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THEIR PHILOSOPHY: LET ADVISERS OWN THEIR BOOKS AND THEY WILL COME

Dennis Zank (left) and Chet Helck (right) of Raymond James

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Master Builders of RJA

Chet Helck And Dennis Zank Preach This Philosophy: Let Advisers Own Their Books, And They Will Come

BY ELIZABETH WINE

PHOTOGRAPHY BY BOB CROSLIN

'The client decides who they're going to do business with.'

—CHET HELCK

WHEN CHET HELCK WAS NAMED CHIEF operating officer of Raymond James Financial and head of the company's retail operations in early 2002, he was given a straightforward task: Grow the company. Raymond James & Associates, the company's employee broker-dealer unit, had been languishing—not even growing half as fast as the independent contractor side of the business.

Helck recalls that Chief Executive Tom James said to him: " 'Figure out how to get this business growing.' I looked at him and said, 'Why don't we borrow some of the best practices from that part of our business that has had this extraordinary success? Why don't we take those same factors and apply them over here and see if they don't work?' Guess what? They did."

Much of the firm's recent success stems from a simple formula: Provide advisers with an unusual degree of latitude—then get out of their way. Helck, 53, and RJA President Dennis Zank, 51, are the architects of the growing employee unit, and they credit this strategy for much of its progress. Indeed, recruiting has picked up as advisers come from the wirehouses to work here. And they tend to stay. Regretted attrition is less than 1%. They come to own their book of business and enjoy more freedom than they're allowed under the more traditional brokerage structure.

Each financial adviser, Helck says, "has their own interests, ideas about the way they want to do business. As long as they are high quality, with high standards of conduct, we want them to run their business the way they want to. If you have total control over your environment, you're happy, motivated. Happy people do better than unhappy people. That's a law of the universe."

The statistics confirm his assertion. The number of advisers has climbed 16% in the last five years to 1,005 as of March 31, up from 874 in 2002. Revenues for RJA's Private Client Group, the employee broker-dealer, have increased by nearly one-third during that time, jumping to $302 million in fiscal 2005 from approximately $228 million in fiscal 2002. The firm is on track to reach projected revenues of $360 million for the current fiscal year ending Sept. 30. (RJA also includes the company's equity and fixed income capital markets business—the entire unit has revenues of just over $1.1 billion.)

SOLVING THE OWNERSHIP ISSUE

The firm's attitude towards employee-advisers wasn't this enlightened before Helck and Zank's ascendancy in 2002. But it was in line with the rest of Wall Street. Helck's conviction that employees should have the same freedoms as independent contractors was born from his own days as an adviser. He believed that he—and not the firm—owned the relationship with his client.

So Helck and Zank concluded it was futile to try to hold advisers in line with the biggest threat in a company's arsenal: keeping clients should an adviser leave the firm. This stood in contrast to the industry norm of putting a temporary restraining order on advisers who try to contact their customers after leaving—and then unleashing a new team of brokers to contact those clients in the hopes of persuading them to stay with the firm. Even with such measures, Helck and Zank observe that clients generally leave anyway.

"The client decides who they're going to do business with," Helck says. "And to think that we can arbitrarily assign clients to people—it doesn't happen."

Therefore, if an adviser wants to leave RJA, he leaves with his clients as long as he meets three criteria: 1) he did not owe the firm any of the front money paid out when he arrived; 2) he was making a minimum of $225,000 in gross revenues per year; and 3) there were no compliance reasons for his departure. If the last condition exists, RJA has a fiduciary responsibility for the clients.

But not all observers consider ceding books to the brokers a position based purely on principle.

Andy Tasnady, a consultant with Tasnady & Associates in Port Washington, N.Y., who works with brokerage sales force management, sees it simply as savvy marketing. "This is a good plank in the broader marketing message that 'we're pro-broker.' You want your company to be a good place for brokers. Regionals grow primarily by adding more FAs—it's not that the original 20 brokers are doing $20 billion [in revenues]."

In addition, Tasnady says, targeting advisers who are disgruntled with wirehouse policies is a sharp competitive position. "A lot of firms, especially regionals, grow mostly from hiring people from wirehouses," he says. (Indeed, Zank says that half of the 142 experienced brokers he hired in fiscal 2005 came from wirehouses.)

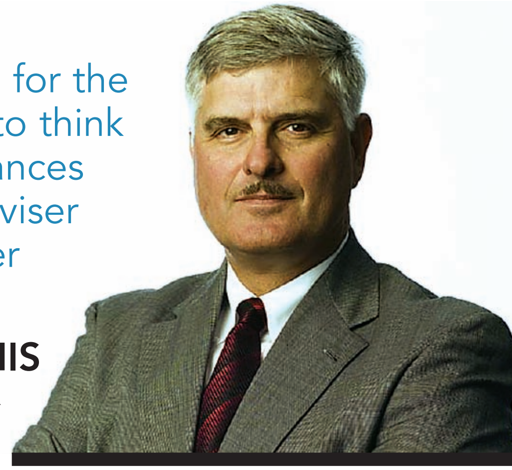
Danny Sarch, a headhunter with White Plains, N.Y.-based Leitner Sarch Consultants who works for many broker-dealers (including Raymond James), notes that RJA shows recruits a form letter that goes to their clients if they decide to leave. "The letter says, 'We assume you're going to move your account to Morgan Stanley' or whoever," says Sarch. "As opposed to other letters that say, 'Here's your new broker. We don't know what happened to your old broker.'"

Sarch cites another example of the firm's commitment to the concept of the adviser's ownership of the client relationship. In 2004, an RJA adviser died in a car accident. Sarch says standard practice in the industry would have been for the man's colleagues to mourn his death, then split up his clients amongst themselves. Instead, Raymond James calculated the value of the practice, sold the man's accounts to other advisers at the firm and gave the proceeds to the man's widow.

"That speaks directly to the idea of ownership," Sarch says. "It's unusual and in my view extraordinary to go to those lengths to say, 'When we say you own the book, you own the book.'"

'It's naïve for the industry to think circumstances for an adviser don't ever change.'

—DENNIS ZANK



Still, Tasnady says, it's difficult to gauge the impact the policy shift has had on the company's bottom line. Even if happier advisers are more productive, everybody's revenue goes up in climbing markets, Tasnady explains. And RJA's improvements date to the end of the bear market slump.

Tasnady also notes that the move could ultimately come back to haunt the firm. While the strategy is fine for an ambitious up-and-comer, once a company has arrived, he says, "it might not be so smart, because they might be letting business walk out the door."

FREE TO BE YOU AND ME

Raymond James also points to other commonly heard complaints among wirehouse brokers—like the pressure to ignore smaller accounts.

This has recently become another hot button issue as other big firms—including Merrill Lynch—have begun moving smaller, less profitable accounts from advisers in branches to call centers. In some cases, brokers have been told that while they may service smaller accounts, they won't be paid for such efforts. The aim is to free up advisers' time for bigger, more lucrative accounts.

But many advisers prefer to keep control of their relationships—regardless of size. Zank, who personally recruits brokers from other firms and meets some 300 a year, says this is one of the biggest bones of contention. "Who knows the client better?" asks Zank. "Me (the broker) or the firm? I'm the one who opened the account, and maybe we've been doing business for 10 or 15 years. Maybe you're a very modest account, but you're the best source of referrals for me."

And, of course, there's every adviser's dream: that today's modest account becomes tomorrow's big one when the client's Aunt Lucy dies and leaves her millions. The adviser is in a position to know that. The firm is not.

Zank adds that call centers often aren't in the client's best interests either, as they tend to be staffed by younger, less experienced brokers. Indeed, Merrill was fined $5 million in March by the NASD for allegedly failing to supervise employees at its Florida call center. (See Update on page 22.)

Another broker pet peeve is when changes in branch managers, as well as among the ranks of corporate management, occur frequently. "One day, there's a senior manager involved who's been running the business a long time, then they're gone, and somebody new is in," Zank says.

So RJA makes it a point to encourage branch managers to put down roots and become integral parts of their communities. "A lot of people who are running the various businesses here have been with the firm for a long time," Zank says. Case in point: The average tenure of an RJA branch manager is nine years. And the top managers at the company have been there far longer. Zank has been with the firm since 1978, while Helck arrived in 1989. Tom James, who turns 64 this month, saw his father co-found the firm in 1962.

Still other industry practices that cause dissent at wirehouses include "haircuts"—when a firm takes a cut of vendors' payouts to advisers on products—and inconsistent messages. Zank tells recruits that RJA offers freedom from all those practices.

The firm prides itself on training. With some firms, "one day, they're training new financial advisers, then six months later, they're not going to train people anymore," Zank says. RJA has a goal of hiring 150 new trainees this fiscal year, in addition to its goal of adding 100 experienced advisers.

PHOTO: RAYMOND JAMES & ASSOCIATES

'You cannot conclude that you, all of a sudden, lose control if you have independent contractors.'

—TOM JAMES

BROKER'S BOUNTY

Raymond James bolstered its freedom-oriented philosophy by creating a multitiered platform of employment options that allows for a significant amount of mobility within the system. Called AdvisorChoice, the program offers four business models, in addition to the employee channel: independent contractor; registered investment adviser; correspondent at a community bank; and a hybrid known as Advisor Select. In the latter program, an adviser can set up his own office outside the branch, but he is still an employee and is relieved of much of the administrative work. Except for Advisor Select and RJA, all of the options are housed under Raymond James Financial Services (RJFS). Together, RJA and RJFS has approximately 4,500 advisers in the United States.

The five choices run along a continuum that ranges from having fewer responsibilities for the administrative side of the business and receiving lower payouts to having more responsibilities and getting higher payouts.

The freedom to shift roles from employee to independent contractor to employee again, if desired, appeals to many advisers. Still, not many take the company up on the offer to change business models.

Zank says that he believes many advisers at wirehouses become frustrated with the practices at their firms and believe they have to go independent to escape them. So many come to the company to hear about the independent contractor channel—by far the biggest part of RJFS. But after learning about the firm's policies, most wirehouse reps opt for RJA.

HAPPY ADVISERS STAY PUT

	Number of transfers to RJFS independent units
2002	16
2003	21
2004	22
2005	7
2006*	**6**

* From Oct. 1, 2005 to March 30, 2006.

To Zank, this is because many advisers aren't entrepreneurial personalities. They don't want all of the administrative tasks that come with having total control over a business—like finding office space, signing leases, hiring support staff, dealing with payroll, procuring benefits packages, and so on. Many just want to work with clients and leave the administration to someone else.

During the last five years, an average of 14 advisers a year have left RJA to switch to RJFS, Zank says. "It's not so much actual value as perceived value" to have the menu of business models, he notes. "I put it in the 'nice thing to have' category."

That is not to say, however, that all of this is merely window dressing. "It's naïve for the industry to think circumstances for an adviser don't ever change," says Zank. "Circumstances in people's lives are always changing—getting married, getting divorced, elderly parents to care for. For us as a firm to say to people, 'Well, this makes sense for you today, but five years from now, maybe this might make more sense for you,' that is powerful."

THE BEST OF BOTH WORLDS

Chris Leeper, an adviser in Jacksonville, Fla., who joined RJA in September, typifies the frustrated broker whom Zank has been encountering.

He and his partner came from Robert W. Baird & Co., another regional firm, after researching their move for two years. Although Baird is much smaller than the big wirehouses, it had a similar corporate culture: The firm believed it owned advisers' books, and there was little mobility within the company. Leeper's team looked into Wachovia Securities, one of the only other firms besides Raymond James to offer several channels. But they didn't get the sense that there was much flexibility, Leeper says.

He and his partner originally thought they wanted to go independent. Yet after seeing AdvisorChoice, they realized that they didn't need to jump straight in. They have a fairly large team, but they don't have someone to oversee compliance—which they'd need to be independent. Now, they can have the firm handle compliance until the time comes when they can add their own staffer.

Leeper says they might never make the move. "A lot of things we wanted from being independent we could achieve here," he says. "But it's nice that it's there. Raymond James was a perfect fit because at any point we can say we're ready to move independent, and it won't be another transition for our client base."

Another thing they liked about Raymond James was the firm's willingness to allow them to brand their practice with their own names, which

Leeper says was unique among firms they researched. "That's very important because it allows for increased visibility in the community. That was a big reason for moving as well."

Not every adviser shares the same concerns. Mike Lauder and Mike Acampora were reasonably happy at Advest. But when it was bought recently by Merrill, they began to do due diligence on Merrill's platform to see how their niche practice would fit there. Lauder and Acampora specialize in helping sophisticated clients invest in the stocks of community banks.

They concluded that Merrill's platform wasn't a good fit, due to it being geared toward wealth management and not necessarily individual equities. In addition, Merrill had almost no coverage of micro-, small- and mid-cap companies, says Lauder. Finally, the firm had not historically been a big player in their sector in either investment banking or trading, which they required.

In comparison, Raymond James' platform seemed almost tailor-made. The firm has recently made a strategic push into small- and mid-cap stocks, with a focus on financial services companies.

Then there was the firm's hands-off culture. A key point for Lauder was that there would be no formal contract. "We were employees at will, allowed to be entrepreneurial as long as we were functioning within the rules, but effectively the clients and business are ours," he says. "That was not the case with other firms around the industry. We were comfortable with a corporation secure enough in their own corporate identity to realize their people are their best asset. And when people are allowed to do business as they see fit, they will be successful."

A STRONGER ORGANIZATION

Besides jumpstarting recruiting at RJA with Zank, Helck scored another major—though less noted—accomplishment, says CEO James. Helck brought the somewhat competitive employee and independent sides of the firm together. And that boosted growth.

"Chet brought together a common vision for the Private Client Group for the whole firm," James says. The change helped the retail brokerage in two ways. First, it led to the multitiered system that allowed the company to recruit from a single platform. "When they did that and consolidated the advertising, you got a much bigger impact on the prospective recruiting market and on the commitment of recruiters to tell the story of all the subsidiaries," James says. Then the advantage extended to the Private Client Group's relationship with RJF's other units. The group had a stronger, more united front when it spoke for both broker-dealer units to the company's operations department and other divisions. Before, James says, senior managers or department heads would make decisions independently. Now there is a more cooperative approach that has made the overall firm stronger.

The company certainly needed its strength for a high-profile battle with regulators that ended last year—a fracas concerning a Raymond James independent contractor who conned investors out of $44.5 million. The firm maintained that it shouldn't have been held responsible for the fraud, as well as failure to supervise, because the fraud was committed outside of the brokerage's business, and the crimes were simply conducted through the firm's accounts. The Securities and Exchange Commission saw it differently and fined the firm $6.9 million. At the time, observers said that Raymond James was treated more harshly by regulators than other firms in similar situations. Still, the firm has come out of the experience determined to make its technology and compliance systems cutting edge. And Tom James rejects the notion that granting more freedom to independent contractors and employees increases risk to the firm. "You cannot conclude that you, all of a sudden, lose control if you have independent contractors," he says.

With that, Raymond James is making sure that strong compliance and a pro-adviser philosophy go hand in hand. Helck notes: "We want to do things to help our existing FAs grow their business, to attract more clients, to do more business with their clients and to be more efficient." ■

BOOSTING BUSINESS

SOARING SALES

$

RJA Private Client Group Revenues

2002 • $228 million
2003 • $225 million
2004 • $265 million
2005 • $302 million

2006
$360 million*

*Projected. Company ends its fiscal year Sept. 30.

ADDING BROKERS

Total Number of RJA Financial Advisers

2002	874
2003	832
2004	840
2005	951

2006
1,005*

*As of March 31, 2006.

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