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Brokers Abandon Wall Street

By AARON LUCCHETTI

The number of brokers bolting from Wall Street is on the rise amid slumping markets and diminishing fees -- a trend that could augur lasting changes in the way individuals invest.

In April, more than 2,800 people registered as brokers in the U.S. left the industry, according to the Financial Industry Regulatory Authority. The total number of departures so far this year stands at 11,600. In 2002, the previous high-water mark for industry exits in the 15 years of data available from Finra, a total of 11,500 brokers left Wall Street.

At the current pace, nearly 35,000 brokers would exit by year end, which would leave about 630,000 registered brokers. The final tally will partly depend on whether the stock market builds on its recent rally, which likely would persuade some brokers to stick around. Part of this group, meanwhile, is simply being shown the door.

Despite the struggles of some less established brokers, experienced advisers who generate millions of dollars in client fees annually are still in hot demand and are being wooed with hiring bonuses by large banks.

In the week ended April 24, for example, Merrill Lynch, now owned by Bank of America Corp., hired 29 brokers. Cumulatively, the group had generated $42 million in production at their previous gigs, according to people familiar with the situation. The firm is offering one of the highest-paying recruiting deals in the industry for top-producing advisers who join.

Last month, UBS announced plans to let go about 600 lower-producing brokers, generally people who brought in annual fees of less than $260,000. The move will bring UBS's brokerage head count in the U.S. to about 7,900. But the firm also is hiring from the more elite ranks. Last month, it took on about brokers who each brought in more than $1 million in fees.

Morgan Stanley, which plans to acquire control of Citigroup's Smith Barney in the next few months, has watched about 1,200 of Smith Barney's 12,000 brokers leave since the deal was announced. While some have gone to competitors, others have simply exited the business.

Officials at several brokerage firms said a spike in defections is to be expected during a recession and that they are generally holding onto brokers who bring in the most commissions.

"We're making excellent progress on the joint venture and are pleased that a very high percentage of retention-eligible financial advisers on both sides have signed on," a Morgan Stanley spokesman said Tuesday. "The attrition we've seen is typical of down markets and no particular concern."

After massive trading activity propped up brokerage-firm results in 2007 and 2008, many brokers now face a phase of lower volatility and volume that stands to sap their income.

Brokers collect either a piece of the commission revenues they generate or a percentage of their clients' assets under management. That second form of compensation ebbs and flows with the market, and has been curtailed sharply since 2008.

T.C. Nelson, a former financial adviser and client-relations specialist at Bank of America, left the bank last May when new business started drying up. "It was tough to make money," says Mr. Nelson, 38 years old. "As soon as real estate started to pull back, you were kind of spinning your wheels."

In July, he also became an independent trader. More recently, he started looking for a second job that could give him better health-care benefits.

The recent exodus of brokers reflects lasting changes in the way investors save and their expectations for the market during the toughest conditions in decades. Despite the stock market's recent rebound, assets have moved out of stocks as well as many bonds that generally produce high commissions for brokers. Those funds have shifted to safer areas like money-market funds and insured deposit accounts that don't pay much, if anything, in commissions.

As a result, brokers, who generally pocket 30% or 40% of the fees they generate, are facing paychecks that are far below their best years. Independent financial advisers, many of whom aren't counted as brokers, appear to be leaving the industry at a slower pace, in part because many investors favor those who collect fees rather than commissions.

Banks helped spark the global economic decline, but until recently, the business of advising individual investors has held up well compared with more volatile trading and banking businesses. Attracted to the business's long-term stability, Bank of America, Wells Fargo & Co. and Morgan Stanley all announced or completed major deals to expand their brokerage forces in the past six months.

Even so, many brokers are hitting their breaking points.

"It's really hard to make it if you're in your first couple of years" in the business, says Darin Manis, chief executive of recruiting firm RJ & Makay. "Nobody wants to be invested" in stocks. And when brokers leave, he adds, clients are more likely to pull out their remaining balances.

Mr. Manis notes that brokers in recent months have had to hone their counseling skills as investors struggle with retirement goals and college payments. Many have taken their own financial licks from exposure to their parent firms' stocks. "It's a very stressful job during down periods," he says.

John Canale, a former Morgan Stanley broker, has been trying to give brokers an alternative. In recent months, he has brought several former brokers over to his proprietary trading business.

At his small Boston office, the recruits become traders who bet on stocks with their own money or capital from a trading firm. Mr. Canale tells his new colleagues that trading for their own accounts is easier than managing clients' money in a stock market that lost an estimated $7 trillion of its value last year.

"This is a recession-proof job compared to being a broker," says Mr. Canale, whose firm, called Blue Hill Capital, executes its trades through Bright Trading LLC. "When you're a retail broker, you just have to sit and wait for a bull market." Becoming a trader has allowed him to be more "nimble," he says.

—Brett Philbin contributed to this article.

Write to Aaron Lucchetti at aaron.lucchetti@wsj.com

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