

Brokerages Losing to Independents

Where Did All the Consultants Go?

Sunday, January 17, 2010

Dear Kevin, My investments are held at a national, full service brokerage firm, but every time I turn around, I've got a different financial advisor. What's going on?—Susan from Santa Barbara

Susan, this question arises often because there is much turnover in the financial industry. We each want to have a personal relationship with the individual managing our money. Otherwise, we would choose to manage it ourselves, right? And it's hard to develop a lasting relationship when your advisors keep leaving the firm that manages your assets.



Kevin Bourke

So, what *is* going on?

Traditionally, stockbrokers went to work for a large brokerage firm, with a name such as Merrill Lynch, Smith Barney, Dean Witter, and so forth. They would spend their careers working for large firms, partially for the name-brand recognition, partially because the big firms provided technology necessary to providing advice.

But then, some years ago, stockbrokers became something like professional athletes, garnering large upfront bonuses by hopping from one firm to another. It's not unusual for a financial consultant/stockbroker to receive a bonus totaling hundreds of thousands of dollars simply to move their book of business from one firm to another.

This explains much of the turnover you may have experienced with your financial consultant. They may just be following the money.

But according to a *Wall Street Journal* article published January 4, 2010, there is a major shift happening in the world of financial consultants that offers another explanation why your financial advisor is no

longer with a large firm, and it's worth noting.

In the age of technology, one of the primary factors that gave a large firm an edge is gone. No longer does a consultant need the big firm to gain access to what's going on in the world of finance: It's all available with the click of a mouse.

Name-brand recognition is the other major factor that has kept financial consultants with a large firm. But when large firms like Lehman Brothers disappear overnight, and others teeter and are sold over the course of a weekend, like Merrill Lynch was sold to Bank of America, name-brand recognition loses some of its luster.

Where are these advisors going, if they're not just hopping from one major firm to another? According to Cerrulli Associates, a firm that tracks trends within the financial industry, financial consultants are leaving the big firms and going "independent." According to the *Wall Street Journal*, "The number of brokers serving individual clients at major firms fell 14% to less than 55,000 in the three years ending in December 2008, while the number of independent financial advisers rose 29% to 33,000, Cerulli Associates says."

What is an independent financial advisor? An independent advisor may opt to hang his or her registration with a brokerage firm, but not as an employee. Rather, an independent advisor retains —independence. Some advisors leave the employ of big firms when they realize that they can only sell products from a relatively limited list provided by the firms, while independents have an unlimited choice of investments. Others leave because they want to charge clients for advice, rather than product. For example, they can charge the same for a stock transaction as they can for the purchase of a CD, allowing them to do whatever is best for the client with no conflict of interest. Others leave because they're worried about the health of the large firms, often finding out after the fact that their firm faces financial problems.

There are many reasons for financial consultants to opt for independence, but one thing I believe to be certain: You are going to continue to see a move away from the old, traditional model of the large brokerage firm and towards the more transparent, nimble, conflict-free model of the independent. Time will tell if I'm right.

Disclaimer: I spent many years at large, national brokerage firms and opted for independence in January 2003.

Kevin Bourke is a registered principal with and offers access to securities through LPL Financial, Member FINRA/SIPC. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.