Wachovia To Pay Brokers Bonuses To Join, Not To Stay

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NEW YORK -(Dow Jones)- The way for financial advisers to get a bonus from Wachovia Securities is to join the firm, not to stay with it.

This distinction in bonus treatment at the unit of Wells Fargo & Co. (WFC), acquired last year, has some veteran brokers at Wachovia Securities fuming.

On Friday, Wachovia brokers learned that Wells Fargo wouldn't offer them payouts to stay with the combined entity. Such retention bonuses, paid to many of the firm's advisers, are a way of keeping valuable brokers from jumping ship in the uncertainty following a merger.

These post-merger bonuses have been standard procedure in the brokerage industry in recent years. For instance, on Friday, competitors at Morgan Stanley (MS) and Citigroup Inc.'s (C) Smith Barney unit were told they would receive retention bonuses as the firms combine in a joint venture.

Meanwhile, Wachovia is paying some advisers who join it from competitors roughly 180% of their trailing 12-month production as a signing bonus. While several recruiters and analysts say Wells Fargo's decision not to offer a retention deal makes sense in the current economic and market turmoil, the firm risks alienating and even losing some dejected brokers by dishing out payments only to new recruits.

The emphasis on recruiting over retention underscores a movement throughout the brokerage industry. Financial advisers are looking to switch firms more than ever before, in many cases to recover lost wealth from plunging company stock prices, which have severely dented their deferred compensation. Firms pay up in order to replace those brokers who jump ship to the competition.

With a widening financial crisis, Wall Street compensation has drawn both political and public scrutiny in recent months. While many brokers affected by recent mergers have been worried that their retention packages would be trimmed by new congressional measures, large recruiting deals are still on the table.

A Wachovia Securities spokeswoman said, "Offering a traditional retention bonus to its financial advisers in the current environment would not be appropriate." She added, "Certainly, lately, with the environment the way it is, brokers outside the firm are listening and appreciating the choice and relative stability we offer them."

She declined to comment on the firm's current recruiting package.

Mickey Wasserman, a recruiter with Michael Wasserman & Associates Inc., also pointed to politics, saying, "Retention packages have become politically incorrect at this time."

But the new policy on retention bonuses isn't popular among existing Wachovia advisers. "Advisers have just been told they are not getting anything because of their loyalty staying with Wachovia, but they will bring over a new guy who will get a deal just for walking in the door," said Darin Manis, chief executive of RJ & Makay, a recruiting firm.

A veteran Wachovia broker in the southeast echoed that assessment, characterizing the bonus policy as "I won't reward you to be loyal, but I will reward you to betray your employer."

The broker said branch managers have been told that now is their "window of opportunity" so they have to be recruiting heavily.

To be sure, while Wachovia isn't offering a retention deal, the firm is increasing payouts for brokers in its "4front" client loyalty program, which was launched in 2006. Brokers can boost their annual compensation by meeting certain "best practice" thresholds. The firm also has many of its own brokers and A.G. Edwards advisers under contract from previous retention deals. In June 2007, Wachovia agreed to acquire the St. Louis mid-size brokerage.

Yet few Wachovia advisers are satisfied with those measures.

"Ninety-five percent of the Wachovia brokers we are talking to are positively incensed about no retention package," said a recruiter in the northeast U.S.

Danny Sarch, president of Leitner Sarch Consultants, a recruiting firm in White Plains, N.Y., said that for Wachovia, the two differing strategies create an odd contradiction, but adds that "recruiting is seen as mandatory because you have to keep building your franchise."

As of last Friday, Wachovia has hired 355 financial advisers since Jan. 1, who had over $181 million in trailing 12-month production.

During a conference call with brokers Friday afternoon, Wachovia Securities Chief Executive Danny Ludeman discussed the plan not to pay retention bonuses, but he also touted the firm's recent recruiting tally, several advisers said.

To some brokers, the news about recruiting rubbed salt in the wound. "The worst part of the whole situation was that near the end of the conference call, Danny brags that they have just hired 170 new brokers," said a broker in the midwest, who was disturbed that Wachovia is paying substantial up-front money for new recruits.

Charles "Chip" Roame, managing principal at Tiburon Strategic Advisors&# 173;, said that paying brokers high recruiting deals is "a terrible economic strategy for all of the firms involved, but it will never end until they stop it."

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(Annie Gasparro contributed to this report.)

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