

**CUSTODIAL SERVICES AND MUCH MORE.**  
 DEDICATED SUPPORT ▶ LEADING-EDGE TECHNOLOGY ▶ BUSINESS CONSULTING ▶

Put Schwab's custodial services to work for you. [GO ▶](#)

BACKING THE INDEPENDENT®

charlesSCHWAB  
INSTITUTIONAL



June 2009

## A Drive for Independence: Wirehouse Advisors Look Under the Hoods of Indie Firms

*The independent advice model is experiencing a historic run-up in interest from wirehouse brokers — and no wonder.*

BY ELLEN UZELAC

Published in the 6/1/2009 Issue of Research Magazine.

As Philip Palaveev, president of Fusion Advisor Network, bluntly puts it: "I don't think we've seen such a profound weakening of wirehouse brands before. This seems to some degree the biggest blow to institutional brands ever."

Adding to the mix, wirehouses have cut their recruiting and retention bonuses. Once prized deferred compensation amounts to little more than penny stocks. Administrative support has been pulled back. And, notably, many wirehouse clients, jarred by negative headlines and withering portfolios, remain uneasy.

"We hear regularly from wirehouse reps that they are tired of trying to talk to their clients about their financial goals and investment portfolios because all the clients want to know is: 'Is your company safe?'" notes Gregg Johnson, senior vice president of branch office development and acquisitions for Securities America, which has 1,900 advisors in its independent broker-dealer network.

The implosion of the wirehouses has led brokers to rethink the independent model. Consider: LPL Financial's leads from wirehouse advisors were up almost 138 percent in the first quarter compared to year-ago figures. Securities America during the same period doubled its actual recruitment figures. Raymond James Financial Services national business development director Bill Van Law says the number of wirehouse commitments there is up nearly 400 percent. "This will almost certainly be a record-breaking year for our firm," he said.

Meanwhile, Pershing Advisor Solutions added six breakaway teams in the first two months of the year, compared with 16 in all of 2008. Charles Schwab Institutional had 38 new firms join it during the first quarter, and 400-plus advisors, the great majority from wirehouses, are in talks. And Commonwealth Financial added 41 new advisors during the first quarter, 12 of them from wirehouses.



"The motivation to go independent right now is great because situations have become so untenable at their firms. Basically it's: My ship is sinking. I've got to jump," according to Joe Lukacs, who heads the consulting and recruiting firm, International Performance Group, in Melbourne, Fla. "If you want to make the move, now is the time to do it. This is an easy conversation to have with your clients. They know what's going on at Merrill Lynch, Morgan Stanley, Smith Barney. The wirehouse is a broken model. This day was coming."

While the wirehouse model has been undeniably tarnished, the independent sector at the moment is also enjoying wide appeal because of its own strengthened offering. Wirehouse brokers who rejected the model not that long ago as insufficient and unsubstantial are finding it has been tweaked to high standards. In a new twist, LPL Financial, Pershing and Charles Schwab have developed platforms that allow defecting brokers to embed in existing firms — a move that could be highly appealing to advisors who are accustomed to being employees rather than employers.

But will this newfound attraction last?

It's hard to tell. Industry reports tend to be conflicting. For example, a 2008 Cerulli Associates survey found that more than half of wirehouse reps said they would join an RIA or an independent broker-dealer if they were to change employers. Only 19 percent said their preferred firm would be another wirehouse, down historically from 44 percent. However, a survey by Discovery Database of advisors who changed firms in March, the most recent data available at press time, noted that 62 percent of wirehouse brokers simply switched to another wirehouse. Independent broker-dealers picked up 11 percent of wirehouse advisors in transition. Another 13 percent joined regional brokerages.

Some of the independent sector's closest observers believe the migratory trend is still in its early stages.

"It's huge if measured by interest, attention and discussion. Not yet so huge if measured by actual

**CUSTODIAL SERVICES ARE JUST THE START.**  
 DEDICATED SUPPORT ▶ LEADING-EDGE TECHNOLOGY ▶ BUSINESS CONSULTING ▶

Put Schwab's custodial services to work for you. [GO ▶](#)

BACKING THE INDEPENDENT®

charlesSCHWAB  
INSTITUTIONAL

**WONDERING ABOUT THE FINANCIAL BENEFITS OF INDEPENDENCE?**  
 » SCHWAB CAN HELP

**CUSTODIAL SERVICES AND MUCH MORE.**  
 DEDICATED SUPPORT ▶ LEADING-EDGE TECHNOLOGY ▶ BUSINESS CONSULTING ▶

Put Schwab's custodial services to work for you. [GO ▶](#)

BACKING THE INDEPENDENT®

charlesSCHWAB  
INSTITUTIONAL

moves," according to Chip Roame, managing principal of Northern California-based Tiburon Strategic Advisors. "I think the delay in the latter is only because it is a terrible time to move one's clients, ask them all to sign new paperwork and go to XYZ brokerage with you. That opens the door for those clients to reconsider their options, which is less of a threat after a few months of solid returns. I think the pickup in moves, if it is coming, will happen once the market starts upwards or at least is solidly flat for awhile."

Lukacs believes early adopters are driving the trend today, and that as success stories begin to circulate, the movement will grab hold.

"I don't think we've seen the real push yet," he added. "We're probably six months into a 36- to 48-month cycle. The last time there was a huge firm-to-firm migration was in 2003-2004 and those contracts were for six to seven years. They're going to be up in 2010 or 2011. I think the handwriting is on the wall."

And even if wirehouse advisors aren't considering a move, it is likely they're quietly reviewing their options.

As Dan Inveen, a principal with FA Insight in Tacoma, Wash., frames it: "If people aren't moving, they're certainly questioning their current business model. Many of these folks are tired of making excuses for the firm they work for — the stability of the firm, the investing expertise of the firm. Some of these firms have made very public mistakes, and perhaps they're tired of making excuses about their ethics and morals being called into question. Add it all up and it understandably causes you to rethink your affiliation — to pause and evaluate whether the strategy that got you where you are now is going to be the right vision for your practice in the future."

#### Under the Spotlight

It's not just the wirehouse model that is being scrutinized; it's the independent space. Perhaps never before have so many advisors at one time kicked the tires and looked under the hood.

As an example, as many as 800 advisors in recent months have tuned in to Charles Schwab webcasts on the benefits of becoming an independent advisor. "That's not a surprise when you consider how much energy is being spent by advisors defending the actions of their current employers," observes Bernie Clark, senior vice president of Charles Schwab Advisor Services. And, just a few weeks ago, in a hugely high-profile defection, Investment News reported that superstar broker Richard Saperstein had taken his \$10 billion book from JPMorgan Securities to HighTower Advisors, a start-up RIA and independent broker-dealer.

Historically, the notion of going independent has been a non-starter for many wirehouse advisors for three reasons. First, the economics failed to work — and even today, wirehouse deals, including front- and back-end bonuses, range from 175 percent to the low-200s of trailing 12, according to recruiter Mark Elzweig. Next, a lot of advisors don't want to deal with the complexities of running their own business. And, last, as consultant Dennis Gallant, president of Gallant Distribution Consulting, points out: "Many wirehouse guys still have the perception that independents can't do what they do."

But the barriers to entry seem to be breaking down.

Raymond James Financial Services' Van Law says that wirehouse advisors are beginning to recognize as never before that the independent sector can provide them with both the support and flexibility to do what they feel is best for their clients. And once they dig deep and understand the economics of the business model, he adds: "They realize that while you don't receive a big check upfront, economics over time are far better for the independent advisor."

John O'Keeffe, a former producing manager at Smith Barney who moved to RJFS in February, said that in some ways it would have been easier to swap wirehouse firms and collect a big check. But after doing the math, he said he realized he would make up that check in five years — and own his own business.

"If you study the business model, you see that's it's right on the mark," adds the New Jersey-based O'Keeffe, who has \$150 million in assets under management. "And when you do your first trade and see a 75 percent to 80 percent payout, that's when you really begin to understand it. I wish I'd done it earlier. At the end of the day, it's a pretty powerful thing to say to my clients: You are my only concern. You are my business. There's a lot of autonomy in that....Becoming a business owner for many seasoned advisors is a logical progression."

Independent broker-dealers and custodians are also making it a lot easier to both build an infrastructure — or join one. LPL, for instance, has an alliance with a national real estate firm that will negotiate your lease, build it to spec, and install systems. And then there are emerging firms like Purchase, N.Y.-based SeaCrest Wealth Management. Founded by former Morgan Stanley management heavyweights Ed Sullivan and Rick Sanchez last June, the firm offers defecting wirehouse advisors a turnkey RIA platform — including everything from technology and compliance to staff support and office leases.

If nothing else, the current climate has caused wirehouse advisors to give the independent space more than just a passing glance. As Securities America's Johnson puts it: "I think people have had their eyes opened and seen the level of sophistication in this market, which can only deepen the migration. The days of people thinking the independent sector was for people who couldn't make it elsewhere are behind us. They're gone."

Mark Tibergien, who heads Pershing Advisor Solutions, says the biggest hurdle to going independent continues to be the move from employee to employer. But with so many options available to breakaway brokers today — including teams that hire their own professional managers — the challenge is less

daunting.

"For years, you had wirehouse managers whispering in their ears: 'Going independent is for losers.' That's not valid anymore. Then they'd say: 'How are you going to compete against our brand?' That's [not convincing] these days," says Tibergien.

And it is not at all unthinkable that as wirehouse refugees create their own firms or join others, they'll become the independent sector's most fervent recruiters.

"These first movers are like the pioneers crossing the plains to the mountains. Wow, it was scary but, man, look at California. It's all part of the thought process," Tibergien says. "What was the trip like? How do you like living there?"

---

Whither the Wirehouse Advisor?

"I think the independent sector will continue to grow, especially as the markets improve. But I don't think it's ever going to be the type of California gold rush some people in the independent space are fantasizing about."

— Mark Elzweig, president, Mark Elzweig Co.

---

"For the most part, wirehouse advisors who are going to wirehouses are looking to recapitalize their own economics. You can't say I'm going to Merrill Lynch because it's a great brand. These advisors are seeing their business down by 40 percent and their deferred comp is worth zero. It's all about check waving."

— Joe Lukacs, president, International Performance Group

---

"A bunch of these wirehouse guys have been selling against bank models for years. Now they find: 'Oh my gosh, I'm a bank.' They really have a cultural aversion to that. And some of them end up getting merged two to three times. Every time that happens, they end up going back to their clients and having to repaper their accounts. Now they've got clients saying: 'Wait a minute, what's wrong with you?'"

— John Shields, principal, MainStay Consulting Group and AdvisorAssist

---

*Freelance writer Ellen Uzelac is based in Chestertown, Md.; the former West Coast bureau chief and national correspondent for "The Baltimore Sun," can be reached at ellenuzelac@msn.com.*

#### CUSTODIAL SERVICES AND MUCH MORE.

DEDICATED SUPPORT ▶ LEADING-EDGE TECHNOLOGY ▶ BUSINESS CONSULTING ▶

Put Schwab's custodial services to work for you. [GO ▶](#)

BACKING THE  
INDEPENDENT®

charles SCHWAB  
INSTITUTIONAL