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Low-producers to exit wirehouses

Pay cuts likely to force thousands out the door

By [Dan Jamieson](#)

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There will be a large migration of low producers from the wirehouses this year, industry observers predict.

While brokers at all production levels have been leaving to escape the turmoil at the big firms, cuts in pay for less productive brokers are expected to force out many representatives who produce less than \$300,000.

Even \$400,000 and \$500,000 producers will be looking for new homes as they feel less welcome at the big firms, observers said.

"We believe in 2009, there could be more movement in terms of

quantity [of brokers] than any other year in history," said Darin Manis, chief executive of RJ & Makay LLC, a Colorado Springs, Colo., recruitment firm.

Production levels vary by firm, but an average 10% to 20% of reps at the major firms could be under \$300,000, said Andrew Tasnady, a compensation consultant in Port Washington, N.Y.

As a result, several thousand low-producers are feeling the effects of lower payouts this year.

Mr. Manis said that his firm is setting up "hundreds of interviews" each month for wirehouse brokers looking at alternatives to big firms, many of whom are low-producers unwanted at the majors.



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"It will be a tsunami" of movement out of the major firms this year and in coming years, said Ron Kruszewski, chief executive of Stifel Financial Corp. of St. Louis. He couldn't specify how many low-producing refugees Stifel might pick up, "but we're very well-positioned to benefit from the reshuffling that's taking place," he said.

This year, the New York-based firms Merrill Lynch & Co. Inc., Morgan Stanley and Smith Barney, the brokerage unit of Citigroup Inc. that will be combining with Morgan Stanley, all cut payouts for low-producing reps.

Veterans doing less than \$300,000 are getting 20% or 25% of what they produce. Many of these reps had been getting 30% or more of their revenue.

RETAIL REVENUE

At the same time, retail revenue this year could be down 20% or more from 2008 due to lower asset levels and nervous clients, brokers said.

"I think we'll see a pretty big flight out before [the end of] June," said one Merrill rep in an office with a majority of lower producers. The broker asked not to be identified.

Merrill will implement its low-pay policy at the end of June, when veteran producers who aren't annualizing at \$300,000 will be charged back for business paid out at a higher rate. That means that they will have to pay back part of their net pay from the first half of the year.

"So people will work for free [after] June," the Merrill rep said.

"I imagine [brokers] who are not on track will be gone by then," this broker added. "People here are pretty out in the open about talking to other firms."

Separately, Merrill recently laid off several hundred brokers who were in their first two years of production. The firm declined to specify the number but said that the dismissals were performance-based.

Up and down the Street, \$500,000-and-under brokers are wondering about their status.

Bank of America Corp. of Charlotte, N.C., offered virtually nothing to any Merrill brokers who produced less than that amount. The new Morgan Stanley Smith Barney venture is expected to offer brokers something similar.

"There's definitely a David-versus-Goliath atmosphere here," said a low-producing Smith Barney broker, who asked not to be identified and plans to go to an independent firm.

Regional and independent firms are the likely new homes for many low-producing refugees. But some regional firms are getting pickier.

"We just raised our minimum to \$500,000 [for new recruits], because the floodgates have opened" at the wirehouses, said Jerry Lombard, president of the retail unit at Janney Montgomery Scott LLC in Philadelphia.

"It's not just low-producers but some of their best producers" who are leaving, he said.

Janney normally picks up 50 to 60 recruits a year. But by the end of January, the firm had already added 18, Mr. Lombard said. Recruiting "has just exploded," he said.

RBC Wealth Management Inc. of Minneapolis is "looking to hire first- or second-quintile" brokers from the competition, said Jonell Rusinko, an RBC spokeswoman.

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"We've been getting a record level of inquiries across the board from all types of brokers," she said.

Through its fiscal year ended last October, RBC brought in 157 re-cruits, compared with 96 in the previous year, Ms. Rusinko said.

Fourth-quarter recruiting activity at Ameriprise Financial Services Inc., which offers a choice of platforms, including working as an independent contractor or as an employee broker, was double that of the year-earlier period, said Manish Dave, senior director of experienced recruiting at the Minneapolis-based firm. "It's from a combination of the turmoil at the wirehouses and from people who are intrigued with our business model," he said.

Likewise, recruiting activity is surging at LPL Financial of Boston.

Leads from wirehouse reps who produce between \$125,000 and \$500,000 jumped 85% in the fourth quarter, compared with the third quarter, said Bill Morrissey, LPL executive vice president of branch development.

And leads from \$500,000-plus producers grew even more, up 92% over the same time period.

"Events are pushing many [brokers] to consider independent [firms] for the first time," Mr. Morrissey said.

Many will be forced out of the wirehouses, "particularly at the low-producing threshold," he said.

Although low-producers may find new homes, some observers lament their loss from the major firms.

Low-producers "usually run a nice, clean business, spend a lot of time with their clients [and help] maintain whatever good reputation we have in this industry," said Frank Campanale, chief executive of Advanced Equities Wealth Management, a unit of Advanced Equities Financial Corp. in Chicago.

Brokers at Advanced Equities produce between \$300,000 to \$400,000 on average, he said. Mr. Campanale said he expects that his firm will also be one of the beneficiaries from the wirehouse outflow.

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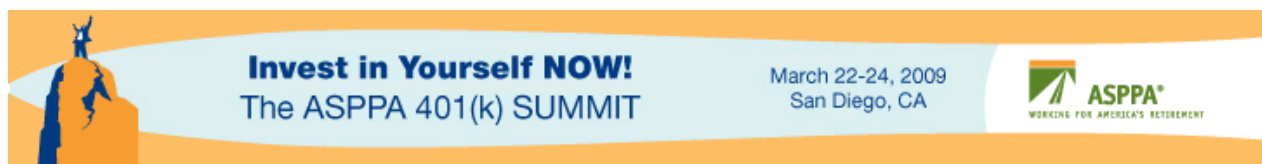
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