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Wachovia, R. James Aim to Add Indie Advisors

Article published on September 29, 2008
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Wachovia Securities¹ and **Raymond James Financial**² are trying to capitalize on interest from wirehouse financial advisors in the independent channel by more aggressively recruiting for their independent contractor platforms.

Both companies operate networks that essentially allow advisors to operate as independent owners but tap into managed account product platforms, technology, investment advice, and practice management offerings available to branch financial advisors who are employees. By using Raymond James and Wachovia's own registered investment advisor registration, these advisors aren't becoming independent RIAs themselves through custodians such as **Charles Schwab & Co.**³, **Fidelity Investments**⁴, or **Pershing**⁵.

But these networks arguably are part of the larger rise of independent advisor options. Recent signs of the trend include Fidelity's announcement last week that it added \$7 billion in assets from 55 new RIA firms formed by former brokerage advisors this year, doubling the asset tally from last year. And while Schwab hasn't released full figures for 2008, it has already topped its new assets from "breakaway" advisors from 2007, hitting the \$9.4 billion mark by the second quarter after notching \$9.2 billion from 114 breakaways in all of last year.

Any independent option can gain traction in this market, and wirehouses should take note, says **John Shields**, a principal at **MainStay Consulting Group**⁶ in Portsmouth, N.H.

"It would make sense for other brokerages to figure a way to resolve the compliance issue to their satisfaction and find ways to serve the independent advisors," he says.

The independent contractor model at Wachovia and Raymond James provides a sort of "in-between" step to independence, where advisors access platforms available to branch employees but operate their own shop – renting office space, hiring a staff, and managing their books, much like any small business owner. Advisor-employees, by contrast, report to a branch manager and let the branch handle most business matters.

The model resembles the main business at **LPL Financial**⁷, which is the biggest player in the space with more than 11,600 advisors who plug into the platform to run more than \$280 billion in client assets. By contrast, the **Wachovia Securities Financial Network** has about 635 advisors who average about \$715,000 in revenue, and the **Raymond James Financial Services** unit has about 3,120 advisors who oversee nearly \$119 billion in assets.

Both Wachovia and Raymond James hope to pounce on wirehouse advisors jostled free by the battering that large brokerages have taken this year from the difficult markets, the credit crisis, and investment product scandals, such as the failure of auction rate securities. Wachovia itself has suffered a turbulent year, and is in the process of negotiating a sale, probably to Citi or Wells Fargo (see related FundFire article today).



"I think this market will help us bring in people, absolutely," says **Bill Van Law**, senior v.p. and national director of business development at the Raymond James independent contractor unit. "The phone has been ringing and we've been reaching out to folks as well, and quite a few [in recent weeks]. People that never would have moved at Merrill [Lynch] – \$1 million and \$2 million and \$5 million teams – suddenly are looking around."

Wachovia also is gearing up, says **John Peluso**, president of the

Wachovia independent contractor unit. Over the past several years it has added about 75 to 80 new practices annually, but now it has invested heavily to up its recruiting targets to about 100 to 125 practices with 150 to 200 advisors. It brings in 95% of its advisors from outside Wachovia and 80% of them from **Merrill Lynch**⁸, **Smith Barney**⁹, **UBS**¹⁰, **Morgan Stanley**¹¹, and **Edward Jones**¹², he says.

For wirehouse advisors, a big draw is the opportunity to run their own operation – thereby avoiding bureaucratic elements of working in a branch office – but not losing product and technology platforms they find useful, MainStay's Shields says. The companies also take charge of regulatory compliance, a major responsibility for independent RIAs.

"[Advisors] get used to the look and the feel of the products and services and the branding," Shields adds.

That was part of the draw for **Bud Wentz**, an advisor in Hudson, Ohio, who headed an Edward Jones team that began looking several years ago for another option before joining Wachovia's network in 2004. He says his three-advisor team – primarily a transactional business with \$150 million in client assets – had considered recruiting pitches from brokerages such as Merrill and UBS, as well as RIA options through Schwab and Fidelity.



"We were looking for an opportunity to have open architecture for our customers and the freedom to structure the business the way we wanted to," he adds. "It's unique to have the resources of a large Wall Street firm, but be on the independent side of it."

Wachovia's recent investments in its independent contractor business include expanding its "branch development group" to three offices nationwide, each with its own infrastructure of regional support teams that recruit new advisor practices and connects with existing ones. In order to enter Wachovia's network, advisors must have at least \$250,000 in annual revenue.

Peluso says while independent contractors can access the same products – including separately managed account platforms – as Wachovia's 12,000 employee-advisors, there is no "unnatural conflict" between the groups. And he calls the division a distinguishing feature from other wirehouses. "I would argue strongly that it helps the private client group to attract advisors, because the advisors know they have the option to go independent if they want," he adds.

The independent contractor network at Raymond James has also been growing this year, outpacing all nine of the largest brokerages in a ratio of the number of incoming client accounts versus outgoing ones. The firm's ratio is 4.6 new accounts for each one lost, Van Law says.

The network is Raymond James's largest advisory unit, which has 5,000 advisors overall, including about 1,200 who are employees. Earlier this month, the network landed two UBS advisors, **Nadine Wilkes** and **Paul Weinstein** of Fort Myers, Fla., who managed \$400 million in client assets with revenue of \$2.1 million. It also added a pair of independent advisors, **Barry Bernicke** and **Ty Bernicke** of Eau Claire, Wisc., who had \$218.5 million in assets and production of \$2.2 million.

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