LPL Shares Details on New Mutual Fund-Only Accounts

August 12, 2016

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The new accounts deliver 'cost benefits of direct business but with the ability to supervise that comes with LPL custody,' the firm says.

LPL Financial is sharing details with its affiliated independent financial advisors about the new mutual fund-only brokerage account it expects to roll out in the first quarter of 2017.

The firm says that new type of account "delivers cost benefits of direct business but with the ability to supervise that comes with LPL custody," according to a statement: It will have no IRA custodial fees or trading costs, should have an upload charge of 3 to 3.5% with a trail payment and is set to include a selection of products offered by mutual fund families.

LPL adds that it is "working with sponsors on potential to permit exchanges across this set of fund families without triggering new sales charges."

The broker-dealer said earlier this year that – due to the new Department of Labor fiduciary rule – it planned to end its mutual fund direct business on April 10, 2017.

"As part of our work on the DOL rule, we are planning to introduce the mutual fund-only brokerage account," Chairman & CEO Mark Casady said during a call with earnings analysts on April 28.

The company says that the new fiduciary standard creates a "heightened need to supervise and surveil all business done in connection with our broker-dealer."

Earlier this year, Casady acknowledged that some LPL advisors "have placed brokerage mutual fund investments directly with sponsors rather than with LPL to lower some investor cost."

The firm says "the direct business filled an important need for investors."

"Our new mutual fund-only brokerage accounts will have no maintenance fee, and all new mutual fund assets will be custodied with LPL," he explained.

"We believe this will lower cost for investors while also lowering sponsor cost and complexity by outsourcing custody to LPL. We expect it will be more operationally efficient and profitable for us to have these mutual fund assets in our custody," the executive added.

More recently, Casady noted that while reducing client costs, the new mutual fund-only brokerage account also "aims to … move more brokerage assets into LPL custody …"

"We anticipate all these product enhancements can improve our economics," he explained on a July 28 call with equity analysts after the IBD released its second-quarter earnings.

Advisor Issues

According to recruiter Jon Henschen, when financial advisors hold accounts directly at the fund company, the accounts don't entail costs such as IRA custodial fees, inactive account fees, systematic deposit and withdrawal fees, dollar cost average (or DCA) fees and ticket charges.

"If [a broker-dealer] can offer a brokerage account without those costs, no problem," Henschen said in interview. "Otherwise, advisors would rather hold the mutual funds direct."

The recruiter argues that BDs have the technology to track direct business. "My experience with BDs insisting that mutual fund business be held in a brokerage account is nearly always greater profits than if held direct," he explained.

Another cost tied to brokerage accounts are confirm fees, "with the cost to the broker-dealer being around $1 and they charge the rep or client $3-$8, so it's a big profit center," Henschen added. "Every time a rep makes a change in a client's account, a confirm fee is generated. Numerous firms have online confirms for the clients at a discounted or no cost, but many firms still do confirm [fees] via mail."

LPL says its new fund-only accounts will not entail IRA custodial fees, trading (or ticket) charges, inactive account fees or confirm fees. In addition, the IBD does not intend to charge a fee for "systematics."

"This is true for the initial set-up of the systematic, and we do not charge a confirm fee on systematic investments," it explained in a statement. The IBD also says that DCA fees are not applicable.

In the second quarter, LPL Financial's net income fell 5% year over year to roughly $48 million. Revenue dropped about 7% year over year to $1.02 billion in the second quarter of 2016.

Total assets on the platform are $488 billion as of June 30, up 2% sequentially. Net new assets in the second quarter were $2.8 billion.

The IBD says its affiliated-advisor count is 14,193, which is up 100 from the prior quarter, and average production (or yearly fees and commissions) per rep are $217,000, down 10% from a year ago but up 1% from the prior quarter.