdown.

Forty-two advisers join the list for the first time, and 35 move up the ranks by 10 spots or more. All that reflects the market upheaval, a doubling in the number of nominees and heavy movement of advisers from one firm to another. We take such transplants off the list for a year, to let their accounts settle at the new firms. (See nearby table, Trading Places.)

For the full article, visit: <http://online.barrons.com/article/SB123987806796924697.html?page=sp>

Top 100 List:

58 Don DeWaay, DeWaay Capital Management – Clive, Iowa