For Edward Jones, wirehouse shrinkage spells opportunity

New transition plan at distinctive firm offers veteran brokers no upfronts, but steady income

By Dan Jamieson
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Reflecting the deep changes that the current slump has brought to the securities industry, wirehouse brokers are starting to look to Edward Jones for shelter from the storm.

The iconoclastic St. Louis-based partnership, which manages $425 billion for clients, is as different from the thundering wirehouse herd as a retail securities giant can be. The firm employs 11,172 reps in the United States, plus another 996 in Canada and the United Kingdom, who work out of 9,988 green-doored, one-person offices where they build their books by knocking on doors of middle-income suburban and rural households.

And forget investment exotica: Jones brokers have never wavered from a strict buy-and-hold investment strategy that is based on big-name equities and established mutual funds.

Because it has a long history of training its own reps and has never offered upfront money, it's no surprise that Jones hasn't always been successful in attracting disaffected wirehouse brokers. But that may be about to change.

To better attract new recruits, Jones this year

Phillip Leathers: Hoping to attract wirehouse reps in greater numbers.

revamped its transition package to give new hires a steady income during their transition period.

Experienced recruits have typically made up just 10% to 15% of new hires at Jones. But the new transition package will help Jones land some big-firm veterans, who have come knocking in greater numbers, according to Phillip Leathers, the Jones partner in charge of recruiting.

The firm added four to five veteran broker recruits per month on average last year, he said, "but now we're getting three times that amount."

Most are wirehouse brokers who don't want to work for a large bank, Mr. Leathers said.

In January, Jones brought in nine established brokers, and last month added another 20.

TRANSITION PLAN

The new transition plan is designed to ensure an income for up to 12 months while recruits get settled in. A recruit gets one month of income for every $10 million of assets controlled at their old firm. The amount is based on 40% of trailing 12-months' production.

For Jones, a good broker recruit has three or more years' experience, $20 million or more in assets, and $150,000-plus annual production.

The transition plan sounds like a "very smart move," said Larry Papike, president of Cross-Search in Jamul, Calif., a recruiting firm that works for independent-contractor firms.

Mr. Papike, who in the past has taken a number of brokers out of Jones, said a guaranteed income will appeal to many producers who need some stability right now, especially lower wirehouse producers who are being forced out due to pay cuts.

Independent-contractor firms have been a reliable refuge for these wirehouse people, but "no one in the independent channel would [guarantee an income]," Mr. Papike said.

Jones' transition package also offers a $2,000 bonus for every $1 million in assets transferred in, and during the second six months at the firm, Jones will pay an extra 20%, 30% or 40% of production to recruits who produce at least half of what they generated at their old firm.

The bottom line for a $500,000 producer with $60 million in assets, who in the first year at Jones brings over $50 million and produces $400,000, would be about $340,000, according to a calculator the firm uses with recruits. Once established, a Jones rep gets a flat 40% payout.

Brokers producing between $200,000 and $500,000 are the "sweet spot" for Jones, said Darin Manis, chief executive of recruiter RJ & Makay LLC in Colorado Springs, Colo, which does some work for Jones. Wirehouse reps at that level get a higher payout at Jones, plus their own assistant and their own office, he said.

"A big upfront check is great ... Until you start paying for it," says a direct-mail piece

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Jones recently sent to 50,000 reps at competing firms, which touts the new transition plan as offering "guaranteed earnings without the golden handcuffs" of paying off an upfront loan.

The firm does have a non-compete contract for brokers who bring over an existing book, "but we're not going to handcuff them" if they want to leave, Mr. Leathers said.

However, like other firms, Jones does sometimes sue brokers who leave. But "once brokers are in the Jones model, they don't want to leave," Mr. Manis said. "It's much more of a family atmosphere than any other firm."

Jones may be a family, but not everyone fits in, said Jim Weddle, Jones' managing director. "We basically want the 'Jones guy' who is just at the wrong firm," he said.

"I got a lot of calls from re-cruiters, and it was always about your trailing 12 [months' production] and what [another firm could pay]," said Bryan Oliver, a rep in Meridian, Idaho, who came over to Jones from Merrill in January.

"The Jones recruiter called and asked me and my wife to dinner," he said. "It was not centered around production. It was about getting to know you and whether there was a fit."

On the other hand, some Jones brokers "get to a certain point [and] want to go out on their own" with better technology and more fee-based options, Mr. Papike said.

Meanwhile, the firm has a new fee-based arrow in its quiver that could help it attract experienced brokers. Advisory Solutions, a new mutual fund and ETF wrap program, has garnered $5.3 billion in assets since its August roll-out.

Lack of fee-based offerings "was an obstacle in the past" in recruiting reps, and the Advisory Solutions program should help, Mr. Leathers said.

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