Midsize Brokers Take On Big Guns With New – Creative Pay Packages

by Bruce Kelly and featured in Investment News
August, 2007:

New York – In order to take on the big boys of the independent broker-dealer market, some growing middle-tier firms are offering souped-up compensation packages in place of or along with big upfront checks.

The intriguing and aggressive aspect of the new compensation packages is that they are not simply upfront bonuses in the form of forgivable loans to reps and advisers, industry observers said. Instead, the packages stress reps' ability to increase and maintain their books of business once they join a new firm.

Firms with the new pay packages include First Allied Securities Inc. of San Diego, GunnAllen Financial Inc. of Tampa, Fla., and QA3 Financial Corp. of Omaha, Neb. Last year, First Allied reported $137.5 million in gross revenue, while GunnAllen had $136.5 million. QA3 reported $53 million in gross revenue.

“I get much more excited with a firm like First Allied than when a firm offers a big sign-on bonus,” said Jonathan Henschen, president of Henschen & Associates, a recruiting firm in Marine on St. Croix, Minn. “That's a Band-Aid,” he said. “This is a much wiser strategy.”

Better competitors

The smaller firms now are much more able to compete for representatives and advisers against such dominant players as LPL Financial Services of Boston and San Diego; Raymond James Financial Services Inc. of St. Petersburg, Fla., and Commonwealth Financial Network LLP of Waltham, Mass., industry executives and recruiters said.

LPL, Raymond James Financial Services and Commonwealth don’t offer fat checks to brokers to join their firms.

However, each has recently refigured either their compensation programs for big advisers or increased the amount of transition money the firm gives to advisers when they join.

Most notably, the independent broker-dealers of the Santa Monica, Calif.-based National Planning Holdings Inc. network and the Wachovia Securities Financial Network of Richmond, Va., have recently offered recruiting packages in the form of forgivable loans of 40% and higher of a rep’s prior 12 months’ fees and commissions.

The new pay packages at First Allied, GunnAllen and QA3 come at a time when competition for top reps is intense. The number of advisers with production of $500,000 or more who will switch firms this year is in the hundreds, not thousands, according to a study from Seattle-based Moss Adams LLP.

The new pay packages vary.

At First Allied, new recruits have the option of a one-time upfront bonus in the form of a forgivable loan or opting for the new pay program. In that, the firm promises advisers that it will increase their books of business by 40% in the first year.

If that doesn’t happen, the firm will pay the difference, said Joel Marks, chief operating officer at Chicago-based Advanced Equities Financial Corp., parent company of First Allied.

First offered last month, the deal is available for brokers and advisers with $250,000 in fees and commissions.

But the firm is willing to make it available to some up-and-coming reps with $200,000 in fees and commissions, said Mr. Marks, who added he is confident in the success of the new payout structure.

"We don't expect to be writing many checks," he said. Mr. Marks added that much of the growth advisers would experience would likely come through Advanced Equities Financial's wealth management platform, which the firm enhanced a year ago when it acquired Greenbook Financial Services Inc., a registered investment adviser and financial planning firm that so far has focused on doctors and physicians.

Meanwhile, GunnAllen and QA3 are boosting their payouts.

This month, GunnAllen began offering a 100% payout to reps and advisers with either $350,000 in fees and commissions or $15 million in advisory business on accounts they open with the firm in their first six months of affiliation.

Tying reps

GunnAllen will pay the 100% to advisers for their lifetime at the firm, said David Levine, senior vice president and director of national sales. Upfront bonuses in the form of a forgivable loan ties the rep to the broker-dealer, he noted.

The new offer "is geared towards attracting the rep with a book of business who doesn't want the handcuffs of taking a check," Mr. Levine said.

QA3 last month increased its payout on some fee-based advisory business to 100%, from 95%. Advisers, however, pay a monthly fee of $1,000 to participate in the program, but that fee potentially can be eliminated once the adviser reaches $30 million in assets under management.

“It’s a big recruiting tool,” said Teri Shepherd, QA3’s senior vice president