Volume 5, No. 4

Senior Consultant
The Voice of the Investment Management Consultant

[G r a p h i c   o m i t t e d]

Tony Greene, Leading Advocate for the Independent Advisor, Financial Planning and Fee-Based Advice, Retires from Raymond James

Stephen C. Winks

Tony Greene, the industry's leading advocate for independent advisors and an important figure in the evolution and development of the fee-based advice business model, has retired as founder, president and CEO of Raymond James Financial Services. In an industry where everyone is replaceable, Tony Greene is irreplaceable. No one in the industry has had a greater impact on the independent financial advisor. Tony's leadership was invaluable in the development of financial planning and the emergence of the independent financial advisor as a trusted and highly regarded source for professional investment counsel.

Tony was at Financial Service Corporation in the 1960s when John Bell Keeble, Dick Felker, David Vaughan and Alan Bonzer first conceived of financial planning. When the major Wall Street firms in the late 1950s and early 1960s were focused on the very wealthy who represented less than 5% of all U.S. households, Tony was at the forefront of the independent advisor movement and envisioned mutual funds as a means to serve a much larger market. Tony helped give traction to a fledgling mutual fund industry when Wall Street felt that mutual funds were inferior to common stock and removed assets from their custody. Tony pioneered the independent advisor concept with the regulatory authorities, making it possible for independent fee-based advisors and enterprises like Schwab Institution to operate as they do today. He worked with the IRS to assure independent contractor status for independent advisors. He worked with the NASD to make sure the Office of Jurisdictional Supervision considerations would accommodate independent advisors. He played an important role in defining financial planning in a digestible form and was instrumental in a large number of financial advisors building their entire practice around financial planning, thus engendering the term, "financial planner." He nurtured the growth and development of the IAFP and helped engineer the merger of the IAFP and the ICFP into the FPA. He has worked with regulatory authorities to definitively establish the quality of the independent advisor at independent firms as being every bit as good, using any regulatory criteria (complaints, settlements, etc), as the major Wall Street firms that treat their advisors as employees. John Keeble, the father of financial planning, calls Tony Greene the industry's leading statesman for the independent financial advisor.

John Keeble, the father of financial planning, calls Tony Greene the industry's leading statesman for the independent financial advisor.

When Tony joined Financial Service Corporation in the mid-60s, little did he know he was at the epicenter of a series of innovations which would eventually reshape the entire financial services industry. In the post-Depression, post-World War II market, the U.S. economy was the driving force of the global economy. The increases in the U.S. gross domestic product and the U.S. standard of living were unprecedented, and the U.S. stock market responded. It went from being undervalued, coming out of the Depression in the mid-40s, to being overvalued just before the traumatic 1973-74 correction and repricing. It was in this boom period of post-World War II rapid economic expansion and the accompanying rapid run-up in U.S. stock prices, that the concept of mutual funds, conceived in the 1920s by MFS, finally began to get traction with the general public. Investing captured the imagination of the average consumer with newfound disposable income. Investing began to become democratized. It was no longer solely in the realm of the wealthy. Tony Greene wanted to help people get rich, not just help the rich. With mutual funds, investing came within the reach of everyone. Concurrent with the growth of the mutual fund market was the conception of financial planning and the emergence of the independent broker/dealer as a credible and authoritative source of investment and administrative counsel to serve the independent financial advisor. These three

[Graphic omitted]

innovations over the next 40 years would change the course of the financial services industry. Tony Greene has played an integral role in engineering the convergence of these market forces and how they would reshape the larger financial services industry.

In 1958, when Bill Sharpe, Harry Markowitz and Rex Sinquefield at the University of Chicago were formulating modern portfolio theory (which would later drive investment management consulting), John Bell Keeble, an Atlanta-based attorney specializing in wills, income and estate taxation, and estate administration, and Dick Felker, the top broker at Robinson-Humphrey, were formulating what would become financial planning. Keeble envisioned a higher calling for stock/bond brokers, insurance representatives and mutual fund salesmen. He envisioned a "financial services organization" which would help investors with investments, with their wills as well as with ways to save income and estate taxes by creating a "comprehensive financial plan" which would incorporate all of a client's assets. Rather than selling individual investments in a series of disjoined, unrelated transactions, the "financial planner" would help the investor with all their investments, providing a much higher level of advice. (Keeble coined the phrase "financial services industry" and "financial planning," and is credited as being the "father of financial planning.") Keeble called financial planning the highest form of financial services sales. Mutual funds offered bank custodianship, diversification and professional portfolio management that was not otherwise available for most investors, especially the small investor. Life insurance tied to trusts, wills and estate administration played an important role in providing security for families who still remembered the ravages of the Great Depression of the 1930s. And for many tax paying individuals who were paying personal income tax at rates of as high as 90%, wise counsel in sound ways to reduce their tax liability was welcomed.

In the days before personal computers and self-correcting typewriters, all legal documents, all investment analysis and all income and estate tax calculations, analysis and preparation had to be done by hand. As a consequence, financial plans required an extraordinary assemblage of technical and administrative talent. To that end, John Keeble and Dick Felker started what would become the Financial Service Corporation (FSC) and its success was immediate. By 1968, FSC was generating 150 financial plans per month for its 300 financial advisors who stretched from coast to coast. David Vaughan, a former insurance executive, was an important collaborator to John Keeble in the development of the financial planning process, but Alan Bonzer, an attorney and CPA, was the ultimate genius in its delivery and execution. It was the untimely death of Alan Bonzer that began to make it clear to all that financial planning in its most powerful form is not something that can be outsourced to a third party. Regardless of how technically astute Alan Bonzer and his staff were, it was clear that financial planning must be practiced by those who actually manage the client relationship. Too much was being lost in translation when the advisor was taken out of much of the decision-making process. With a third party creating the financial plan and having to touch every aspect of its execution, financial planning became very expensive, very time-consuming and very cumbersome to execute. As a business responsible for providing third party financial plans for advisors, it quickly became painfully clear that you could never provide a high enough level of support for advisors unless you did it all, which would then make it not commercially viable as an enterprise. Though the level of counsel being provided by FSC Advisory Services, formulated by Alan Bonzer, was extraordinary, even by today's standards, the advisor and the client were never able to fully realize its full impact. The fee that FSC charged the advisor for the financial plan, $50 plus 5% of commissions, was also not sufficient to make the financial planning function self-sustaining. Thus, training the financial advisor to directly provide high level professional investment counsel became an important mission critical initiative of FSC. It was at this point that Tony Greene, a bright young man of 26, was hired to train financial advisors on a brilliantly conceived concept of financial planning, estate planning, investments and tax planning. This predates the formation of the IAFP by eight years. The advisors whom John Bell Keeble recruited and Tony Greene trained, would later become the core constituency that would lead to the founding of the IAFP in 1973.

Tony Greene was the first person to take the extraordinary body of knowledge that makes financial planning possible and package it so that it could become transferable

Tony Greene was the first person to take the extraordinary body of knowledge that makes financial planning possible and package it so that it could become transferable. This was the catalyst for extraordinary innovation in financial service technology that continues to this day. All the technical capabilities of Alan Bonzer and his staff had to be packaged so it could be delivered in first person by the financial advisor. Thus, the financial advisor became the value added.

It was soon clear to everyone that in pioneering financial planning, Tony Greene had a lot of important things to say. John Keeble notes that Tony quickly exhibited the executive ability that enabled him to move up the ranks in FSC. Even after the formation of the IAFP, the creation of the College for Financial Planning, and the establishment of the CFP designation and The Institute for Certified Financial Planners, financial planning was still at a very fragile state in its early formative years. It was only because of the work of its most passionate advocates that financial planning survived. When the capital markets took a downturn in 1969, which ultimately led to a severe market correction in 1973-74, J. Chandler Peterson's secretary became the de facto Executive Director of the IAFP. Tony Greene, John Keeble and many others kept the concept of financial planning and its enabling institutions alive. But, FSC, the much venerated innovator, was not immune to the difficulties brought on by a bear market and in 1975,

[G r a p h i c o m i t t e d]

and was forced to make some difficult financial decisions which would ultimately take the firm on a different course more focused on insurance sales.

Tony Greene had been given the responsibility to explore the range of options that FSC might pursue. His recommendation was to move the firm's then highly skilled financial planners to Raymond James, a small regional brokerage firm based in St. Petersburg, Florida. When FSC decided to pursue a different course of action, Tony and 12 of the firm's top financial planners joined together to form Investment Management and Research (IM&R), the independent broker/dealer affiliate of Raymond James, with a seat on the New York Stock Exchange. The name IM&R was actually an already established entity which had formerly housed Raymond James' investment banking enterprise, so IM&R became a repurposed entity which would now house Raymond James' independent broker/dealer.

Tony observed, "The aftermath of 1973-74 was so devastating that no one in 1975 could have had the presence of mind to have foreseen the extraordinary expansion in the financial services industry, which would later unfold," but Tony's instincts were right. The brilliant alignment of an independent broker/ dealer and a traditional brokerage firm allowed one support infrastructure at the brokerage firm, Raymond James Associates, to support and to be amortized over two user constituencies: the Raymond James Associates brokers and the IM&R independent advisor. In addition to reducing cost in a difficult operating environment, this configuration of firms both greatly elevated the level of support to which independent advisors had assess and made the traditional brokerage firm more dynamic in embracing products like mutual funds, broadening their business. In embracing financial planning and fee-based service, then very difficult in a stock- and bond-focused commission brokerage culture, Raymond James Associates became one of the most progressive thinking and innovative firms within the financial services industry. Twenty-five years later, First Union Services, now Wachovia Securities, would create, through acquisition its own independent brokers/dealers, the First Union Financial Network. Merrill Lynch has followed suit, as will many other progressively thinking firms. The independent broker/dealer structure, with a higher level of brokerage firm support, allows the traditional brokerage firm support menu, but the advisor's pay-out can be unbundled, so advisors could choose to pay only for the services they use and redeploy a larger portion of their revenues into people, processes and technology which are necessary for them to add value and to provide a higher level of service.

As you might imagine, in 1975, Tony Greene was way ahead of his time, and IM&R grew at a very rapid pace. Today, the renamed Raymond James Financial Services has 4,342 independent financial advisors in 1,500 branches and accounts for 71% of all retail revenue in Raymond James. Raymond James Associates, the traditional retail brokerage arm of Raymond James, has 995 brokers in 70 branches that account for 29% of retail revenue. Raymond James has large investment banking and asset management affiliates, which round out its total services. Tony Greene has largely been responsible for growing Raymond James into the top ten of U.S. retail brokerage firms. In hindsight, this may appear to be a natural evolution, but that is far from the case as Tony virtually reinvented the independent broker/dealer as he grew IM&R.

Tony Greene has largely been responsible for growing Raymond James into the top ten of U.S. retail brokerage firms

In 1975, the concept of the independent broker/dealer was not held in high regard by regulatory authorities or the industry. Independent broker/dealers were put in the same category as penny stock firms, which was in part a function of the quality of independent firms at the time and in part a function of the advisors the independent firms attracted. Traditionally, independent broker/dealers paid the advisor 80%-90% of their gross revenues generated, relative to a 25%-40% pay-out for the "full service" wirehouses and regional firms. The independent advisor is an independent contractor who places their securities licenses with an independent broker/dealer and is responsible for paying for their own office space, furnishings, technology, staff support, equipment, telephone, supplies, insurance and employee benefits. The full-service firm formally employs and licenses their brokers as employees and provides all supporting services for a lower pay-out. Because the independent broker/dealer only retains 10% or so of the independent advisor's gross revenue, the level of support provided cannot be on par with the full-service firm. But Tony Greene raised the industry redefining question: "What if an independent broker/dealer offered a high pay-out and the same level of service of a full-service firm?" Tony Greene and IM&R changed the independent broker/dealer business model.

Tony definitively established that if there is no difference in support infrastructure and a firm is very selective in choosing the independent advisors with whom it works, then there is, in fact, no difference between a "full-service firm" and an "independent broker/dealer" from a regulatory standpoint. Qualitatively, depending upon the financial advisor and the level of professional investment and administrative counsel they provide, either approach – full-service or independent – could be superior. Tony made it clear that high level investment and administrative counsel is far more likely in the independent advisor's practice, where the advisor controls the deployment of resources in process, technology and staffing, which can take their practices far beyond commission sales. In essence, because the advisor is the value added, they have a much greater latitude to execute within an independent advisor business model because they are not being constrained by their firm’s ability or inability to support high level professional investment counsel.

Tony was instrumental in creating Raymond James IAD, an affiliate that supports fee-based advisors who exclusively engage their professional investment and administrative counsel for an ongoing advisory fee. In the early days of financial planning there was some question as to whether fee-based advice was an economically viable commercial business enterprise without charging commissions because the client would not pay in hard dollars a fee large enough to sustain the professional counsel and necessary to support and generate the plan. Today with advances in process and technology, fee-based advice is not only economically viable but is the future of the industry. The transparency of account performance via the internet in concert with the rapid deterioration in commission brokerage rates (declining 60% since 1991) and the clear consumer mandate that value be added, suggest a more disciplined and structured approach to investing, which fully utilizes advanced processes and technology that is required if the financial advisor is going to add value. Raymond James IAD is intended to support fee-based advisors who, as registered investment advisors, generate all their compensation on a fee basis and may not necessarily even be licensed to sell securities. This market has been dominated by Schwab Institutional with Schwab serving 3,000 independent advisors, each averaging over $100 million in assets. This is a market that Tony Greene had a large hand in inventing and a market in which Raymond James financial advisors should have a major presence. This type of fee-based advisory service is also the future of the financial services industry. The industry is evolving from selling financial products for a commission to selling professional money management for a wrap fee, to addressing and managing a broad range of investment and administrative values for an on-going advisory fee. Thirty-five years later, it is not financial planning but an evolution to a much higher level of professional investment counsel, made possible by the convergence of Nobel Prize-winning investment theory and advanced systems technology. This fee-based advice business model, around which the financial services industry is about to be reordered for the next 50 years is largely built on a foundation that Tony Greene has built.

Tony has successfully removed most of the structural impediments that make it impossible for the financial advisor to add value. Notwithstanding the technological challenges of account aggregation, real-time information, and the investment process and methodology necessary to add value which each firm and advisor must resolve, Tony has taken the industry to a point where, ultimately, the skill of the financial advisor determines how much value is added for the investor. This favors the independent advisor as the advisor can go the extra mile for each of their clients in ways a large, major financial services firm cannot and/or will not go. Tony has left a legacy that will touch everyone who follows in the financial services industry, who hopes to help their clients make informed investment decisions. Tony Greene has built the framework and established the parameters in which the financial services industry is redefining itself.

Tony Greene has greatly elevated the independent investment advisor and has changed the course of the larger financial services industry. There are many talented individuals within the financial service industry who have made outstanding contributions, but there are few, if any, that have had such an important and lasting impact. Tony Greene is truly one of our industry's treasures. He has been on the side of the financial services consumer and the financial advisor. He has elevated the entire financial services industry and in doing so has left the financial services industry in a far better condition than that in which he found it. Tony is the epitome of leadership that is in such short supply today and will be greatly missed by all who selflessly put the investors' best interests before their own. ■

Notes

Senior Consultant

THE VOICE OF THE INVESTMENT MANAGEMENT CONSULTANT

Senior Consultant

1457 Crystal Springs Lane
Richmond, Virginia 23231
Ph 804-795-1642 ■ Fax 804-795-7703
WWW.SRCONSULTANT.COM