

## Recruitment deals slim down

The weak market and industry turmoil have crimped offers

By **Dan Jamieson**  
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The bull market in broker recruitment deals has peaked.

A weak stock market, the slowing economy and a large number of brokers who are looking to change firms has put a crimp in record-level offers.

In recent weeks, Smith Barney, the brokerage unit of New York-based Citigroup Inc., and Merrill Lynch & Co. Inc. of New York, have both trimmed their deals, sources said.

Quality producers — generally considered to be those with a solid client base who generate \$1 million a year or more in fees and commissions — were getting all-in offers from Smith Barney of up to 250% to 260% of their trailing 12 months' production, with about half of that upfront. Now the top Smith Barney deal is down to about 230%.

Merrill Lynch, like other wirehouses, is in the same ballpark and is cutting its offer by about 20%, recruiters said.

Merrill Lynch was set to trim its package this month, several sources said, while others said that the firm already has begun cutting back in some cases.

Selena Morris, a Merrill Lynch spokeswoman, declined to comment.

Smith Barney spokesman Alexander Samuelson declined to comment on any changes in the firm's offer, saying only that Smith Barney continues to recruit brokers selectively.

Other firms are also expected soon to cut back on what many observers see as runaway recruitment deals.

Morgan Stanley quietly cut back on some of its recruitment incentives this year but is still paying up for brokers it wants, recruiters said. While Morgan Stanley spokeswoman Christine Pollack declined to comment on specifics, she did say that the firm "will continue to remain competitive in the market for recruiting."

Recruiters say the record-high packages are a thing of the past. "There's no question we've seen the peak," said Darin Manis, chief executive of RJ & Makay, a Colorado Springs, Colo.-based recruitment firm.

"Just two years ago, deals were 100%, and that was a big deal," Mr. Manis said. "Now a good adviser can get [a total package worth] 225% or more."

But those huge packages have caused firms to lock brokers in for as many as nine years in order to turn a profit, Mr. Manis added.

The record high deals "are insane. They're money losers" for firms, said Rick Peterson, founder of an eponymous Houston recruitment firm.

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"Everyone knew these enormous upfront payments would have to be cut," said recruiter Mindy Diamond, president of Diamond Consultants LLC of Chester, N.J.

## NO QUICK TURN SEEN

Few observers see the industry making a quick turn toward supporting rich recruitment packages.

Once competition for Merrill Lynch brokers dissipates, there will be even less pressure to keep deals at high levels, recruiters said.

Furthermore, poor economic conditions mean "fewer offices, fewer investors and brokers with far fewer assets," Mr. Peterson said.

Firms "have got to be very careful about buying decimated books and disgruntled clients," said Richard Kronman, founder of Kronman Matthew & Associates, a Los Angeles recruitment firm.

What's more, the large number of brokers looking to change firms amid the turmoil has reduced the need for firms to ante up for talent.

"The supply and demand issue ... will drive deals down," said Danny Sarch, founder of Leitner Sarch Consultants Ltd. in White Plains, N.Y.

"The size of deals has been so high for so long, firms have reached or exceeded their recruiting goals," Ms. Diamond said.

"Recruiting has always been a top goal" at most firms "but now, it's No. 2 or No. 3" on the list, Mr. Kronman said.

In addition, the market debacle has raised some concerns among employers about the portability of brokers' businesses.

Some clients see a broker's move as "a perfect time to try somebody else," Ms. Diamond said. Nevertheless, even in this market, brokers still typically transfer about 80% of the assets they want to keep, she said.

The only way top money deals will come back is if regional firms make a big push to build head count, Mr. Peterson said.

But so far, the regionals have been attracting unhappy reps from wirehouses without the huge transition packages of their bigger competitors.

Thomas James, chief executive of Raymond James Financial Inc. of St. Petersburg, Fla., told shareholders last month that the firm has cut its recruitment deals and put more emphasis on back-end incentives. He warned about basing deals on 12 months of historical gross "when we know that the future gross is probably going to be down just because of the market environment."

A Raymond James spokeswoman didn't comment by press time.

Despite the falling price for producers, quality people will always be able to command a decent recruitment package, headhunters said. And even if the industry trims its deals, offers will still be relatively rich.

The right individual in the right local market can often get a premium. "There may be a slight glut [of brokers] right now, but the other side of that coin is that we're not bringing a lot of new people into the business" to replace veterans who are leaving or retiring, said a recruiter, who asked not to be identified.

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