

Fidelity, Schwab target Merrill reps

Market upheaval creates opportunity for custodians

By [Bruce Kelly](#) and [Jed Horowitz](#)

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As Bank of America Corp. prepares to swallow Merrill Lynch & Co. Inc., the brokerage giant's 16,600 advisers are being wooed in a courting ritual rivaling anything seen on "Wild Kingdom."

The current crisis has become the catalyst for firms such as Charles Schwab Corp. of San Francisco and Fidelity Investments of Boston to use direct mailing or newspaper ads to court Merrill brokers, as well as other wirehouse representatives, in an effort to sway them to become registered investment advisers.

And one independent recruiting firm recently posted a plea for those brokers, who collectively generated a staggering \$12 billion in fees and commissions last year, on YouTube.

RJ & Makay of Colorado Springs, Colo., posted the video the week after Bank of America Corp. of Charlotte, N.C., said it was going to acquire Merrill of New York.

The video displays text with a musical background, and asks brokers to consider issues such as culture, possible new technologies, management changes and a new benefits package. Others are using more traditional efforts. Schwab, the biggest custodian of assets of independent advisers, has stepped up its efforts to recruit wirehouse brokers to set up their own firms or join larger independents.



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"This unfortunate period in the market is going to create opportunity for us, and we are going to spend on this opportunity ... and accelerate our investment," Charles Goldman, the Schwab executive vice president who runs the San Francisco firm's institutional division for independent advisers, said last Wednesday in an interview at the division's annual conclave.

Schwab is hiring more business development people and stepping up its advertising and marketing programs to woo wirehouse brokers, said Mr. Goldman, declining to provide

details.

Meanwhile, Fidelity Institutional Wealth Services has an “aggressive marketing and sales plans under way to help build greater awareness for Fidelity’s capabilities in helping breakaway brokers understand the choices available to them,” Steve Austin, a company spokesman, wrote in an e-mail.

Fidelity has hired more sales staff for the effort and for the additional business the firm expects to attract.

On Sept. 18, Fidelity Institutional Wealth Services, the custody unit for advisers, ran a full-page ad in the Wall Street Journal with the headline: “Attention Advisors: Want to be your own boss? Think of us as your new COO.”

Merrill’s triage-like decision two weeks ago to sell itself to Bank of America, Lehman Brothers Holdings Inc.’s bankruptcy filing and continuing financial struggles at parents of other big brokerage networks (Wachovia Corp., UBS AG and Morgan Stanley) make this an ideal time for pitching brokers, Mr. Goldman said.

“If I were an executive at one of the wirehouses, I’d be looking at this situation and be very concerned,” said Mr. Goldman, noting that brokers already chafing under product constraints from their parents are feeling even more pressured with calls from clients about the safety of their own firms.

Schwab, which about three years ago set up a unit called Advisors Turning Independent to target wirehouse brokers specifically, has been rushing out pitch letters to selected brokers at Merrill Lynch and competitors and is even cold-calling some brokers.

Merrill Lynch is in the process of creating transition packages for its reps, said Selena Morris, a company spokeswoman. She did not include specifics about the packages.

And Merrill has not stopped attracting reps and advisers from other firms, even though it’s in the process of being acquired, Ms. Morris noted.

“As always, recruiting and retaining quality advisers is a top priority for Merrill Lynch,” she wrote in an e-mail on Friday afternoon. “In the past week alone, we have gained 16 advisers generating \$13.4 million in production and continue to have historically low rates of turnover.”

One Merrill broker in the Northeast whose team has \$5.3 million under management said he’s more open to outside pitches than in the past because of concerns about the meagerness of retention bonuses after the Bank of America deal closes in a few months.

Merrill has delayed introduction of what it was promoting internally as a simpler compensation grid meant to be more competitive with independent firms. The broker said he has set up meetings with Schwab and other firms to discuss alternatives because questions he has received from Merrill executives and rumors about low-ball retentions concern him.

Meanwhile, industry recruiters said that speculation about details of the retention package is particularly intense, but Merrill has not yet put pen to paper. The package may come next month, recruiters said.

Schwab, to be sure, does not expect hordes of wirehouse brokers to go independent overnight and also knows that the breakaway model won't appeal to all brokers.

The fallout will occur over the next five years, according to Mr. Goldman. And only those brokers who are well along the path toward independence will use the crisis to convert over the next few months, he said.

Mr. Goldman said he admires Bank of America CEO Ken Lewis as "a brilliant guy" who may be correct in believing that he achieved a coup in picking up Merrill — the world's largest brokerage network — at a bargain price.

The current crisis also creates big challenges for independent brokers who counsel long-term investing and planning, Mr. Goldman said.

"Clearly not all those [Merrill] brokers are going to adapt to our model or the independent broker-dealer channel," Mr. Goldman said.

The all-stock deal, which also brings to Bank of America Merrill's investment banking prowess, was worth about \$50 million when it was announced two weeks ago but has dropped in value along with the bank's stock price.

In total, Schwab Institutional has custody of \$575 billion in client assets from 5,500 advisers.

<http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20080928/REG/809269946/1009/INIssueAlert01>