The Hire Powers Speak Out

EDITORIAL STAFF
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If you could talk to a room full of headhunters, what would you ask them? Will deals ever get any bigger than they are now? Do I have to have an entrepreneurial mindset to succeed in this business? Is the wirehouse business model still a good idea?

We already did that, so all you have to do is read our 11th annual Recruiters Roundtable. As you might guess, they agreed on some things and disagreed on others (like whether wirehouses will continue to dominate the industry.) But even if they don't, and if you're unhappy with your job-which some recruiters guessed is the case-there are still options out there for you. Whatever direction you take your career next, our Recruiters Roundtable will tell you the opportunities and pitfalls that await you at the wirehouses, regionals, boutiques and independent shops.

FRANCES McMORRIS, Editor-in-Chief of On Wall Street: Let's start with predictions. What's the big story going to be in 2010?

MINDY DIAMOND, of Diamond Consultants: It's the year of the four major wirehouses. We're going to see a lot of wirehouse-to-wirehouse recruiting again because there was a lot of attrition at the end of last year for sure.

CARRI DEGENHARDT-BURKE, of Degenhardt Consulting: I predict that Merrill Lynch will continue its downward spiral, whether that be due to TARP money still owed [Editor's Note: This discussion took place shortly before Bank of America announced plans to repay $45 billion in TARP money], or low morale. They're going to continue losing brokers until they change things around. And I don't think that Sallie has a lot of say with Merrill right now.

MICKEY WASSERMAN, of Michael Wasserman Consulting: The surprise of 2010 is going to be where UBS winds up. They don't have a plan right now as to where they're going. I believe they will be sold and we won't have UBS as we now know it by the end of 2010.

RICH SCHWARZKOPF, of Schwarzkopf Recruiting Services: I disagree with Mickey. I think UBS will be here a year from now. I think it's too valuable a brand and distribution system to eliminate. They've put too much into it. I think they will shrink, and maybe drop 25% of their brokers. I think their plans are to become what a lot of firms would like to be: a place for high-net-worth clients with $500,000 or more to invest.

BILL WILLIS, of Willis Consulting: The deals will continue to get bigger and better than ever. The reason for that is almost all of our firms are owned by banks, and banks have access to money at almost 0% interest right now. They want to buy [client] assets and the money to do so is almost free for them.

STEVE ROSEN, of Rainmaker Associates: The big story will be breakaway brokers. If you speak with any financial advisor or manager who's been in the business for 25 or 30 years, they'll tell you that the wirehouse model is broken.

As this trend continues, we'll see independent models become more refined and become a threat to the wirehouses.

DANNY SARCH, of Leitner Sarch Consultants: The wirehouses are at a tipping point where they can either differentiate themselves from one another or not, and that's where we're going to see their efforts this year. And the higher deals go, it just indicates that they really can't differentiate themselves so they're defaulting to the money.

If that fails, then you'll see a lot of the migration from the wirehouse model into some other model, whether it's regional or independent, people are looking for a different solution.

RICK PETERSON, of Rick Peterson & Associates: The big unknown is UBS. They've already stated that they're not going to be the highest bid on the Street by any means. If they stick to that I'm not sure that the major wirehouses will continue with these huge deals much longer because there will just be two bidders. And if that happens, then the regionals will come back into the recruiting business.

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OWS:Carri, you said that Sallie doesn't have enough say. How so?

DEGENHARDT-BURKE: Basically, it's the same thing that happened at Citi. She didn't have very much say over Citi, and she doesn't at Merrill Lynch. It's just the nature of the beast, the bureaucracy. She's gone from one bad situation to another, and so it continues to show in their morale.

PETERSON: A lot of the Merrill situation is going to depend upon the new CEO of BofA and whether he gives Sallie free rein to run the brokerage operation... If they continue the same pro-broker treatment that they initially said they were going to, as opposed to just shoving Bank of America product through the Merrill brokers, it's got potential to be a grand slam.

ROSEN: I don't think it makes a difference who runs the retail operation. The bottom line is you have a bank and a brokerage firm with utterly different cultures. The underpinnings of the companies are completely different. That doesn't mean all the brokers are going to leave, but in my opinion, just like Citigroup Smith Barney, this isn't going to work.

WASSERMAN: I'm a contrarian on Merrill and BofA. Here, you have a bank and a brokerage, they're two different types of companies that could complement each other. Now you have every product for your clients on both sides of the balance sheet and the brokers can take an entirely holistic view for their clients. Merrill is the company to look at this year.

SCHWARZKOPF: It's the supermarket. They've tried it for years and it never worked. In the latest J.D. Power research satisfaction poll in client satisfaction, Merrill Lynch went from a very good firm almost to the very bottom.

WASSERMAN: But the brand is there. And it's a good marriage... I do think the supermarket model is going to continue and thrive.

WILLIS: Just because it didn't work in the past doesn't mean it can't be executed and BofA just may execute this. They have a couple of advantages that didn't exist in other such mergers. For one thing, Merrill Lynch brokers for years have been in the lending business. So they're very happy to have a better lending platform and they're using it.

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OWS: Moving on to the regionals, which one is the winner so far?

SARCH: All of them. The regional firms have only a certain amount of capacity, but there's an entrepreneurialism out there that they represent. The advisor that feels trapped amongst the four major firms just isn't opening up his eyes to realize that there are other things out there for him.

DIAMOND: Entrepreneurialism is definitely a big theme of what's going on for advisors now. A lot of advisors who are looking to move or are unhappy feel that they lost their autonomy or their freedom. And they move because they want to recapture that. So what matters for the advisor is just how independent and how much entrepreneurial DNA they have.

SARCH: There are also a lot of branch managers out of work and they're realizing they're never going to make the type of money they did before. That age is done. Complexing is here so they're open to the idea of taking a shot at a regional.

ROSEN: The regionals may recently have won but they've won by default. Brokers haven't flocked there because they think it's the perfect place for them; there's just nowhere else to go. Certainly brokers under $1 million were hitting the door. And we're even seeing multi-million dollar teams look to do it. I don't think in the long-term they can compete economically with the wirehouses because it's a scale game and that they don't have. But there will always be a place for those firms and those brokers.

PETERSON: The other factor is the ultra-high- net-worth segment. Firms like Merrill, Morgan Stanley Smith Barney and UBS have the economies of scale to provide services to those clients. But [the boutiques and regionals] cannot provide those clients with the same kind of services as the major wirehouses.

SCHWARZKOPF: Wirehouses have all the technology in the world but they're not keeping assets. Wirehouses lost $188 billion in assets this year. Even the word wirehouse is almost archaic term. You're talking about just 62,000 brokers. Independents and RIAs have 145,000 reps now. Maybe the average production is a lot different but the assets are flowing that way.

PETERSON: But the ultra-high-net-worth clients aren't moving to those firms...

SCHWARZKOPF: They are moving.

PETERSON: The ultra-high-net-worth clients are still sticking with the major firms that they feel comfortable with, where they can get the maximum amount of research capabilities and some of their corporate needs as well, whether it be IPOs, restructurings, all the kind of advice that they can get from a major firm.

DIAMOND: There is certainly a large percentage of wirehouse advisors catering to the ultra-high-net-worth segment who will stay at the wirehouses. But make no mistake, we're beginning to see really high end teams, seven, 10, 20 million dollars, who service really high-end individuals finding access to the best-in-class products and services in some cases by accessing it in an open-architecture basis through firms like Fidelity or Pershing or Fortigent. So it's not that you can't get access to these products away from the wirehouse; it's just about a comfort level.

SARCH: There's more in play here than just the deal. Despite these 300%-plus deals, there's a certain type of advisor who just doesn't want to move. We've all dealt with them, sometimes they're happy sitting in their own excrement just because it's warm, is the nice way to say it. I just don't see how they underestimate how much these firms did in screwing up their brands for employees and clients.

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OWS:When advisors make a move, are they finding it easy or harder to bring their clients with them?

WASSERMAN: It depends on the firm that they're moving to. If the firm that they're moving to has a very good SWAT team for ACATs [Automated Customer Account Transfer Service] and they have a lot of support, they will find it easier. And of course it also depends on the advisor. If you have an advisor that's meeting face-to-face with many of his clients, especially his top clients, he will probably get a little bit more support and move more of them with him.

MICHAEL KING, of Michael King Associates: If the firm they're moving to has been getting a bad reputation in the press, that makes it tough at this point. People are nervous of what will happen to UBS, and Merrill and Bank of America have a lot of things going on.

PETERSON: The communication between the broker and his client is key to everything. If the broker keeps using his firm's name as opposed to his name, it's difficult to move that client because they think that the allegiance is to the firm as opposed to the broker. When Goldman brokers leave, they leave most of the business behind. Why? Because they always said, 'At Goldman, we think this, at Goldman we think that,' as opposed to, 'I think this' and 'I think that.'

SARCH: Advisors need to have a compelling argument to their clients about why the new firm is better than the old one. What we all saw, during the frantic first quarter and the end of last year, all the shotgun weddings just like at the firms. Normally you have three to six months for an advisor to make a thoughtful decision, now they're making decisions in three days. So they didn't do a lot of the homework to determine whether the new firm really had the resources, or vet their books to see which clients would follow them.

SCHWARZKOPF: There were 15,000 brokers who moved from wirehouses last year; 10,000 went wire-to-wire but 4,300 went independent. And according to Cerulli Associates, 30% of the world's millionaires moved their money out of wirehouses in 2008. That's a staggering amount. If you lost 5% in a year you'd say that's a lot. We're in a new generation now coming in, they're all on the Internet and they feel very comfortable transferring money with their little handsets rather than talking to somebody.

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OWS:What's the perceptions here of Wells Fargo?

KING: Wells Fargo remains an anomaly to me. They are comfortable with the brokers in the $300,000 to $800,000 range. That's their sweet spot. They are not as competitive as a Morgan Stanley or a Merrill Lynch and we just don't know about UBS. So they sort of fall in between. But they do get the brokers that they seem to want, which a lot of wirehouses don't want.

ROSEN: When I think of Wells Fargo, I'm not quite sure what I think of because it's really a combination of a lot of other firms acquired over the years. It doesn't seem to have any identity.

WILLIS: Their multi-channel approach is unique and was very well thought-out. The fact that you can be there and go independent, you can be independent within a branch, or they have a bank channel also available. So they have a number of distinct possibilities and channels so that the entrepreneur, a word we've heard a lot today, has some freedom within the system. We'll see that mimicked by other wirehouses.

DIAMOND: The name Wells Fargo is a really solid brand. At a time where everyone is reeling from a lack of trust, I think the Wells Fargo name is a very good one. The problem is their deal is not as competitive as the other three wirehouses. So if someone is looking to go to a major firm they've got to really love Wells Fargo, or legacy Wachovia, much more than they love Morgan Stanley Smith Barney or Merrill or UBS because their deals are so much more. But I think there are a lot of reasons why advisors do love it. For a large firm they've done a pretty good job of retaining what some people call a folksy culture.

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OWS:Let's turn to UBS and Bob McCann. What do you think he's going to be able to do for UBS, if anything?

DEGENHARDT-BURKE: Bob is masterful, a perfectionist. If anyone can turn this around, he can. It's probably going to be interesting for him because it's such a smaller place than Merrill Lynch was. So he might have more of an impact than he would at another organization. And with Bob Mulholland, he's certainly getting a very interesting team together.

WASSERMAN: Well nothing of substance has come out of UBS since McCann came on board. I don't think he has a plan... And that's okay, but sometimes one walks in with a plan. He has his SWAT team together and they're formulating what to do as we speak.

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OWS:Will tax evasion problems plague them, or have they moved beyond that scandal?

SCHWARZKOPF: It was good that they settled with those 4,000 or 5,000. Somewhere the Swiss government is going to draw a line and say, 'We're not releasing any more names.' Then it's a question of what the U.S. is going to do.

KING: It's a mistake to rule out UBS. But a lot depends what Switzerland wants. I still think they're going to come up with a [recruiting] deal that'll be competitive. I don't think they're going to give up so quickly on this. But I wouldn't rule out the possibility of a spinoff either, that wouldn't shock me.

WILLIS: I agree with [the possibility of a spinoff]. The firm has some serious issues: They're hemorrhaging cash in Europe and European shareholders aren't happy with what occurred here in the U.S. The company has to make a change to appease depositors and shareholders right now. I don't think that opportunity is presenting itself in this market right now but, if they could figure out how to spin it off rather than sell it, they'll do it. It would be a tough transaction but maybe the stock involved with that spinoff is the way you retain all the top producers who are there now. That's just a guess, but I do feel that the Swiss want to exit the U.S.

SARCH: The force of personality can do a lot with a sales force. Gorman did that in the first few weeks at Morgan Stanley a few years ago when they were at rock bottom before he changed anything. McCann's doing that to a certain extent. He said he'll announce a new plan by the end of March and there's an argument to be made for a much smaller wirehouse as a place that is more responsive to the bigger producers. They want to be the place that just caters to a certain level of producer. They don't want the smaller producers.

PETERSON: McCann has a problem. He has to figure out what niche, if any, UBS fits into. They've got enough infrastructure to support at least double their number of brokers. The other wirehouses are getting return on investments in excess of 18%. UBS for the past several years has been less than 8%. There are two ways to correct that. One is to cut the heck out of their infrastructure and quit trying to be a major wirehouse, and the other is to go from 7,200 to 14,000 brokers and keep the infrastructure. So McCann has to figure out what niche he wants to be in because his ROI is horrible. The Swiss know it; they're not getting the returns that they originally had thought they were and they're certainly not getting the returns that the other major firms are.

KING: McCann has to do what Gorman did. He's got to become the presence for that firm. I would have thought he would do some kind of retention package for his brokers, which would have been a very smart move. We'll see what happens with that. But it's got to be done fairly quickly. Six months from now will be too late.

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OWS:Bear Stearns is now part of JPMorgan Chase. How do you view the strategy there?

WILLIS: It's a boutique inside a very big organization so they have the muscle of JPMorgan but the flat management system and boutique approach of Bear Stearns. It's working. Talking to brokers and managers alike, they're enthusiastic about what's going on. And although JPMorgan is a bank, it obviously has brokerage roots and that's very important.

KING: The name is JPMorgan is magic. When you mention it, people love it. And they're hiring good people and good managers. They want to expand to 1,000 brokers, but their deal is not competitive. It fits into a boutique mindset, but doesn't in any way compare with the wirehouses. I'm not sure how they're going to get to 1,000 brokers with a deal not being competitive.

DIAMOND: It's amazing how quickly people forgot about the troubles that Bear Stearns had. When we talk about the wirehouses, people haven't forgiven UBS or Merrill Lynch for the troubles of last year or the year before. But people have really forgotten about what happened at Bear Stearns because they like the JPMorgan name so much. Also, they have several buckets, if you will, for advisors-the Bear Stearns unit, the Chase bank brokers, the JPMorgan private bank, the old Banc One advisors. If you talk to advisors who wants to be commission-based and don't want to sit in a bank, then it's the Bear Stearns unit you're talking about.

PETERSON: People follow the stars. Everybody says JPMorgan, but they're thinking Jamie Dimon. He's the star, he is the firm. They're the winners over Credit Suisse, or Deutsche and certainly Barclays. Plus they are expanding. They're opening up at least three new offices that I know of right now, big ones. So I'm a strong believer in the firm. They're going to rival Goldman at some point. They have that kind of capability.

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OWS:Okay, in terms of the boutiques, who's really the hot one in that space? Credit Suisse? Deutsche? Who?

PETERSON: It's not Deutsche. They lack leadership, they're desperately in need of an identity. Credit Suisse is a little better but the big complaint about Credit Suisse is that the high-net-worth offices at the majors have so much more to offer their clients. Goldman is still the premiere firm.

SARCH: One of the advantages that the boutiques have is that what they're selling is their relationship between the advisor and investment bank, which the big firms just by sheer force of numbers have a tough time doing. It's the rare advisor that can truly take advantage of it, but if you can, that's really where you should be.

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OWS:Let's move on to Morgan Stanley Smith Barney. What are the big issues they're facing?

DIAMOND: I love the Morgan Stanley Smith Barney story, but there are challenges. Anytime you integrate two firms with a strong presence, there's going to be some reorg and restructuring and some growing pains. But the complexing structure has allowed them to put the best managers in the strategic places. And these managers have really been empowered to make decisions on the ground. One of the things they're doing very well is a real commitment to organic growth. We were told that they are taking, for example, advisors that are within striking distance of a million, say $700,000 or $800,000, and really working with them with internal coaching, with external coaching. I think they're going to be unstoppable.

ROSEN: Long term they will be a monster. Short term, they are going to have problems. First of all, fundamentally they are different companies. Even from a recruiting sense, they're completely different. Morgan is a recruiting machine; Smith Barney isn't.

Smith Barney focuses on different things. And the way they run their business is different. There's going to be short-term problems and fallout... We saw a lot of Smith Barney brokers leaving right afterward, and we could possibly see the same thing through the management.

KING: Right now, they have the best name on the Street. Of course they could stumble. I do think James Gorman will remain involved in the retail part of it. He's said that very clearly... I was surprised in a certain sense of the deal from Morgan Stanley Smith Barney. You would have thought that with 18,000 brokers they wouldn't be that interested in recruiting, but they are.

WILLIS: They're doing a great job with the merger. If you talk to most brokers there, they're pretty pleased with it all. There's very little negativity. With the managers, however, lots of negativity. Nobody really received what they wanted by and large. Even people who got complexes are looking at pay cuts. That's an overall trend in the industry but it really is in your face there right now. That negativity is one of the biggest management challenges they're going to have over the next couple of years.

SARCH: One of the fascinating things about the Morgan Stanley Smith Barney merger is that it's going to challenge what we've all thought about the relationship between a branch manager and the advisor. And if this works and it stays solid then the branch manager's role has been diminished because they have shaken things up so dramatically, displaced managers, moved people around, all the rest of it. One of the big things to look at is whether there's an attachment between the advisor and the branch manager.

And whether that's important to retain people. The whole concept of complexing where one manager is now in charge of many more people, with obviously less time to spend with the each advisor, is just fascinating from a management standpoint. This is a little petri dish to see what happens going forward.

SCHWARZKOPF: The big problem with branch managers is there's nowhere to go. There are fewer branches every year. Everybody at this table has a stack of resumes this thick from branch managers but unless they're a producing branch manager, I can't place anybody. When I was in the business, I was a branch manager and salesman, but we all had to give up our books or cap them at a low level. You know, the worst decision I ever made was giving up my book. But now they won't take non-producing managers.

PETERSON: We've come full circle. Years ago everybody had producing managers. And then everybody went away from that model and went with non-producing managers. And now we're back where they force these guys to start building a book. It's not like resume your book; they didn't have a book; they gave it all up. So now they've got to start from scratch. The morale problem throughout the entire industry is really bad.

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OWS:Which executive in the industry is going to be the standout this year?

DIAMOND: It's Gorman. He's got a tall order and a lot of advisors really have the confidence that he's the man to do it.

WASSERMAN: I'll go with Sallie Krawcheck. She has a big job ahead of her but she has the most manageable job of the wirehouses. Merrill's program is pretty much in place and she just has to improve on what's already there. Everybody else has a much bigger task ahead.

SCHWARZKOPF: It's not John Thain that's for sure. That's what people thought last year, remember? What a disaster. I would like to see a $35,000 toilet seat, though. Seriously, Stifel Nicolaus will be the firm to watch. Ron Kruszewski and Scott McCuaig, who run it, are two of the best retail brokerage executives in the industry.

KING: I would go with James Gorman also but I'd say we should watch Bob McCann and Bob Mulholland because that's going to be interesting.

WILLIS: Jamie Dimon's going to be a very interesting guy to watch this year. There are a lot of opportunities in the boutique space and they're really well positioned to take advantage of those opportunities.

ROSEN: I don't know who's going to do the best but McCann is certainly the most interesting, the most upside. Because sometimes it's easier to fix something that's so broken because it's so obvious, as opposed to try to make something better. They have no way to go but up.

SARCH: I agree on McCann. I advise branch managers about this: Do you want to take over for a hero or do you want to take over for something that's broken? For your own career mark you want to take over something that's closer to the bottom than the top and make a splash. Clearly he's got that opportunity.

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OWS:Where are the deals going this year?

DIAMOND: Right now they're 300%, I think that's where they'll stay.

WASSERMAN: A lot will depend on whether UBS gets into the fray or not but I think the deals will stabilize and they'll be around where they are right now.

SCHWARZKOPF: If you're talking about the wirehouse, I imagine they'll just stay where they are, but the regional firms and other firms I think are flattening out to lowering. They have such a big pipeline that they're not going to chase it. They're not going to throw out 100% upfront deals. Their deals are 50 to 70%.

KING: It's going to stay the same. If UBS joins the fray and I think they will, they'll keep it level. I don't think Wells Fargo will become competitive.

WILLIS: Because of the cost of money I'm very bullish on deals but it's almost inconceivable to think of them going any higher. Of course we think that every year, don't we? Maybe they go a little higher is my vote.

PETERSON: Michael [King] and I have been doing this a long time, since the beginning of the 20th century I guess, and we've seen deals come and go. But when they come back they never come back lower. So even if they go away for awhile when they come back, brokers always say, 'Well I'll just wait until they get bigger and better.' The deals have to be as strong as they are now to counter the retention packages. If UBS comes up with a retention package, you know, those deals aren't coming down, not if (firms) want to increase their assets.

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OWS: What is the future of the independents in terms of competition to the wirehouses?

DIAMOND: It's tremendous competition. We're seeing more high quality advisors going independent. It'll never be equal to wirehouse-to-wirehouse, especially as deals are high. But the more advisors realize that product is a commodity and they can service their clients as well or better in the independent space, it'll remain a major thorn in the side to the wirehouses.

SARCH: Entrepreneurialism is alive and well in terms of new firms. There seems like there's a new firm virtually every week that I'm hearing about. Not all of them are going to stay credible and stay around but a number of them made such a splash that you can't ignore them. More than ever wirehouse advisors are seeking out what I call an alternative solution.

WILLIS: We've seen the trickle pickup in terms of people moving to that space. It's never the avalanche that's predicted; trends don't change that much. But when people decide to move and become independent and begin to grow equity in something they own, become a business owner, something they can sell at the end of the line, that's when things start to move. But it is a slow, long process.

PETERSON: Well let's just look at a statistic with LPL, for example. LPL has more million-dollar producers than any brokerage firm in the United States. They also have more $200,000 producers than any brokerage firm in the United States. They are a huge, huge operation and they get bigger every year. They have 36 internal recruiters right now scattered around the country.

That's up from 28 last year. Their numbers are astounding. Independence has become a real, real force to be reckoned with.

DIAMOND: Independence is not one size fits all like it used to be. You can create your own firm as a broker-dealer, or an RIA, or you can plug into an already established firm.

There are the consolidator firms where the consolidator buys a portion of your business and you become a partner in the overall entity so there are choices. For an advisor who's willing to be more long-term greedy, meaning with a five to seven year break-even period versus taking a wirehouse deal, the economics of being a business owner can be very sexy.