



2009 Broker Dealer Winners and Losers: Who's on Top, Who Missed the Mark

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For independent broker dealers, 2009 is best described as a recruiting anomaly. The channel's high hopes to capitalize on the wirehouse fiasco never really materialized-- except for a few firms that had a history of attracting wirehouse reps, such as LPL, Raymond James and Wells Fargo Advisors. The primary triggers for independent gains were AIG, ING and former Pacific Life broker dealers purchased by LPL, the firms Mutual Service Corp, Waterstone and Associated Securities.

There were healthy gainers in 2009, and some losses along the way. Here's my take on some of the winners and losers, and why.

Who Came Out on Top

As I evaluated 2009's highly successful firms, I set a few standards. First, I avoided small firms since adding just a few reps can make for large percentage gains. Second, I steered clear of firms that showed large growth but lacked the back-office infrastructure to support it, which most often results in poorly executed transitions and service levels falling off a cliff.

Summit Securities: Let the Good Times Roll

One of the big gainers in rep numbers for 2009 is Summit Brokerage Services, coming in with a growth rate of 40%. "We were lucky," said Vincent Chiera, Director of Business Development. "We were in the right place at the right time."

Summit had added Pershing as a second clearing arm and acquired numerous back office personnel from Mutual Service Corp. (MSC), which operates in the same southern Florida region as Summit. According to Chiera, many of these new back office staffers brought along strong relationships with MSC Advisors. Word of mouth spread quickly, resulting in more than 50 MSC reps joining in 2009. Had Summit not built out their infrastructure prior to this growth, the influx of reps would have been overwhelming.

Summit also experienced success by bringing on about a dozen LPL reps that were looking for a boutique feel with a high service level. Still another enticement for reps to make a move was the fact that Summit is publicly traded with public record of financials and stock options given to reps each year based on production.

Summit started 2009 with 196 reps and finished the year with 300. By mid 2010, they are at 350, so the good times keep rolling for Summit Securities.

Cambridge Investment Research: Strength through Service, Stability and Consistency

Another notable firm in 2009 was Cambridge Investment Research, coming in with about 22% growth. Margaret Dwyer, Director of Business Development Support, attributed this growth to their commitment to strengthening service as a differentiator. When other firms were cutting staff in 2008-2009, Cambridge grew back office staff. "Publicly traded companies typically won't do that in a down market," according to Dwyer. Cambridge, like Summit, had success recruiting over MSC reps. They also won reps from a variety of others, including AIG and ING firms. At a time in our industry when instability was commonplace, Advisors sought out firms with long histories of stability and consistency. Cambridge made the grade, having been an Advisory leader since 1981.

Independent Financial Group: High Touch, Low Bureaucracy

Independent Financial Group (IFG) sets itself apart by being a firm with a high service level for reps wanting a personal touch and low bureaucracy. With a growth rate of 18.8% in 2009, IFG prides itself in simplifying the rep's life. Besides strong relationships between back office personnel and Advisors, IFG also offer a centralized, web-based, paperless technology platform that includes such time-saving perks as a two-page new account form that only requires one per household vs. per account. IFG also feels they are unique in their family approach to running the firm, said CMD Managing Director David Fischer. For example, at IFG's recent annual conference, 645 people were in attendance, of which 122 were kids.

Who Missed the Mark: A Name Change Doesn't Cut It

The AIG firm SagePoint Financial Inc. saw one of the largest declines in rep numbers, falling 33.48%. Their sister broker dealers didn't fare much better with FSC Securities losing 18.09% and Royal Alliance down 17.74%. It's interesting to note that AIG Financial Advisors changed its name to SagePoint Financial in an effort to distance itself from the tsunami of bad press on AIG. SagePoint Advisors were calling us prior to the name change, explaining that they had to leave because their clients were demanding it, not wanting any association with AIG. What was once a selling point became the reps' worst nightmare.

Complicating matters further, AIG put their broker dealers up for sale, only to take them off the market when new CEO Robert Benmosche said it didn't make sense to sell their broker dealers at the bottom of the market. Reassuring? I don't think so--it implied that AIG was waiting for market prices for broker dealers to improve, and then they would be selling the firms to help pay down what AIG owes the government for the bailout.

ING Sells Off Three

Insurance giant ING decided to sell three of their independent broker dealers, resulting in declines of 14.34% for Financial Network Investment Corp., 30.15% at their bank channel Primvest and 5.68% for Multi-Financial. These three firms were purchased by the private equity firm Lightyear Capital with the intent to improve technology, grow the firms and then sell them about five years down the road. For Advisors looking for firms committed for

the long haul, things don't look promising at this time for either AIG or Lightyear Capital firms.

Strange Times at Former Pacific Life Firms

The case of the former Pacific Life firms that are now LPL is an odd situation. LPL showed growth of 20.39% but then lost a large percentage of Mutual Service Corp., Waterstone and Associated Securities reps when they changed the clearing at those firms from Pershing to LPL's self clearing. Associated Securities had already had a large outflow of Advisors, both prior to the LPL purchase and before the clearing change. When Pacific Life originally sold these firms to LPL, LPL stated publicly that it was committed to the Pershing platform as part of its growth strategy. So it was somewhat distressing when about a year later they did a 180% about-face and dumped Pershing in favor of their self clearing. LPL likely made up for the losses of Mutual Service Corp., Waterstone and Associated Securities reps with successful recruiting of wirehouse Advisors as well as Independent reps looking for a large, stable firm.

What's Happening in 2010?

"Enjoy it while it lasts!" sums up recruiting in 2009 because conditions like we saw then don't last long. Firms losing Advisors will scramble to help stem the outflow, offering reps retention bonuses to stick around during a difficult time, with promises of

better times ahead. Many of these reps will take a wait-and-see attitude, hoping the firms deliver on their promises. Or, they will simply not make the change because they don't want the disruption to their business.

It takes a lot to motivate an Advisor to change broker dealer, and each year has its unique triggers that motivate movement. 2010 triggers are completely different from 2009, with shockwaves going through the industry due to the collapse of Oil & Gas Partnership, Provident Royalties and Medical Receivables Note Company, Medical Capital. Numerous broker dealers have already gone under. Watch for more firms to go under the second half of 2010.

Jonathan Henschen, CFS, President of Henschen & Associates. Jon's firm helps advisors find broker/dealer relationships that best fit their business profiles, while helping them uncover unique, progressive and previously unknown opportunities. Henschen & Associates contracts with more than 70 Independent broker/dealers and 15 producer groups. Mr. Henschen is also a regular contributor to the publications Investment News, On Wall Street, Investment Advisor, Broker/Dealer, Broker World, Producers Web, Bloomberg News and Advisorbiz.com.

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