Another Small B/D to Close Up Shop

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By Diana Britton, [WealthManagement.com]

After five years in business, David Kassir, owner and CEO of Falls Church, Va.-based broker/dealer Manna Capital Management, closed up shop this month. He then joined Wells Fargo Advisors Financial Network as an independent practice, bringing with him $77 million in assets.

“There’s no way on Earth one or two people can run a broker/dealer and sustain in this environment and be profitable,” Kassir said. “Unless the regulations change, it’s a broken model and that we will continue to see … compression in the industry.”

More b/ds are following the same path due to, many say, increased administrative and regulatory burdens. Often, the principals of those small shops are moving on to larger firms.

In January 2013, Eagle One Investments wound down its operations and moved its 30 or so advisors to Securities America. Last July, LPL Financial announced a deal to recruit some 400 advisors from broker/dealer Financial Telesis. The group was restructured as an LPL office of supervisory jurisdiction (OSJ) called Global Retirement Partners. Around the same time, Knightstown, Ind.-based Dalton Strategic Investment Services joined Securities America as a branch office in July. And in March, First Midwest Securities closed up shop and joined Royal Alliance as an OSJ.

In fact, in the last 12 months ending February, 212 b/ds shut down, compared to 147 firms that were created, according to Fishbowl Strategies, which tracks new b/d formations and withdrawals.

“Small b/ds are looking for a way to get out from under,” said Jonathan Henschen, president of the recruiting firm Henschen & Associates. “The additional regulatory requirements are especially suffocating and expensive. They get between a rock and a hard place because they don’t have the scale to afford additional expenses, like larger broker/dealers can.”

Kassir purchased Manna Capital Management in May 2009 from an 84-year-old retired Marine colonel who was looking to retire from financial services. At the time, the firm didn’t have a website, and they were still paying for ads in The Yellow Pages. Kassir felt it was very antiquated; he put a lot of work into getting the firm where it needed to be from a marketing and branding perspective.

Just a few months ago, Kassir got a letter from Stifel Nicolaus, which recently purchased his clearing partner Sterne Agee. The letter said he had 30 days to find a new clearing firm, likely because he wasn’t generating enough activity for them.

“That was the straw that broke the camel’s back,” he said. “All they did is speed up my timeline. I’ve been looking for a way out of running a broker/dealer for some time. This was the catalyst.”

David Alsup, founder of Fishbowl Strategies, said small b/ds have a harder time finding a clearing firm these days because those firms need higher levels of trading activity to justify the costs they pay to the Depository Trust & Clearing Corporation. The DTCC charges those clearing firms just to house the securities, and also every time a stock splits or a dividend is paid.

Smaller firms also have a harder time tracking their brokers’ business, Henschen said, especially around variable annuities and alternatives. The restrictions on how much of clients' assets can go into those investments is getting more confusing, and there is pressure to track assets put into fee-based accounts to ensure the broker is generating enough activity to justify those fees, avoiding the so-called 'reverse churning' that can bring down the wrath of regulators.

While several years ago many small b/ds were simply closing down for good, this new wave of b/d owners want to stay in the business after shuttering. Henschen said it's attractive to these small owners to join a larger firm as a branch office or an independent practice; they no longer have the compliance burden of running a b/d, and they get the cache of a large firm's branding, such as Wells Fargo.

Kassir had about five reps at his firm. Rather than move them all over to FiNet, he sent them letters asking them to find a new broker/dealer. He wanted to focus more on working with his own clients than running his business.

Kassir said he was attracted to FiNet's technology, advisor training and practice management. He had built his practice by acquiring firms, and Wells Fargo may be able to help him structure future deals, he said.

"For 15 years, I've been using my own money to bankroll all these acquisitions," Kassir said. "Now I've got a financial partner that can do the analytics, that can structure the deal and perhaps fund the majority of the deal."