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Schwab outflanks smaller rivals for new advisers

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By Jonathan Spicer

NEW YORK, Nov 19 (Reuters) - Because of its sheer size, Charles Schwab Corp is best positioned among the U.S. discount brokerages to capitalize on the glut of investment advisers looking to go independent.

The discount broker industry has been trumpeting the prospect of attracting advisers -- and the increasingly bigger assets they manage -- as full-service banks and brokers suffer a wave of mergers, job cuts, and bankruptcies.

Schwab, the pioneer of the discount model, has led the way in establishing a custodial service for registered investment advisers (RIAs), from which it derives about 30 percent of its pretax income.

The company's stable of more than 5,500 RIA firms is growing and rivaled only by mutual fund king Fidelity Investments. The other main discount brokerages, such as TD Ameritrade Holding Corp and E*Trade Financial Corp, are trailing and may miss the chance to add assets in a tough business environment.

"They're all seeing account growth from the full-service brokers, but the one that stands to benefit the most is Schwab and Fidelity because they're the best at the RIA business," said Richard Repetto, an analyst at Sandler O'Neill.

Discount brokerages increasingly rely on fees from the assets managed by their client RIAs. In return for the fees, they offer custodial services including technological and operational support for RIAs, who often do business with more than one custodian.

While total assets are down across the board over the last few months, San Francisco-based Schwab's $1.2 trillion at the end of October eclipsed Ameritrade's $241 billion and E*Trade's $119 billion.

LOT OF INTEREST

Analysts said Schwab's institutional unit, which this week was restructured under a new manager, Jim McCool, is more established and therefore more attractive to so-called "breakaway brokers" -- the advisers that leave large institutions to set up independent shops. ID:nN17443929

The company announced a program in June devoted to wooing breakaway brokers. It seems to have paid off. The number of new brokerage accounts grew by 26 percent in each of the last two months.

Bernie Clark, senior vice president of Schwab's adviser services, told analysts and investors on Wednesday about 400 prospective advisers managing $35 billion are considering a link-up with Schwab.

Meanwhile, Schwab has attracted about $11 billion in assets from new advisory firms in the first three quarters of this year, about 20 percent more than it attracted in all of 2007, according to spokeswoman Lindsay Tiles.

An Ameritrade spokesman said the Omaha, Nebraska-based company recently fielded a record number of phone calls from advisers interested in going independent. He said Ameritrade's 5,000 RIAs will continue to grow, but did not provide details on how many calls translated to new clients and assets.

E*Trade, badly hurt by the mortgage market collapse, did not provide details on new investment advisers.

NOT THEIR FAULT

In television commercials, some discount brokerages hint that retail investors shouldn't trust their savings to the full-service brokers that themselves are struggling to survive.

The strategy is meant to highlight the discount model's stability relative to peers in the financial sector. But analysts and recruiters say this wrongly blames the advisers for the bad bets of their employers.

"These guys didn't have anything to do with what happened to the firms, but they're getting the calls and fielding all of the feedback from the investors. That's got to be a little painful," said Adam Honore, senior analyst at consultancy Aite Group.

Still, stability is seen as a top concern for advisers. The mortgage market-inspired financial crisis, now in its second year, has shaken the full-service brokers and ravaged the value of the investments their advisors manage.

In the last few months, investment bank Lehman Brothers Holdings Inc filed for bankruptcy protection, and both Merrill Lynch & Co Inc and Wachovia Corp agreed to be bought. This week, Citigroup Inc said it will cut 52,000 jobs, although it is unclear how many advisers would be affected.

"In today's environment, especially with two of the larger brokerage firms being bought out, everybody -- wirehouses, regionals, banks, RIAs, independents -- is having an uptick in conversations that they're having with financial advisers," said Darin Manis, chief executive at Colorado Springs-based financial recruiting firm RJ & Makay.

Recruiters said although there has been a spike this year in disenfranchised advisers going independent, the vast majority of those on the move simply go to another "wirehouse" -- a term used to describe large, full-service brokerages.

Those who choose to go independent have two to three times more assets under management than they had three years ago, according to Schwab and Ameritrade.

"The real test is where they actually go," said Manis.