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Brokerages Drop Fees to Retain Top Clients

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By **AARON LUCCHETTI**

The battle on Wall Street for top-producing stockbrokers is turning into a gold mine for some of their clients.

In an effort to keep valued retail-brokerage customers from following their financial advisers out the door, [Morgan Stanley](#), Smith Barney and other firms are offering some clients discounted commissions on trades or waiving account-management fees.

While the details vary by firm and customer, some clients are being told they won't pay any fees for two years if they stick with the firm, according to people familiar with the situation.

At Morgan Stanley, which is expected to complete as soon as Monday its deal to buy controlling interest in a joint venture with [Citigroup](#) Inc.'s Smith Barney brokerage unit, fees have been waived for hundreds of brokerage clients, saving them in some cases \$15,000 apiece.



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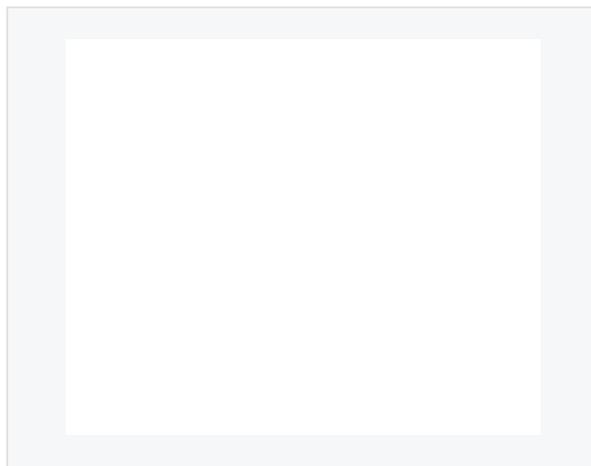
The headquarters building of Morgan Stanley in New York.

Morgan Stanley Chairman and Chief Executive [John Mack](#) has even jumped into the fray, telling brokers in March that he called one customer thinking about leaving the firm after the customer's broker had left the New York company.

The tug of war that erupts when highly successful brokers, traders and investment bankers bolt for a fatter paycheck is one of the oldest melodramas on Wall Street. But as individual investors become even more important to firms struggling to jump-start moribund businesses such as bond trading

and advising on acquisitions, money is trickling down to retail brokerage clients like never before, some analysts said.

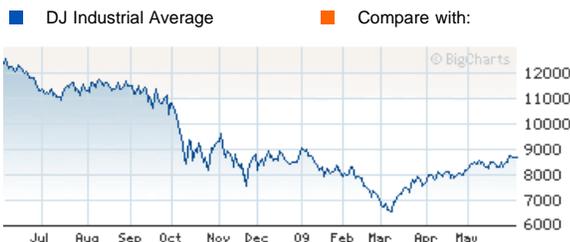
"It's turned into a market-share game," said Bing Waldert, a director at financial research firm Cerulli Associates.



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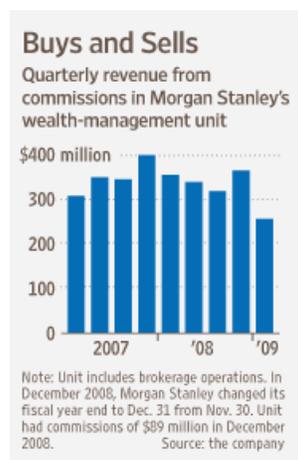
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Discounts are a small consolation to investors who have lost millions in the market downturn. They usually last six to 12 months, according to Darin Manis, chief executive of RJ & Makay, a recruiting firm in Colorado Springs, Colo. Firms often let branch managers decide whether to waive fees.

Smith Barney has recently waived or discounted fees for individual investors for as long as one year when their brokers moved to another firm, people familiar with the situation said.



Such moves are an aggressive jab at rivals such as UBS AG, which are paying millions to land big-time brokers. Matching the no-fee pledge deepens the hiring firms' financial hole.

Morgan Stanley and Citigroup are planning to pay brokers up to \$3 billion to keep them from being poached from their new joint venture, and the recruitment payments being made as brokerage firms raid each other for top talent can exceed two times a broker's annual revenue, according to industry experts.

Morgan Stanley, with more than three million clients, has been one of the most aggressive in eliminating fees for a small portion of clients whose brokers have left for other firms. Earlier this year, Morgan Stanley brokers in Philadelphia offered to waive fees for dozens of clients whose brokers had jumped to UBS, people familiar with

the matter said. The Swiss bank has been hiring brokers, who often bring 80% of their accounts with them.

Fees also have been dropped for some Morgan Stanley brokerage clients in Dallas, these people said.

In Philadelphia, Morgan Stanley manager Daniel Thompson told colleagues in a January email reviewed by The Wall Street Journal that "we will waive the fee for two years" for managed-money accounts that belonged to one broker that left for UBS in January.

In a February pitch, Frank Esposto, a Morgan Stanley broker, said he could waive management fees for two years, potentially saving the client about \$15,000. The offer was good only if the customer didn't follow his broker to UBS. Morgan Stanley has dangled fee waivers in only a few markets, said one person familiar with the matter.

The moves have helped lower the defection rate from what is usual when a broker leaves for a competitor, according to people with knowledge of the figures.

A UBS spokeswoman said that, overall, the firm's "first-quarter net new money figures for the U.S. wealth-management business suggest that clients are still choosing to come over here with their advisers despite what other firms may be doing to retain them."

So far, UBS hasn't responded by lowering its brokerage fees, a person familiar with the firm's strategy said.

Some brokerage-industry observers are skeptical that dangling freebies is an effective customer-retention strategy. "It sounds like a ploy," said recruiter David McCormack. Clients usually are more sensitive to attentive service and overall returns, he said. Fee-obsessed clients are more likely to use discount-brokerage firms anyway.

One big reason why Morgan Stanley is pushing so hard: It doesn't want to risk losing any momentum just as it is paying \$2.7 billion for its stake in the joint venture with Smith Barney, which will be the biggest brokerage firm on Wall Street by some measures.

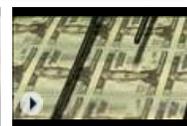
Credit Suisse analyst Howard Chen estimated this week that Morgan Stanley's wealth-management business will swell to 46% of the company's revenue, from 28% before the Smith Barney deal.

Brokerage firms still can make money off accounts with waived fees. With bond trades, for example, brokerage firms often make money on a markup that is separate from the overall fee. Some commissions can be excluded.

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A fee waiver "is not a guarantee" that clients will get better overall trade execution, said lawyer Jeffrey Liddle of New York law firm Liddle & Robinson LLP.

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