

Cypress Seeks Its Spot in High-Net-Worth World

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Cypress Capital Partners has big aspirations for carving a niche in the municipal industry among high-net-worth retail investors and small banks.

Principals at the Chicago-based investment management firm are aiming to acquire \$500 million of assets under management by its first anniversary next June.

The firm got its start with a handful of investors with combined assets totaling \$110 million, according to Andrea Hosbein, who started the business endeavor with partner Bill Laughridge.

Hosbein said she had originally thought doubling that figure within a year “would be a stretch” for a small firm with virtually no marketing budget and a staff of just two partners, but Cypress has already amassed \$225 million since its start.

When Laughridge collaborated with Hosbein to start the business, he brought over a handful of his existing clients from his career in the local banking industry, and referrals followed.

Now, the partners are counting on continued referrals from existing clients to help beef up their customer base, as they don't plan to launch any major marketing efforts, Hosbein said. The firm's Web site, www.cypresscapitalpartners.net, was in the process of being completed just a couple of weeks ago, she said.

As an investment manager, Cypress caters to high-net-worth individuals that have a minimum account size of \$2 million and want to keep their fixed-income assets relatively stable and secure for the future, Hosbein said.

“A lot of investors that have made a lot of money in other sectors or in their careers, this is their nest egg money,” she said.

The firm's reach extends beyond its Chicago base, with clients in states that include California and Colorado. The age of clients range from 35 years to 75 years, according to Hosbein.

Cypress investors have a variety of investment needs, such as short-term cash management, long-term, income production, and enhancing returns by selectively siphoning risk out of the market by stretching for yield and maintaining a more actively traded portfolio, Laughridge said.

Besides its bread-and-butter retail business, Cypress also manages a small bank's tax-exempt portfolio, and hopes to acquire other bank portfolios in the future, Hosbein said.

Hosbein and Laughridge said they believe Cypress distinguishes itself from other small investment managers, or even larger firms, with its emphasis on yield transparency.

“We have heard that some municipal bond money managers are not being candid about their returns,” Laughridge said. “They tell clients they are earning a 4.58% yield, when that is the average coupon rate, or the current yield, or yield to the worst case. What will make our business successful is the ability to be forthright and candid with what they are really achieving.”

“I think between the two of us we'll be able to seek out various yield opportunities that others might not be aware of,” he added.

Hosbein, who recently left her position of 12 years as a municipal trader at Harris Bank & Trust in Chicago, handles the trading and sales duties, research, and daily portfolio management, while Laughridge, who recently ended a 24-year career at NLSB Bank in New Lenox, a Chicago suburb, is in charge of the overall management of the firm, including investment strategy, marketing sales, and business development.

Laughridge was the president, chief executive officer, and chief investment officer at NLSB until it closed in 2005.

Prior to working at Harris, Hosbein was in dealer sales for two years at the former Kemper Securities in Chicago, which is now Wachovia Corp. She had also worked for five years in the underwriting department of the former Society Bank in Cleveland, which is now Key Bank.

Both Hosbein and Laughridge also believe the current small size of the firm will allow the partners to provide clients with a personal, hands-on investment approach that might not be available at larger shops.

“The level of customization can be much greater,” Hosbein said. “We really want to go and meet the end user.”

“We are eliminating the salesman who insulates the investment manager from the customer, and we will work together to come up with a cohesive strategy that is best for their portfolios,” Laughridge said. “The more educated our clients are, the more confident we are about explaining the subtleties of the municipal market.”

In general, the firm upholds a conservative management style, investing in high-quality tax-exempt securities, such as higher-rated health care bonds, while also dabbling in the nonrated note market among credits they know well, Hosbein said. “They can provide substantial yield pick-up on the short end of the market,” she said.

Currently, a majority of the retail clients have portfolios with average duration of three-and-a-half to four years, while there are some that prefer intermediate bonds, Hosbein said.

Cypress is doing business alongside several small and mid-sized institutional and retail shops, as well as many of the large wire houses, with sales and trading operations in Chicago, including Bear, Stearns & Co., Citigroup Investment Banking, and Goldman, Sachs & Co.

A trader at one firm said he thought getting a fixed-income shop for retail investors off the ground would be extremely difficult – largely because of the current interest rate environment.

“Yield spreads have basically squeezed all the mom and pops out of the business,” he said. “With 30-year municipals yielding 4%, investors are better off buying corporates or a [certificate of deposit].”

While Cypress’ product line is limited, others say they believe a small start-up firm catering to retail has the potential to succeed largely because most of the newer firms that have been created over the last few years are targeting institutional investors.

“We have seen tremendous consolidation in the industry with the loss of regional firms, so there is a market for small firms with a focus on retail,” said Jim Dolan, CEO of Alta Capital Group LLC, a broker-dealer that operates its municipal finance operations out of Chicago and its sales and trading in Boston.

“From a demographic standpoint, as more baby boomers retire there will be a shift toward fixed income and municipals,” he said. “There are not many [small] firms that cater exclusively to retail on the muni side.”

Dolan started Alta Capital with partner Adela Cepeda a year ago, and said some of its business lines are running ahead of projections, while other firms are below forecast. It gained approval from 93% of the 225 to 250 asset managers it targeted for business— which Dolan said was the biggest challenge as a start-up firm – and while the firm focuses on municipals, it has expanded its product base to include some limited equity trades.

Overall, Laughridge is less worried about competition from the major investment firms in the Chicago area and other big cities, or challenges that face a start-up company, and instead is more enthusiastic about achieving Cypress’ \$500 million target for its first year. He said that is “very doable” since munis continue to be an important component for investors of all types.

“There is a place in everyone’s portfolio for tax-free securities,” Laughridge said. “The percentage of monies allocated to the municipal market has been enhanced as many people have been negatively impacted by the equity market in the late 1990s and early 2000.” He said he expects that allocation to continue to rise going forward as retail investors maintain more balanced portfolios in the wake of all the past volatility in stocks.