Middle States Geographer, 1995, 28:59-67

DECONCENTRATION AND DISPERSAL OF THE INSTITUTIONAL INVESTMENT ADVISORY INDUSTRY IN THE UNITED STATES, 1983-1993

John E. Bodenman
Department of Geography and Earth Science
Bloomsburg University
Bloomsburg, PA 17815

ABSTRACT: *The tremendous growth of the institutional investment advisory industry in the United States is emblematic of the nation's transition to an information economy. Traditionally, the industry has been concentrated in New York City and other urban centers at the top of the urban hierarchy. However, analysis at both the inter- and intrametropolitan scales over the 1983-1993 study period indicates deconcentration and dispersal away from the traditional money management core. This "concentrated dispersal" of the industry over the last 10 years confirms that location in a traditional financial center is no longer a necessary condition for institutional asset management.*

INTRODUCTION

Until recently, the multi-billion dollar investment advisory industry[1] has received little attention from geographers (Green, 1993; Warf, 1989; Hepworth, 1991). Today's investment managers, buttressed by state-of-the-art information and communications systems, seemingly inexhaustible data bases, small armies of securities analysts, and complex new theories of investing, represent the quintessential information-intensive producer service--a product of the "information economy" (Hepworth, 1990). Given that the information technologies and telecommunications infrastructure on which the industry is highly dependent have changed dramatically over the last ten years (e.g., the switch from centralized "mainframe" computing to decentralized personal computers (PCs) computing), the industry's geography, like that of other specialized producer service industries, needs to be examined.

Why is the geography of the investment advisory industry important to study? Because investment managers and their traders handle billions of dollars in assets, these professionals make decisions that affect the lives and prosperity of almost everyone in the United States: members of pension and profit-sharing plans, individual investors, and arguably anyone in the nation or abroad with a stake in the $6.5 trillion United States economy. In the 1960s, individuals accounted for 80 percent of all transactions on the New York Stock Exchange, while institutions represented by investment managers accounted for 20 percent. Today, the ratio is reversed (Salwen and Lublin, 1992). Perhaps more importantly, these institutional investors[2] now own 50 percent of all the common stock outstanding in the United States, up from 40 percent in 1980, and less than 15 percent in 1950 (Bernstein, 1992). Institutions are no longer minority shareholders; they are the majority shareholders (O'Barr and Conley, 1992), and thus, the addresses of their investment managers represent major "control points" in the nation's economic geography (Borchert, 1978).

The purpose of this paper is to examine the locational dynamics of the institutional investment advisory industry in the United States. I will begin with background on the industry -- its current geography and place within the information economy. Second, I will present a theoretical context from which to study the industry, focusing in particular on the impacts of information and communications technology on the industry. And finally, I will speculate on the industry's potential for future deconcentration and dispersal.

THEORETICAL ISSUES: FINANCIAL SERVICES LOCATION

The great majority of research exploring the locational dynamics of financial services activities suggests that information intensive financial services like institutional investment advisors are disproportionately concentrated in the cores of the largest metropolitan areas due to (1) the importance of trusted face-to-face contacts in the decision making process at the highest level, (2) the existence of a business/social milieu, (3) prestige of a given place, (4) the importance of fixed assets in the Central Business District (CBD) that could be devalued in the case of owner exodus, and (5) agglomeration of ancillary services (Castells, 1989; Daniels, 1993; Sassen, 1991). Furthermore, Castells (1989), Daniels (1993), and Sassen (1991) have argued convincingly that the dramatic growth of financial services in the CBD's of the largest metropolitan areas is a direct result of the advances and growth of telecommunications infrastructure in these centers. They indicate that there is a close relationship between the development of the telecommunications infrastructure and the centralization of information intensive financial service activities in a few global cities, New York being foremost among them. Furthermore, the use of large, expensive mainframe computers during the late 1970s and early 1980s centralized information generation and concentrated information intensive activities in the high-order urban centers.

However, the dynamic nature of industry structures based on technological change complicates attempts to theorize about future financial services location. For example, advances in computing and telecommunications technologies have brought about structural and organizational changes to the financial services sector. New technologies in telecommunications, computing and information processing have greatly increased innovation and expanded the menu of financial products and services. Increasingly powerful PC technologies continue to decentralize computing functions, and as a result, product applications, management, and marketing processes are evolving faster than ever before (Bernstein, 1992). Vigorous competition exists based on specialization, niche marketing, economies of scale, and economies of scope.

Increasingly, technological change in the form of IT clearly has the ability to release much informational activity from its dependence on the core of large metropolitan areas. For example, the switch from centralized mainframe computing to increasingly powerful desktop PCs has effectively decentralized many computing functions. In addition, advanced information and telecommunications technologies have allowed information transfer via networks and communication channels to become an attractive substitute for face-to-face contacts, thereby reducing the need to agglomerate in a central business district. For example, communications technology has helped institutional investment advisors gain more control over their stock transactions as brokerage firms increasingly provide direct electronic access to automated small order execution systems like the New York Stock Exchange's SuperDOT.[3] Over the last several years brokerage firms have been providing SuperDOT access to their largest institutional clients by putting a terminal directly in their offices. A few brokerage firms have also been providing crossing networks[4] aimed at passive index fund managers, linking the networks to SuperDOT so that managers and their traders can swiftly execute unmatched orders. National stock exchanges are now competing with these computer trading systems, whose equity transactions are not physically confined to a central trading floor but are carried out on electronic dealing screens (Hepworth, 1991).

The traditional stock exchange trading floor is itself becoming a thing of the past. Increasingly, exchanges are choosing to become fully automated and close their trading floors. Paris, Belgium, Spain, and Vancouver all abolished their trading floors in the last several years. Now the Toronto Stock Exchange, Canada's largest, has become the latest to switch to fully automated trading. Already about half of Toronto's listings, accounting for about 25 percent of volume, are traded exclusively through its automated system. Specialists in those listings work from their offices, get their information from terminals and deal with customers by telephone.

Prior to the recent advances in IT, the information requirements of information-intensive service firms, like institutional investment advisory services, demanded centralized locations. Today, however, information can obtained and manipulated anywhere, if the information networks are present and accessible. The institutional investment advisory business--the management of pension and endowment assets for a fee--is an excellent example of an important information intensive financial services industry that has grown dramatically over the last 10 years--growth made possible by the tremendous increase in pension and endowment assets available for management and the new technologies in computing, telecommunication, and information processing. Geographical analysis of the institutional investment advisory industry will provide a basis for examining the extent to which concentration, dispersal and/or both processes are operating with respect to the industry's locational pattern.

DATA AND ANALYSIS

The data to map institutional investment advisory firm locations and assets under management were obtained from the Money Market Directory of Pension Funds and Their Investment Managers (1983; 1993). Based on both SEC licensing information and individual firm surveys, the directory claims to provide a profile of every institutional investment management firm managing assets for a tax-exempt fund sponsor headquartered in the United States with over $1 million in total assets.[5] The assets under management include corporate, state and local government, and union plan sponsored employee benefit funds (all tax-exempt), as well as endowment and foundation funds (also tax-exempt).

Until the 1970s, the vast majority of institutional investment advisors and their traders worked for banks and insurance companies. Independent investment advisory firms of any size first appeared in the early 1960s and proliferated in the 1970s and 1980s, when clients began demanding more aggressive investment strategies. In 1983, independent investment advisory firms managed 30 per cent of the total assets under management, while banks and trusts ran 34 per cent, and insurance companies 35 per cent. Ten years later (1993), independent investment advisory firms had increased their share of managed assets to more than 63 per cent of the $5.5 trillion in total assets under management, with banks and trusts dropping to 20 per cent and insurance companies to 14 per cent. Though pension funds (tax-exempt assets) are by far the largest source of managed funds, investment advisory firms also take in billions of dollars from profit-sharing plans, employee savings plans, unions, state and local governments, endowments, and foundations. The primary investment vehicles are transferable securities and equity products that include stocks, bonds, commercial paper and derivative products like futures, options and swaps.

Intermetropolitan Distribution

Geographically, the headquarters of institutional investment advisory firms with tax-exempt assets under management in 1983 were located in 133 cities and towns across the nation. By 1993, the number of cities and towns with firms managing tax-exempt assets had grown to 300. Figure 1 illustrates the tax-exempt assets under management by metropolitan area in 1983--a total of $221 billion under management by 532 firms. Table 1 indicates that in 1983, the total tax-exempt assets under management in the traditional money management core was $154.4 billion, including New York with $74.8 billion, Boston with $41.6 billion, Chicago with $16.4 billion, San Francisco with $14.3 billion, and Los Angeles with $9.4 billion. Ten years later, total assets under management had grown to $2,022 billion, and the number of investment advisory firms to 1,207 (Money Management Directory, 1993). Figure 2 illustrates the tremendous growth of assets under management in the traditional core (e.g. New York, Boston, Chicago, Los Angeles and San Francisco), and also in an increasing number of newly emerging centers, e.g., Newport Beach, CA; Seattle/Tacoma, WA; Denver, CO; Houston, TX; Atlanta, GA; Minneapolis, MN; Pittsburgh, PA; and Stamford, CT. In short, deconcentration, albeit in a relatively small number of newly emerging centers, is clearly apparent.

Many of the nation's largest investment advisory firms have traditionally had a "Wall Street" address. For example, in 1983, seven of the top ten money managers, ranked by value of assets under management, were located in New York City. These seven firms included, among others, J.P. Morgan Investment Management, Equitable Capital Management, and Alliance Capital Management -- ranked 1, 2 and 3 respectively.

That the great majority of investment advisory firms have traditionally been located in New York City should not be surprising. Home of the New York and American Stock Exchanges, New York City is also home to most of the money-center banks, insurance companies, and the U.S. head offices of foreign financial institutions. However, with the aid of modern information and communications technologies, New York's lock on investment management appears to be weakening. For example, in 1991, Wells Fargo Nikko Investment Advisors, located in San Francisco, took over the number one ranking from J.P. Morgan with $99.7 billion under management compared to Morgan's $66.1 billion. Similarly, Mellon Capital Management (San Francisco), Pacific Investment Management (Newport Beach, CA), G.E. Investments (Stamford, CT), and The Boston Company (Boston, MA) moved into the number 4, 5, 6 and 8 spots, respectively.

Perhaps most interesting is the emergence of a small but growing number of institutional investment advisory firms located outside of the traditional financial centers. In addition to Pacific Investment Management and G.E. Investments (listed above), other examples of firms in the top 50 (all with assets greater than $10 billion) include #25 Franklin Advisors (San Mateo, CA), #39 Frank Russell Trust (Tacoma, WA), and #49 Jammison, Eaton & Wood, Inc. (Chatham, NJ). The location of these firms, and decreasing relative shares of the top five metropolitan areas (Table 1) suggests deconcentration and dispersal of the industry away from the traditional institutional investment advisory core.

But what about the investment advisory industry's ties to the central business district (CBD)? Are these weakening as well? Are the deconcentration trends at the intermetropolitan level also occurring at the intrametropolitan level? The decreasing relative shares of the traditional money management core (Table 1), as well as the decreasing relative shares of the top 20 cities suggests that deconcentration also may be taking place at the intrametropolitan level.

1983 Rank	Metropolitan Area	State	$ in Thousands	# of Firms	% of Total Assets	% of Total Firms
1	New York	NY	74,814,291	150	33.83	28.2
2	Boston	MA	41,562,863	49	18.79	9.21
3	Chicago	IL	16,424,171	27	7.43	5.08
4	San Francisco	CA	14,343,936	30	6.49	5.64
5	Los Angeles-Long Beach	CA	9,368,000	35	4.24	6.58
	Total		156,513,261	291	70.78	54.71

1993 Rank	Metropolitan Area	State	$ in Thousands	# of Firms	% of Total Assets	% of Total Firms
1	New York	NY	573,116,648	256	28.33	21.21
2	San Francisco	CA	249,996,958	73	12.36	6.05
3	Boston	MA	230,966,916	100	11.42	8.29
4	Los Angeles-Long Beach	CA	119,982,649	59	5.93	4.89
5	Chicago	IL	115,489,240	66	5.71	5.47
	Total		1,289,552,411	554	63.75	45.91

Table 1: Percentage of Total Tax-Exempt Assets and Percentage of Total Firms with Tax-Exempt Assets Under Management in the Top Five Metropolitan Areas, 1983 and 1993 (Source: *Money Market Directory*, 1983; 1993).

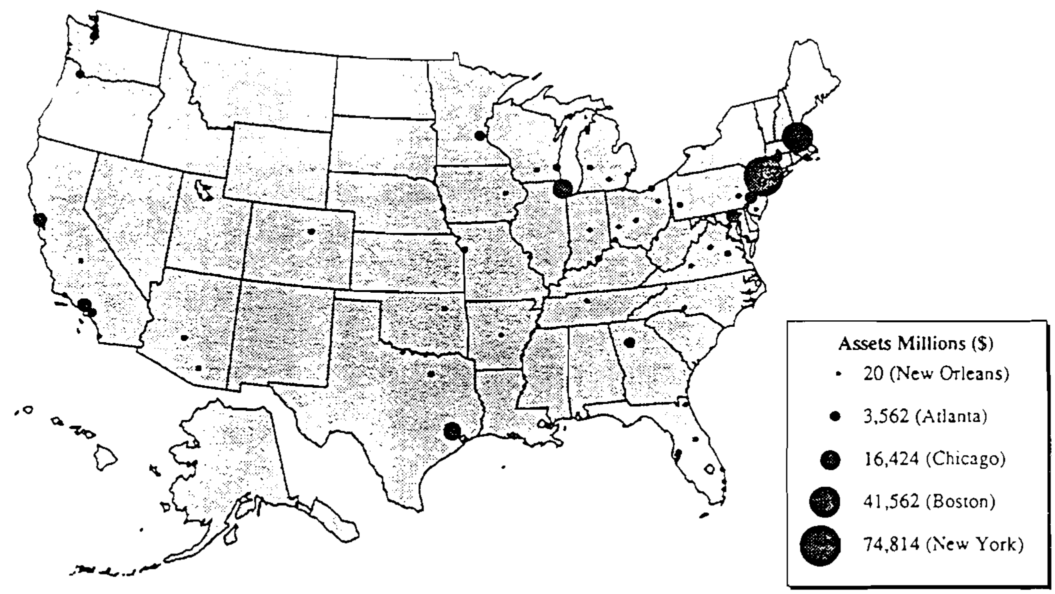

Figure 1: Tax-Exempt Assets Under Management by Metropolitan Statistical Area, 1983 (Source: *Money Market Directory*, 1983).

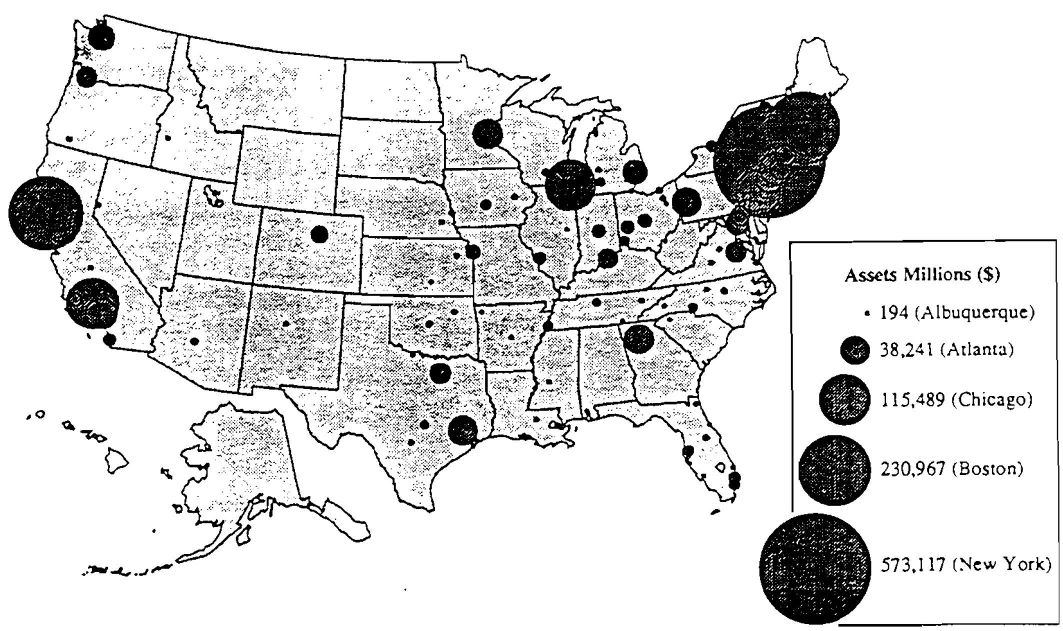

Figure 2: Tax-Exempt Assets Under Management by Metropolitan Statistical Area, 1993 (Source: *Money Market Directory*, 1993).

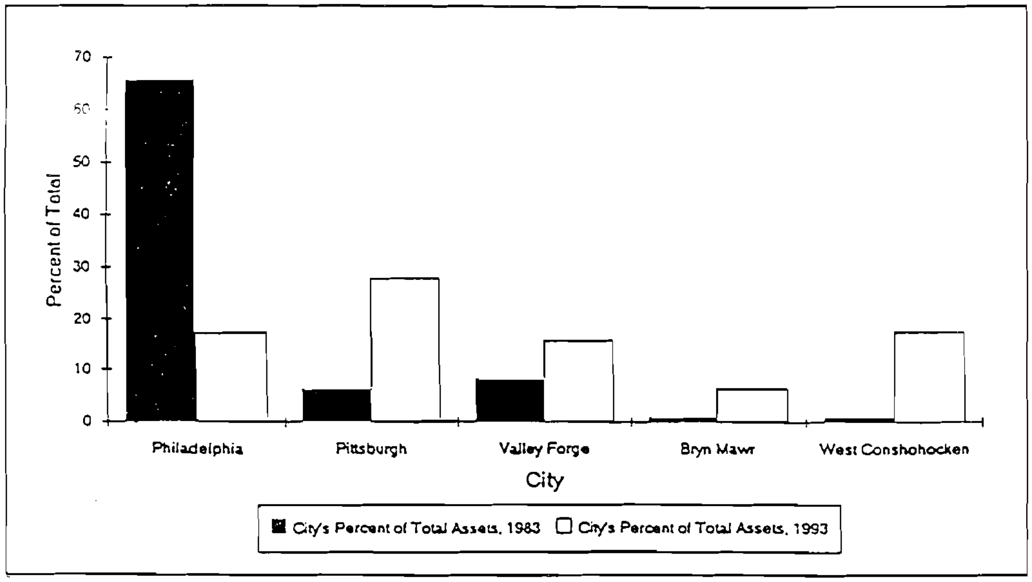

Figure 3: Percentage of Total Tax-Exempt Assets Under Management In Pennsylvania's Top Five Cities, 1983 and 1993 (Source: *Money Market Directory,* 1983; 1993).

Intrametropolitan Distribution

As discussed earlier, the investment advisory firms with tax-exempt assets under management in 1983 were located in 133 cites and towns across the nation. By 1993, the number of cities and towns with firms managing tax-exempt assets had grown to 300. Where is investment advisory industry growth occurring? In the traditional financial centers of each respective state? Or in new locations outside of the traditional financial centers?

The data indicate that the state of Pennsylvania is home to 62 investment advisory firms with over $131 billion in tax-exempt assets under management. Furthermore, the Philadelphia MSA (#6 behind Los Angeles in total assets) and the Pittsburgh MSA (#12 in total assets), had a combined $127.8 billion in tax-exempt assets under management between them in 1993, or nearly 98 percent of the total assets under management in the state. Assuming that Pennsylvania represents a microcosm of deconcentration trends in New York, Massachusetts, Illinois and California, this important state will be the focus of the following descriptive analysis of the intrametropolitan location of investment advisory firms in 1983 and 1993.

In Figure 2, the city of Philadelphia stands out as the investment management center of Pennsylvania, the headquarters to firms with $4.8 billion in tax-exempt assets under management in 1983, representing 65.7 percent of the total tax-exempt assets under management in Pennsylvania. Ten years later (Figure 3), the southeast corner of the state still appears to be the center of the industry, but Philadelphia is no longer the top city in terms of total assets under management. Figure 3 indicates that Pittsburgh was ranked first in 1993 with $36.5 billion, followed by West Conshohocken (#2) with $22.9 billion, more than Philadelphia (#3) itself with $22.6 billion. Not far behind Philadelphia was Valley Forge (#4) with $20.8 billion, followed by Bryn Mawr with $8.4 billion. Figure 3 also illustrates this deconcentration trend from 1983 to 1993, particularly the loss in relative share by Philadelphia, previously the dominant center in Pennsylvania in 1983.

The top five cities (Figure 3) were home to 22 firms with $7.2 billion in tax-exempt assets under management, representing over 98 percent of the total tax-exempt assets under management in Pennsylvania in 1983. By 1993, the top five cities were home to 30 firms with $111.2 billion in tax-exempt assets under management. However, this absolute increase represented a decrease in total share from over 98 percent in 1983 to 84.8 percent in 1993, especially for Philadelphia, which saw its share of total tax-exempt assets under management decrease from 65.7 percent in 1983 to 17.2 percent in 1993, a dramatic decline.

Perhaps more dramatic and interesting, however, is the growing number of investment advisory firms located outside of the top five cities. In 1983, 81.5 percent of the firms with tax-exempt assets under management in Pennsylvania were located in the top five cities. By 1993, however, the top five cities share of total firms had dropped to 48.4 percent. Most of this growth took place at the expense of Philadelphia. However, most of the growth in new firms and their tax-exempt assets under management has taken place in towns and cities that are part of the Philadelphia MSA. In fact, three of the cities ranked in the top five --West Conshohocken, Valley Forge, and Bryn Mawr--are "Main Line" suburbs of Philadelphia. Considered at the metropolitan scale, therefore, most of the growth in assets under management is in cities and towns located in the Philadelphia MSA.

SUMMARY AND CONCLUSIONS

Overall, the analysis of data at the metropolitan level indicates that New York is the dominant center of the investment advisory industry. However, the New York MSA's relative share of total assets and total firms declined from 33.8 percent and 28.2 percent, respectively, in 1983 to 28.3 percent and 21.2 percent, respectively, in 1993 (Table 1). Similarly, the relative shares of total assets and total firms in the top five metropolitan areas--New York, Boston, Chicago, San Francisco, and Los Angeles-- decreased from 70.8 percent and 54.7 percent, respectively, in 1983, to 63.8 percent and 45.9 percent, respectively, in 1993.

Analysis of the intrametropolitan growth and change of the investment advisory industry indicates that the industry's ties to the CBDs of traditional financial centers, like Philadelphia, are also breaking down. Like New York's decline in relative shares at the national level, the city of Philadelphia's shares of Pennsylvania's total assets and total firms had declined to 17.2 percent and 17.7 percent, respectively, by 1993. Interestingly, however, the majority of cities and towns that experienced the tremendous growth in firms and assets, were located in the Philadelphia metropolitan area.

Thus, the analysis of intrametropolitan growth and change, suggests that (1) investment management ties to the traditional financial centers are weakening, but that (2) spatial proximity to the traditional financial centers is being maintained. The analysis, therefore, suggests intrametropolitan dispersal of the investment advisory industry from 1983 to 1993, albeit "concentrated dispersal."

The deconcentration and dispersal of the institutional investment advisory industry in the United States from 1983 to 1993 is perhaps best reflected in the decreasing relative shares of the traditional core, especially in the case of New York City. New York City's rise during the decade of the late 1970s and 80s to the top of the global capital market hierarchy has been well documented (Dreenan, 1991; Fainstein et al., 1989; Warf, 1988). However, since the stock market crash of 1987, New York's financial sector ceased to grow and has entered a period of retrenchment (Cox and Warf, 1991; Dreenan, 1991). New York City remains the nation's premier financial center, but whether the financial sector's current difficulties represent a cyclical downturn or the beginning of a long-term secular decline, is uncertain (Cox and Warf, 1991; Schwartz, 1992).

The conditions that led to New York's rapid rise in the 1980s, particularly the deregulation and subsequent advances in information and telecommunications technology that ushered in globalization of capital markets, may be the same set of conditions that allows for decentralization of the industry within the United States. Significant dispersal, however, can only take place after regional centers grow large enough to generate the services, infrastructure, and contacts necessary to support investment management activity.

The "concentrated dispersal" of the industry over the last 10 years confirms that location in a traditional financial center is no longer a necessary condition for institutional asset management.

Further standardization of products and processes allowing the separation of back office operations is sure to bring additional decentralization as it has to other financial service industries (i.e., banking, insurance). But the extent to which the headquarters of the largest investment advisory firms continue to disperse and decentralize down the urban hierarchy remains unclear. Therefore, given that information-intensive industries like investment management are the main users of new information technologies, it is important to monitor the spatial centralization of these industries in the face of continuing innovations in information and communications technologies.

ENDNOTES

1. The investment advisory industry consists of investment advisory firms that manage the securities portfolios of individuals and institutional clients for a fee.
2. Institutional investors are investing entities that control large sums of money on behalf of other investors, including corporate sponsors, union sponsors, government (state, county, and municipal) sponsors, endowment (private educational, museum, and hospital) sponsors, and foundation (charitable organizations) sponsors.
3. SuperDOT is the name given to the more sophisticated version of DOT--an acronym for Designated Order Turnaround--a computerized order routing and reporting system owned and operated by the New York Stock Exchange, that permits more rapid execution of orders.
4. Crossing networks are systems for matching bids and offers.
5. Regarding accuracy and reliability, the publisher of the Directory, Money Market Directories, Inc. states that "Each organization profiled in the Directory has been interviewed by our telephone researchers and sent a questionnaire to verify the information listed (p. iii)." Furthermore, it is important to note that people and organizations in the investment management industry consider the Directory to be of the highest quality and the industry standard in terms of accurate and reliable information.

REFERENCES

Bernstein, P.L. 1992. *Capital Ideas: The Improbable Origins of Modern Wall Street.* New York, NY: The Free Press.

Borchert, J.R. 1978. Major Control Points in American Economic Geography. *Annals of the Association of Economic Geographers* 68: 214-232.

Castells, M. 1989. *The Informational City: Information Technology, Economic Restructuring, and Urban-Regional Process.* Cambridge, MA: Basil Blackwell.

Cox, J.C. and Warf, B. 1991. Wall Street Layoffs and Service Sector Incomes in the New York Metropolitan Region. *Urban Geography* 12: 226-239.

Daniels, P.W. 1993. *Service Industries in the World Economy.* Cambridge, MA: Basil Blackwell.

Dreenan, M.P. 1991. *The Decline and Rise of the New York Economy. Dual City: Restructuring New York.* New York, NY: Russell Sage Foundation. 25-41.

Fainstein, N., Fainstein, S. and Schwartz, A. 1989. *Economic Shifts and Land Use in the Global City, 1940-1987. Atop the Urban Hierarchy.* Totowa, NJ: Rowen and Littlefield. 45-86.

Green, M.B. 1993. A Geography of Institutional Stock Ownership in the United States. *Annals of the Association of American Geographers* 83(1): 66-89.

Hepworth, M.E. 1990. *Geography of the Information Economy.* New York, NY: The Guilford Press.

Hepworth, M.E. 1991. Information Technology and the Global Restructuring of Capital Markets. In *Collapsing Space and Time*, ed. S.D. Brunn and T.R. Leinbach, pp. 132-148. London: Harper Collins Academic.

Money Market Directories, Inc. 1983-1993. *Money Market Directory of Pension Funds and Their Investment Managers.* New York, NY: McGraw-Hill Publishers.

O'Barr, W.M. and Conley, J.M. 1992. *Fortune and Folly: The Wealth and Power of Institutional Investing.* Homewood, IL: Business One Irwin.

Salwen, K.G. and Lublin, J.S. 1992. Giant Investors Flex Their Muscles More at U.S. Corporations. *The Wall Street Journal* April 27: A1

Sassen, S. 1991. *The Global City: New York, London, Tokyo.* Princeton, NJ: Princeton University Press.

Schwartz, A. 1992. The Geography of Corporate Services: A Case Study of the New York Urban Region. *Urban Geography* 13: 1-24.

Warf, B. 1988. The New York Region's Renaissance. *Economic Development Commentary* 12:13-17.

Warf, B. 1989. Telecommunications and the Globalization of Financial Services. *Professional Geographer* 41: 257-271.