Brokers May Find Cutting The Wire Their Best Move

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Wirehouse brokers looking for a new place to hang their license likely would make more money at a bank's brokerage unit or by going independent rather than moving to another wirehouse.

That's because brokers who move to another wirehouse have more trouble retaining their clients and replenishing their book of business, compared with brokers who go to a bank or who strike out on their own, according to Eric Armstrong, owner of Armstrong Financial Group Inc., which tracks the performance of client brokers who switch firms.

Mr. Armstrong found that brokers who make a wirehouse-to-wirehouse change typically retain about 60% of the annual revenue they earned in the year before their departure. That's lower than what they typically expect to retain and less than many surveys of client retention have found.

Mr. Armstrong said that wirehouse brokers who move to the brokerage unit of a national or regional full-service bank typically earn about 75% of their pre-move income in the year after a switch.

Four years after a switch, the difference in earnings is even greater. The wirehouse switchers earned an average of 93% of their pre-move revenue; those who went to banks earned a stunning 190% of their old pay.

“A wirehouse guy is hunting every single day of his career, but when he goes into a bank environment, he has access to billions in existing customer assets,” said Mr. Armstrong.

Wirehouse brokers who go the independent route, either moving to an independent broker-dealer or becoming a registered investment adviser, also typically do better than those who switch to another large firm because they offer clients what is perceived as a more compelling value proposition, Mr. Armstrong said.

In more cases than wirehouse brokers like to admit, “the company owns the client,” especially when the broker moves to a new firm that the client sees as essentially the same as the old one, said Ron Edde, senior executive recruiter at Armstrong. He said that he advises as many as 25% of wirehouse brokers who are considering a move to stay put until they have a stronger hold on their clients.

The compensation outlook for transplanted wirehouse brokers is likely to become a more important issue over the next few years. Nearly 44% of wirehouse brokers will see their retention contracts expire within the next three years, allowing them to change firms without a financial penalty, according to an industry research firm.

In a survey of 150 employee brokers conducted this spring, 21% of the respondents said there is at least an even chance that they will leave their employer in a couple of years. While the survey did not go into the reasons for the potential departures, industry observers say that the depressed price of company shares in broker compensation packages, the lure of independence and big upfront payments from other wirehouses are factors.

Among wirehouse brokers indicating they might leave, a third expect to take more than 75% of their client assets with them, similar to percentages reported in other recent broker surveys. Another third expect to keep 50% to 74%.

Explaining the decline in earnings among departing wirehouse brokers, investment banker **Daniel Seivert**, chief executive and managing partner of **ECHELON Partners LLC**, said the departing broker's firm may “undertake certain defensive strategies,” which could include legal tactics or having other brokers in the firm approach the clients. Further, he said, some clients may have ties to the private banking, investment banking or research arms of the wirehouse, leading them to stay put when their adviser leaves.

Nevertheless, one third of the wirehouse brokers surveyed named another wirehouse as their preferred destination. Some 22% preferred to go independent, 19% would rather join an insurance broker-dealer, 13% said they would join a regional broker-dealer and 9% said they would prefer joining a bank broker-dealer.

Recruiters said that brokers who can give clients good reasons for why they are moving usually are more successful in keeping them.

“I think, traditionally, it is harder for someone to explain why they are going from one wirehouse to another,” said Daniel Bernstein, director of professional services at MarketCounsel LLC, which offers recruiting assistance. Even if the broker can explain why a move helps the client, some believe it has more to do with a bigger payday for the adviser.

"It generally comes out as, "This is a move I am making for myself,'" Mr. Bernstein said. "Those who are making the move just for the bonus don't have as good a story to tell. The better story is where there is some sort of change."

Noting that his firm has had "30% more conversations this year with potential wirehouse breakaways," Mike Durbin, president of Fidelity Institutional Wealth Services, said the pipeline is full at his firm, which is the custody unit of Fidelity Brokerage Services LLC.

"We have more breakaways scheduled in the next three months than ever," he said.

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