

A Tale of Two B/Ds

Securities America and **Capital Analysts** have responded to the financial crisis in quite different ways. But they're also quite similar in how they're proactively changing their business models to help reps and the home office thrive BY JAMES J. GREEN

THE BUSINESS IS broken, accelerated by the crisis. We need a new model, because the old way of doing business is broken," says Bob Cogan, vice chairman of Capital Analysts Incorporated. So Cogan and CAI President/CEO Matt Lynch set about not to bind up the broker/dealer's wounds, but to start from scratch. They are doing so by recasting the most basic and often understated component of the relationship between B/D rep and home office: how the rep gets paid, and what the rep pays for in the way of product and services from the home office. Instead of determining the optimal payout per rep, and then "nickel and diming" the same rep for technology or compliance or coaching help, as Lynch says, Capital Analysts is now charging a flat fee to each rep to affiliate with it. A truly flat fee.

At Securities America, Inc., Chairman and CEO Steve McWhorter takes a different, albeit just as practical, tack for his larger broker/dealer. Through acquisitions like that of Brecek & Young, through buyouts of smaller branch offices, through a gaggle of practice management, marketing, and unique investment offerings, Securities America is helping its reps grow the new-fashioned way: by using technology and scale to arm its representatives with the tools they need to become better businesspeople themselves, which will only help the folks in the home office and, not coincidentally, the folks who are clients.

These two broker/dealers are emblematic of the differing ways that independent broker/dealers are responding to the financial and markets crisis that has set plenty of brokers and client assets in movement (good for recruiting and client acquisition) while it has also squeezed already-thin profit margins at those B/Ds. Moreover, all independent firms stand on the cusp of a major regulatory crackdown that will be forthcoming from a populist White House and Democrat-controlled Congress that seems intent on loudly and publicly slamming shut the barn door after the fraud and subprime horses have left the building. That means more money spent on compliance, and more time spent in the recruiting process so that new advisors added to the fold are a good cultural—read not-a-compliance-problem-waiting-to-happen—fit.

In this, the first in a four-article special section on the state of broker/dealers that follows, we explore the successful approaches of these two B/Ds. In the second article we reveal the results of our annual Presidents' Poll of broker/dealers, and show who's leading the pack in our annual Broker/Dealer Directory. We follow with an analysis of which B/Ds will survive in this volatile atmosphere—written by Russ Diachok of Geneos Wealth Management—and then profile the leader of a new kind of small broker/dealer in our planner profile. There's much afoot in the independent broker/dealer world, and we invite you to explore this world in this issue and online at InvestmentAdvisor.com for more data and analysis.

THE NEW MODEL: CAPITAL ANALYSTS

“This is what the clients want, this is what the advisors want, and we as an industry are playing catch up.” The “it” in this case is transparent fees, the industry is the independent broker/dealer, and the speaker is Matt Lynch, president and CEO of Capital Analysts Incorporated. In late April, Cincinnati-based Capital Analysts issued a press release trumpeting an “industry-changing platform” that in fact was not hyperbolic, and while its timing may have seemed hurried by the current crisis, it actually was the culmination of a long process. “We spent the last two years retooling Capital Analysts,” Lynch says, “upgrading our technology and our offering to our advisors, our infrastructure, our back office, the talent in our organization, all in preparation for a long-term sustained period of growth.”

How would this growth come about? Essentially, Lynch and Bob Cogan, the Capital Analysts vice chairman and industry visionary, have reinvented the financial basis of the relationship between representatives—or as Lynch prefers to call reps, advisors—and their broker/dealer. Instead of offering a payout on production, a Capital Analysts advisor will now pay a flat fee for the platform, called Wealth Manager Access (WMA), ranging from \$40,000 to \$120,000 annually, depending on the firm’s total revenue and number of advisors at the firm (the basic fee covers three advisors). “What they get for their Wealth Manager Access fee,” says Lynch, “is all the technology, all the operations and compliance support, Advisor Portal [the firm’s CRM, trading, and research portal] and all the third-party technology that plugs into it, and we don’t nickel and dime them for it.” Included are compliance tools and audits, E&O insurance, licensing, Morningstar Advisor Workstation, and a trading platform.

Existing CAI advisors are being transitioned into the new model this year, Lynch says, while those now being recruited will start with the new model.

Supporting the new approach will be a new clearing firm relationship with Pershing, under which Lynch says “our advisors will have access to all the services” delivered by both Pershing’s National Customers B/D group and Pershing Advisor Solutions (PAS), its RIA custody arm. That’s another sign of Capital Analysts’ big-tent approach to advisors: it welcomes those with their own RIAs or those who want to work through its RIA. No wonder, then, that in the April 28 press release announcing WMA, Pershing Advisor Solutions CEO Mark Tibergien said Capital Analysts’ “new approach to business...elevates the independent broker/dealer model to yet another level.”

During his prior stints at Lincoln Financial and Moss Adams, Lynch says he had observed that “the most successful advisors would start to figure things out on their own and build their own capabilities, because their industry partners—whether it was a wirehouse, custodian, or a regional or independent B/D—weren’t keeping up with them.” Those advisors, he says, “started

to view their B/D or RIA partner as a regulatory animal that was more of a necessary evil than a firm that added value.”

So Lynch says he “went to our advisors whom we respected and thought were innovative and were gaining market share... who said ‘If I have to do more of this myself, I should pay you less than what I’m paying you.’” Lynch and Cogan decided that “we have to be transparent as to

what we’re charging for services and we’ve got to be clear about what we’re providing in the overall value chain.”

Lynch gives the credit for the new model to the CAI advisors who “were open with us and willing to be part of the architects of change on this,” and says he got support for the change from Capital Analysts’ parent company—Western and Southern Financial Group—which he said “tends to think about things in terms of decades, not quarters.” The parent company agreed, says Lynch, with his argument that “Ultimately, when you have disruption in the market, it’s a great time to step forward in an innovative way and lead. That’s how you gain market share.”

What about the CAI advisors? “One of the ways their lives have changed,” says Lynch, “is that they have access to these best of breed tools...so the advisor is not put into the position of having to make a decision based on cost rather than value.” Moreover, he says, “we no longer treat advisors as commission salespeople but look at them as business owners. We have a business-to-business relationship.”

The new model has its benefits in the recruiting process, says Lynch. “I view the traditional broker/dealer model as not unlike an income tax: a permanent tax on every dime of revenue you generate. If I do \$300,000 this year, and I’m at an 85% payout, I get to pay you 15% of \$300,000, or \$45,000. If I increase to \$400,000, I get to pay you more. And I’ve got to do that again next year. We compare that to our model and it’s played very well.”

He admits that the new model may not be right for everybody. For one, they need to be “really focused on wealth management,” a Capital Analysts trademark, which it defines as “an intersection of investment planning and advanced planning and life planning.”

How will Lynch know that this new affiliation model is a success? “Our objective is to grow, and grow profitably,” he responds, “in both numbers of advisors and assets under management. We’ll know we’re successful if we’ve gained ground in terms of redefining the space for broker/dealers and RIAs.” **IA**

THE IMPROVED MODEL: SECURITIES AMERICA, INC



“We knew right away that when this economy turned south, that just as representatives needed to reach out to their clients more often, we needed to reach out more to our representatives.” Securities America Chairman and CEO Steve McWhorter notes that the communications commitment starts among the leaders at this mid-sized broker/dealer, whom he proudly reports “answers our own phones and returns our own e-mail.” He likes as well the size of his firm: “We’re big enough to provide a breadth of services, but not so big that representatives become just another number on a balance sheet.”

One of the main ways that Securities America is responding to the crisis is to put its scale to work. The scale at Omaha-based Securities America is larger since its acquisition last year of fellow B/D Brecek & Young, and scale allows it to offer a host of programs and platforms that a smaller firm would find difficult to provide, covering everything from marketing and public relations to business and succession planning. There’s also now an in-house money management platform—in the form of separate account manager Iron Point Capital, which came over in the Brecek & Young acquisition.

Another asset that came over in the acquisition: former B&Y CEO Chris Ranney, who points out that not only did many of his fellow home office peers make the transition, but so did more than 95% of the B&Y reps, and this, he recalls, occurred “at one of the most tumultuous times in the market—you can just imagine the competitors swirling around!” Ranney recalls that B&Y won *IAs* Broker/Dealer of the Year honor five times, which he attributed to a rep-centric culture which resonates at Securities America. “I know you hear that a lot,” admits Ranney, but he says that at Securities America, “it’s true.”

When it comes to competition and providing support in the current volatile environment, this independent broker/dealer whose parent company is Ameriprise Financial holds its own partly through its wide adoption of a coaching approach, according to Janine Wertheim, the senior VP and chief marketing officer. Take, for instance, a program called Power Up that began in January 2009, in which for an hour every Tuesday advisors are invited to “work on the business rather than in the business.” Wertheim says 481 advisors have participated in Power Up as of early May, addressing such topics as how to manage expenses in the new environment, how to get in front of clients who aren’t hearing from their current advisors, and how to talk about rollovers. The coaches are from both Securities America and external experts. Wertheim says one popular session has to do with “the emotional component of what’s going on today,” where a psychologist talks about how reps can be an “emotionally intelligent advisor.”

Another program is called Next Level, Building the Million-

Dollar Practice, in which a coach from the home office, and a peer coach, walks reps through a five-segment program over a year’s time that addresses everything from how to differentiate yourself to how to move toward fee-based assets under management, to how to build a brand and a niche, and how to run an efficient practice. There are programs on public relations (PR Mastermind) and on marketing (JumpStart Marketing) using internal and external experts. “Once we attached coaching to the JumpStart Marketing program three years ago, and tracking the difference from advisors who had gone through the program,” reports Wertheim, “we found that those who implemented at least 50% of what we taught them, increased their [production] by 30% within the next six months.”

McWhorter says “we’re growing rather strongly through acquisitions of representatives both of smaller firms—we have a rigorous pipeline of small firms that are looking to be sold, and join Securities as a super-branch, not as a broker/dealer.” He notes plenty of interest from wirehouse brokers, and also reps from ING and AIG who “are restless and looking for somewhere to go because they don’t feel a future with those organizations.” Another coaching initiative helps Securities America advisors acquire other firms themselves, through the Growth by Acquisition program that began in 2007. Wertheim says 10 advisors are currently enrolled in the 12-week program “that prepares them from a due diligence perspective to look for particular candidates, and position themselves to negotiate with a particular firm to be acquired.” Parent company Ameriprise, “is the financing option: they’ll lend the upfront down payment to advisors if they’re purchasing a practice, up to \$500,000 at prime rate.”

Then there’s a program called HR Advantage, in which, says McWhorter, “we literally go out and become consultants on HR issues for our representatives, helping them hire and fire and put together business plans—we have a consulting service that will work with them for over a year to help them put together their business model to be more efficient and effective—we’ve seen 30% to 40% increases in the business through simple things like that.”

Reps at Securities America now have an option when it comes to clearing firms, thanks to the Brecek & Young acquisition, and McWhorter says that “having both Pershing and National Financial certainly helps.”

As for the future, McWhorter admits that “Bernie Madoff

turned the world upside down for a period of time,” putting “the whole trust relationship in jeopardy.” From a regulatory standpoint, McWhorter argues that with Mary Schapiro “moving over from FINRA to the SEC, we know the RIA world will change. There will be a level playing field,” but calls for “some agreement between the states, FINRA, and the SEC on who’s in charge of what and who’s going to tell us what to do.”

However, he posits that independent broker/dealers have to be

leaders “in educating representatives not only on being compliant, but how to be more sophisticated in dealing with their clients. The traditional models aren’t working anymore, and people have to be more innovative, but they also have to be better educated and understand what products are out there and how to use them. We have to keep helping our representatives grow intellectually and understand the business better. We can do that; it will be expensive, but it’s important that we take that role.” **IA**