TRAILING 12? TRY TRAILING THREE. RECRUITING BONUSES COOL DOWN.

Mar 26, 2009 4:31 PM, By Halah Touryalai

You know times are tough when recruiting deals are dropping across the board at major b/ds. Sometimes that trailing 12-month bonus is more like trailing three. And gone are the days of 260 percent (or more) trailing 12-month recruiting bonuses, recruiters say. These days, top players can expect about 225 percent—sometimes less.

The most recent example of this comes out of UBS, which says it has “reduced recruiting packages below industry norms.” The firm won’t say exactly what those “norms” look like, but industry recruiters say UBS is just following the lead of its rival firms.

“Most firms have pulled back on their deals. I think everyone will continue to drop the level of deals they’re offering. The next benchmark will get down to about 200 percent of trailing 12-month production. That’s where we’re heading,” says Darin Manis, chief executive of RJ & Makay a financial recruiting firm in Colorado Springs, Colo. Smith Barney is the exception to that trend, he says.

UBS recruiting deals soared as high as 265 percent of trailing 12-month production late last year. In February, however, million-dollar producers with 50 percent of their assets in fee-based business could expect 225 percent deals—all cash, 135 percent upfront and a 9-year note. Deals in March were dropped to about 220 percent with 120 percent in upfront cash with a 9-year note. “That’s fairly in line with what the rest of the industry is offering. UBS is just a little late in doing so, but they’re getting in line with their competitors,” says Howard Diamond, managing director of Diamond Consulting, a recruiting firm in Chester, N.J.

“Every firm has recognized that business is nowhere near as strong as last year, and therefore all the deals have dropped to reflect the new trailing-12 dynamic,” says Rick Peterson, president of Rick Peterson & Associates, a Houston-based industry recruiting firm. Perhaps nowhere is that more true than at Wells Fargo/Wachovia Securities.

According to one person familiar with recruiting there, the firm is basing recruiting bonuses on an advisor’s last *three months* of production instead of the last 12 months. Wells Fargo is taking the last three-month trailing production and multiplying it by 4 to get revised trailing 12-month run-rate number. If that revised figure is not 85 percent of the rep’s *actual* trailing 12, then the bonus is based on the revised figure and not the actual trailing 12—resulting in a less attractive deal. However, if the revised figure *is* at least 85 percent of the actual trailing 12-month production, then the rep gets a “normal” deal.

Some say the deal will turn reps off. “Brokers have a yearly mentality. Trailing three-month production is not a reflection of how they operate. It’s a knee jerk reaction by Wells Fargo. It puts them at a competitive disadvantage,” says one recruiter. “Wachovia already has a big outflow of brokers leaving the firm because they’re not getting retention packages. When advisors find out about this deal, it will just kill Wachovia’s recruiting pipeline,” says Manis.

But Diamond thinks more firms will look to basing recruiting bonuses on three or six month trailing production. He says, “Why are they going to pay for production that’s not relevant? Everyone’s book of business is down. Why pay for production numbers from before October 2008 when you don’t have to?”

Wachovia Securities declined to comment.

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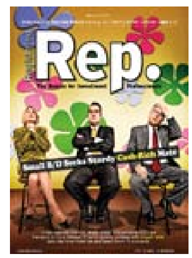

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