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Rise of the Little Guy: LPL Financial Lures the Frustrated Off Wall Street

By RANDALL SMITH

Wall Street's reputation couldn't be much worse, and that's very good for business at brokerages eager to snag defectors from bigger firms.

One of the most aggressive outsiders in tapping dissatisfaction among brokers and investors since the credit crisis began is LPL Investment Holdings Inc. Its LPL Financial is nowhere close to a household name, but has grown into the fifth-largest U.S. brokerage firm*, with 12,294 financial advisers, including more than 5,288 that have come aboard since 2006.

Typical of the recent hires by the Boston firm is Jeff Fierce of Indianapolis, a 12-year Merrill Lynch & Co. veteran who left just after Merrill was acquired by Bank of America Corp. in January. The "last straw," Mr. Fierce says, was news that former Merrill Chairman and Chief Executive John Thain had sought a multimillion-dollar bonus for his role in saving Merrill as the company suffered staggering losses. Mr. Thain's unsuccessful move went against Merrill's tradition of putting "clients first," Mr. Fierce says.

John Duffy jumped to LPL Financial from Wachovia Corp. last October partly because he felt pressure to sell mortgages, loans and other bank products to his investment clients. Mr. Duffy, who had been a broker at A.G. Edwards Inc. for five years when it was acquired by Wachovia in 2007, was even more motivated by the ability to hang out his own shingle: Duffy Anderson Investment Management Inc. Wells Fargo & Co., which acquired Wachovia in December, says brokers aren't pressured to pitch bank products.

For brokers, one big lure of LPL Financial and other firms such as Charles Schwab Corp. and Raymond James Financial Inc. touting themselves as an alternative to Wall Street giants is money: Brokers at LPL Financial get to keep 80% to 95% of commissions on their trades, compared with 40% or less at bigger brokerage firms. LPL Financial brokers have to pay their own rent, employees and other costs, but can still come out ahead, the company says. Many of the brokers operate under their own mom-and-pop firm names, though some LPL Financial brokers also pitch investments through banks.

There is also no doubt financial blowups up and down Wall Street have weakened the appeal of traditional brokerage powerhouses. "The bloom is off the rose for the Morgan Stanleys and the Merrill Lynchs of the world," says Larry Papike, a brokerage recruiter in Jamul, Calif.

The big guys say their brokerage armies still benefit hugely from the firms' spending on brand-name marketing, office space, training, management, compliance and other back-office services.

Lyle LaMothe, Merrill's head of U.S. wealth-management, says brokers who leave give up "a global brand identity." Although Merrill has suffered losses of more than \$50 billion on toxic mortgages, the firm gained greater "balance-sheet size, scale and strength" when it was acquired by Bank of America.

In a sign of the enduring loyalty among Merrill clients, Mr. LaMothe says, the firm holds on to a larger percentage of clients whose brokers leave



Tom Baker for The Wall Street Journal

Bennett Marks, seen in his office above, is president of Marks Group Wealth Management, which clears trades through LPL.

Merrill to go independent than the firm keeps when brokers bolt to big-name competitors. "My guess is [going out on your own as a broker is] a lonelier, therefore more difficult, experience during challenging market environments," he says.

Mark Casady, LPL Financial's chief executive, says the company has been recruiting more of its top-producing new brokers from big firms since last fall. "There's no doubt we're reaping the benefit of the destruction of trust by Wall Street," he says.

LPL Financial was formed in 1989 by Todd Robinson, then a 32-year-old alumnus of Smith Barney, through the merger of Linsco Financial Group Inc. and Private Ledger Financial Services Inc. In 2005, Mr. Robinson sold a 61% stake to two private-equity firms in a deal valued at \$2.5

billion, including \$1.3 billion in debt.

Goldman Sachs Group Inc., which advised the buyers and played a lead role in the financing, kept an estimated \$220 million of a \$540 million bond issue in one of its bond funds, according to a person familiar with LPL's finances. Goldman is free to play such a role because it doesn't cater to the mass individual-investor market.

Since the buyout, LPL Financial has roughly doubled the size of its brokerage force via recruiting and a series of small and midsize acquisitions with price tags totaling about \$250 million in 2007. The acquisition pace has slowed, and LPL trimmed its work force early this year by about 10%, or 250 jobs, to help the company weather the stock-market downturn.

The downturn has already taken a toll on LPL Financial's revenues, which fell 19% to \$643 million in the first quarter. But the cost cutting helped boost first-quarter net income, which rose 27% to \$14.8 million.

Bennett Marks, who had worked in the brokerage unit of UBS AG and a predecessor since 1999, left last November to launch Marks Group Wealth Management, a Minnetonka, Minn., investment firm that clears trades through LPL. While he wanted to claim a bigger slice of commissions so he could build his business and do more for clients, Mr. Marks says his decision was "validated" by Lehman Brothers Holdings Inc.'s bankruptcy filing and bond-related losses of more than \$40 billion at UBS.

Curt Moe, one of Mr. Marks's clients, says he doesn't miss UBS because he put more value on the cohesive, loyal team that went with Mr. Marks to the new firm. Mr. Moe also recalls how another big-name brokerage firm where he had an account offered a line of house-brand products that he worried might not be in clients' best interest. Working with a firm like Mr. Marks's "removes that issue," Mr. Moe says.

*Based on publically disclosed information and announced mergers as of 12/31/08

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