

LPL, Edward Jones Pre-DOL Rule Shifts: Smart Moves or Overreaction?

March 7, 2016

By Janet Levaux, [ThinkAdvisor](#)

Industry watchers share their views on the merits and drawbacks of such an approach by several broker-dealers

The financial-services industry is holding its breath in anticipation of the Department of Labor's new fiduciary standard. A couple players, though, have chosen to exhale and roll out pre-emptive programs.

LPL Financial (LPLA) announced Wednesday that it would cut prices and account minimums and launch a fund-only brokerage IRA option. And Edward Jones says it is in the pilot stage of a program to let clients with just \$5,000 "get guided support."

Do such moves make sense? Industry recruiters and consultants have mixed feelings, though at least one consumer group is pleased.

"It seems puzzling that a firm would roll out major changes to its platform in response to the DOL's fiduciary rule [when the] release is likely just a few weeks away," said veteran Wall Street recruiter Mark Elzweig, in an interview with ThinkAdvisor. "Why do this in advance of seeing the precise changes the new rule requires?"

Recruiter Jon Henschen agrees.

“I’m surprised that any changes would be implemented before we know what to expect specifically,” he said in an interview. “Perhaps this is being done for perception in order to look good to regulators as being pro fiduciary standards by making changes even before the rule is revealed.”

But Chip Roame, head of Tiburon Strategic Advisors, thinks it’s smart to get ahead of the game.

“One has to be impressed that LPL continues to keep innovating,” Roame explained in an interview.”

Overall, the consultant believes LPL made the right move to take steps now in anticipation of the new fiduciary standard, and is being innovative in launching a mutual-funds-only IRAS is an innovative idea.

Plus, lower account minimums – which the independent broker-dealer says it will drop from \$15,000 to \$10,000 for its Optimum Market Portfolios later this year – should “help more investors participate,” according to Roame. And lower fees “obviously allow investors to keep more of what they earn,” he says.

Barbara Roper, director of investor protection for the Consumer Federation of America praised these moves and those by Edward Jones, which should lower costs on fee-based platforms.

“LPL [is] predicting that costs would drop by roughly 30%, and [it] specifically cited the DOL rule as a motivating factor,” Roper said in a statement. “That sounds to me as though the rule is delivering benefits to small investors even before it is finalized.”

However, this could negatively impact broker-dealers and their shareholders, Henschen points out.

“Lowering the advisory costs by up to 30% sounds good to

regulators and participants, but how does it sound to stockholders when it results in earnings decreases after they're implemented?" he asked.

(LPL Financial's stock has been hurt by earnings and other concerns in the past few months. On Thursday, it rose nearly 10% to \$24.40.)

While we won't know for at least a quarter or two, the IBD's moves could end up boosting its business – or at least its reputation.

"I think that there are a few things going on," explained Elzweig. "First, major firms like LPL want their advisors to do more fee-based business anyway. The DOL is leading them in the direction in which they want to go. These tweaks make it easier for advisors to do fee-based business even with smaller accounts."

Furthermore, broker-dealers want "to stay in the good graces of regulators by showing them that they have a proactive compliance culture," he says.

And then there's recruiting. As of Dec. 31, the IBD says its affiliated-advisor count was 14,054, down 19 from the third quarter.

"LPL may also be trying to stake its claim as a go-to destination for advisors who want a DOL compliant platform," according to Elzweig. "That carries real weight in the independent space as many smaller broker-dealers lack the resources to get up to speed so quickly or at all."