

# SENIOR CONSULTANT

The Voice of the Investment Management Consultant



## J.C. Bradford Merges With PaineWebber And Cites Internet Brokerage Changing Economics Of The Business

J.C. Bradford, the largest independently owned brokerage firm in the southeast and one of the industry's few remaining partnerships, has been acquired by PaineWebber. PaineWebber will pay \$620 million to acquire the Nashville, Tennessee-based securities firm with offices in 14 states. PaineWebber doubles its presence in the southeast with a new cadre of 800 highly accomplished J.C. Bradford brokers who are much like their own, primarily catering to the affluent client market with investable assets of \$500,000 or more. In this era of \$100 billion global mergers and acquisitions, the J.C. Bradford acquisition is not of sufficient weight to have global impact, but its significance is tremendously important in illustrating the direction of the U.S. brokerage industry and the underlying motivations and challenges facing the venerable old regional firms. The strength of the major quality regional firms is in their collegial, almost family, atmosphere. They have a strong identity of interest with their clients and their communities, provide highly personalized support and have engendered a

wonderfully warm rapport with their brokers. The forces at work which lead to the sale of J.C. Bradford, a first quality regional brokerage firm with an important southeastern franchise are instructive as to how the industry is evolving.

**THE SIGNIFICANCE OF THE J.C. BRADFORD ACQUISITION IS TREMENDOUSLY IMPORTANT IN ILLUSTRATING THE DIRECTION OF THE U.S. BROKERAGE INDUSTRY**

As a broker one would be hard pressed to find a better environment than J.C. Bradford in which to work. Yet, with the advent of internet brokerage which has forever re-priced trade execution, J.C. Bradford faced the prospect of the average price of a trade dropping from \$80 in 1998 to \$28 in 2003 to less than \$15 by 2005. The implications of internet brokerage are profound. It is not just that over the next five years, brokers will have to work five times as hard to maintain their present earnings, but the entire culture, structure and technology of the old commission brokerage industry must change.

Last May when Jeff Powell assumed the reins as chief executive officer from Jimmy Bradford, son of the firm's founder and namesake, there was not even a remote thought of merging or selling the firm.

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## SSB Loses Cusack To Schwab As It Gears Up Its Separate Account Management Business

Jeff Cusack, one of the most experienced senior persons in Solomon Smith Barney's storied Consulting Services Group, has been lured away by Schwab Institutional to become general manager of Separately Managed Accounts. Cusack will be working with John Coughlin, Gerald Graves, Phil Nicolaou and others who are shaping the technology, products and services that Schwab Institutional will be providing their broker/dealer, money manager and independent financial advisor clients. This small group of senior level managers at Schwab has arguably changed the course of the financial services industry and affords one of the most dynamic environments within the financial

services industry in which to work. They are not limited by conventional thinking and have the resources and intellectual property to challenge the rationale of the financial services business.

Schwab was the catalyst for the wide acceptance of internet brokerage and today's rapidly declining commission brokerage cost. It was Schwab that created the first mutual fund supermarket and the first zero-trading cost environment that was conducive to charging a fee for high level advice. It was Schwab that understood that financial products didn't add value; it is process or what you do with financial products that adds value. With Schwab's

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wish to explore any particular topic in greater detail, a list of recommended books/courses will be provided. If you're like me, then you want a "capabilities" discussion and don't have the time or desire to personally become expert or proficient. Rather, you'd rather leverage your time and efforts by hiring the right person to do the job for you. Therefore, the series will provide you with enough information for you to make "informed, more astute, decisions."

Topics that will be discussed during this series include:

- Choosing a web provider. There are good ones and bad ones, and you cannot merely rely upon their promises for good service.
- Developing a web page. Some of the major web-page development programs will be discussed. It is important for you to know which system your programmer is using. Some systems are significantly more cost-effective and user-friendly. There are a couple of popular approaches that will bog you down in the future.
- Tools you can use. A few of the financial tools available will be reviewed. How-

ever, we'll concentrate on other types of tools that will make your web page stand out, including streaming video and audio and interactivity.

- Hardware requirements. You don't always need the fastest machine available to do the job. We'll discuss what is nice to have and what is needed. This will also apply to your web provider.
- Questions to ask a developer. Throughout the series you will receive a series of questions to ask those you are working with. It will help ensure that you are receiving full value for the money you are investing in the project. You'll also know what performance guarantees and assurances you should have.
- Maintaining your web site. Web site creation is merely the first step. Once established, it must be made user-friendly and interesting to the user. Otherwise, people will only use it once or not use it at all. Furthermore, it must be regularly enhanced so that visitors (your prospects and clients) don't become bored with your site (and, by inference, with you).
- Do's and don'ts of web-based publishing.

- Keeping in contact with prospects/clients and how to use the web to expand your services to others.
- Creating a web identity that will be used in conjunction with other aspects of your marketing campaign. Marketing must be a coordinated effort. Therefore, other marketing ideas and approaches will be suggested which can be used in conjunction, or in lieu of, web-based approaches. Many such ideas will be introduced in the next few articles and then expanded in future articles.
- Identifying, for your viewing pleasure, some web sites that you may wish to look at carefully. The selected sites will illustrate the do's and don'ts of web marketing.

### In Conclusion

The need to establish a web presence is paramount for 21st century marketing. The choice isn't whether or not to do it, it is when will you do it, how effective you will be, and whether you will be a leader or a follower in our highly competitive, global business. ■

## SSB Loses Cusack To Schwab As It Gears Up Its Separate Account Management Business

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acquisition of U.S. Trust, they will provide the process and technology of high level advice to their 5,600 independent financial advisors. This marks the beginning of a new era in the financial services industry which is defined by the broad range of investment values the financial advisor can address and manage. As the industry moves from trade execution, Cusack brings the intellectual property that made Salomon Smith Barney the industry leader in the separate account management. Thus, Schwab is again positioned to trump the financial services mainstream by showing it how high level advice is more cost effectively delivered in its most powerful form, through the use of separately managed accounts. Cusack brings extraordinary credentials to the table.

Cusack was a divisional director of the Consulting Services Division of Salomon Smith Barney for the past 12 years. He was on the Operating Committee which ran the Consulting Services Division and was responsible for managing a quarter of the

U.S. market. He was on a task force that successfully executed a 50/50 joint venture with Nikko Securities to introduce mutual fund wrap fee programs in Japan. He was national product manager for Hutton Investment Management and national product manager for municipal securities and government securities, director of marketing for the Select Program and national production manager for Guided Portfolio Management prior to being named a divisional director. Cusack had been offered several opportunities to move back to the East Coast, but his home in Merrin County near San Francisco was where he wished to remain. When Schwab approached Jeff to assume a leadership role in separate account management that allowed him to remain in San Francisco, yet work on the national stage, it was too great an opportunity to refuse. He takes his many friendships at Salomon Smith Barney with him, and he remains one of the firm's most avid supporters.

The timing of Cusack joining Schwab to run separate account management could not be any better. Over the next 60 days, at least one firm will be announcing a breakthrough in the structure of separate account management which will drop investment minimums from \$100,000 to \$25,000. This will substantially broaden the application of separate account management, bringing it into the financial services mainstream. With separate account expenses running 50 basis points, including trading cost, they are just a quarter of the cost of mutual funds which run at 200 basis points, including trading cost and, with a new lower \$25,000 investment minimum for separate accounts, it is now possible for retail investors to gain access to institutional quality asset managers with as little as \$125,000 in investable assets. This will change the high-end of the retail market and the lower-end of the high net worth market where much of the assets of Schwab's 5,600 independent financial advisors are concentrated. There is an opportunity for

Cusack to substantially grow Schwab's separate account management business and cannibalizing much of its existing mutual fund asset base.

With mutual funds passing on fund expenses to the consumer that are four times that of the new separate accounts, the new \$25,000 separate accounts will not be a difficult sale for either the consumer or the independent advisor. The current advisory fee charged by the independent financial advisor is 1% to 1.5%, plus the embedded cost structure of mutual funds of 2%, including trading cost, for a total cost of 3.0%-3.5%. The new separate account will allow the total cost for advice, including the investment vehicle, to drop to 1.5%-2.0%. This would also raise the advisor's compensation by as much as by 50 basis points, in effect, giving the financial advisor a 33% to 50% increase in compensation. The new form of separate account management will take the financial services industry by storm, and Jeff Cusack will be at the right place at the right time with the right product. This new separate account phenomena also positions Schwab well relative to Fidelity, a significant competitor who must choose between building its independent advisor business or maintaining its margins in the mutual fund business. After a well-deserved week's respite in Palm Springs, Cusack will join Schwab on May 15 and will take a month to get re-acclimated and indoctrinated on the nuances of the independent financial advisor market. Schwab is particularly well-positioned with its acquisi-

tion of U.S. Trust to be a formidable player in the new emerging advice market. As commission costs continue to decline with the advent of internet brokerage, more financial advisors will come to the realization that they will have to be five times more productive just to maintain their earnings. Many will seek to engage their on-going

as the financial services mainstream becomes a high cost/low service provider of financial products and services, Schwab, in effect, will force the financial services mainstream to play to its weaknesses of little/no process and a high cost structure.

Much has been written about greatness being a function of one's time. Great presidents have typically had to rise to the occasion of war or economic depression, so their greatness is a function of their time and not necessarily of their leadership. But Schwab is unique in that it has largely manufactured an environment in which it can be one of the world's great companies. It created the mutual fund supermarket and a zero-trading cost environment which inspired the emergence of

the new advice business model. It is the dominant firm in internet brokerage which has driven down trading cost and is moving the financial services mainstream toward the new advice business model. It acquired U.S. Trust and its processes which puts it at the high-end advice business and ingratiate it to independent financial advisors who would like to gain access to the U.S. Trust process through which they would provide high level professional investment counsel for their clients.

This extraordinarily positioned firm that is about to make a breakthrough with Jeff Cusack, and separate account management is destined for greatness. This is what made Schwab "an opportunity of a lifetime" for Cusack and is what will continue to attract the industry's best and brightest. ■

**SCHWAB IS AN EXTRAORDINARILY POSITIONED FIRM THAT IS ABOUT TO MAKE A BREAKTHROUGH WITH JEFF CUSACK, AND SEPARATE ACCOUNT MANAGEMENT IS DESTINED FOR GREATNESS**

professional investment counsel for a fee. Yet, by doing so, the investment advisor assumes much more responsibility and must compete on the basis of the broad range of investment values they address and manage. This is a daunting task for the unprepared.

With U.S. Trust, Schwab has acquired a well-known brand for high level advice and a process through which it can empower financial advisors to provide high level professional investment counsel and value. Schwab is thus positioned to not only compete on the basis of the value it empowers its financial advisors to add but does so with a far lower cost structure than the financial services mainstream which has yet to reposition itself in culture, structure and technology from its conventional commission brokerage business model. So,

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