Fidelity eyes fees for its adviser referral program

Discount brokerage firm's efforts to link investors to outside advisers stumble amid downturn

By **Jed Horowitz** InvestmentNews
April 12, 2009

Fidelity Investments may lift the free ride it has been giving to registered investment advisers who participate in its client referral program.

The Boston-based financial services giant is considering plans to begin charging fee-based advisers who manage assets of wealthy clients referred from its discount-broker network. The move would put Fidelity in line with rivals The Charles Schwab Corp. and TD Ameritrade Holdings Inc., which already charge advisers to participate in their referral programs.

"We are currently evaluating and discussing this option with our clients," said a Fidelity spokesman, confirming reports from several advisers that they expect to be charged soon for participating in the firm's Wealth Advisor Solutions referral program.

The change would follow the arrival at Fidelity in January of Charles Goldman, the former head of Schwab's RIA custody business, and reflects the challenge that he and other financial service executives face as they attempt to maintain customer loyalty in the face of declining revenue.

Mr. Goldman, who jointly oversees Fidelity's RIA and correspondent-clearing businesses, said in recent interviews that he aims to close the gap between Fidelity's RIA market share and that of his former employer by improving customer service. He has declined to comment on Fidelity's decision late last year to shutter a five-person unit that acted as a liaison between its 126 branches and about 125 RIAs who qualify for its referral program.

Schwab, the largest custodian for independent advisers, has about a 25% share of the RIA market, as measured by assets, about twice Fidelity's share as the No. 2 custodian, according to people familiar with the most recent market survey by Cerulli Associates Inc. of Boston.

Officials at Cerulli declined to comment.

'TIMES HAVE CHANGED'

Daniel Banis, president of First American Trust FSB in Santa Ana, Calif., said his firm has participated in Fidelity's referral program since 2005, in large part because the custodian shunned the "pay-to-play" principle of its competitors.

"Times have changed," said Mr. Banis, noting that he'll have to review the options before deciding whether his firm will remain in the Fidelity program. "I certainly think that Mr. Goldman brings a lot of experience to the program and to the RIA marketplace, and is looking for ways to make things better."

Fidelity doesn't disclose asset levels in its referral program, but said new assets in the program declined 20% in 2008 from a record 2007. Given the difficult market environment, referrals were "in line with our expectations," a spokesman said.

Officials at Schwab and TD Ameritrade, which like Fidelity have dismissed hundreds of employees in recent months, said they are not planning to tinker with fees connected to their referral programs.

Schwab generally collects 0.25% of the assets referred to advisers from its brokerage network. The fee drops as advisers' referred assets increase.

Assets held by the 205 advisers in Schwab Advisor Network, and in a predecessor referral program, totaled $27.8 billion at the end of 2008, down 23% from the end of 2007, said Alison Wertheim, a Schwab spokeswoman. About $5.5 billion of assets were transferred to Schwab advisers from its brokers last year, up 29% from 2007, she said.

TD Ameritrade charges 0.15% of assets referred to RIAs. The Omaha, Neb.-based firm does not disclose RIA assets under custody, but said assets transferred to the RIAs in its AdvisorDirect referral program in 2008 inched up about 4% from 2007, while referrals that didn't necessarily translate to conversions were up more than 30%.

So far this year, referrals are down about 10% from the comparable juncture in 2008, said Brian Stimpfl, managing director of advisor advocacy and industry affairs at TD Ameritrade's Jersey City, N.J.-based custody unit.

Schwab and Fidelity declined to discuss trends this year.

Discount brokers have used referral programs to win goodwill from advisers suspicious that their custodians are competing with them for clients. They also offer referral programs to hold on to wealthy investors looking to graduate from their self-directed investment roots.

REFERRAL SLOWDOWN

But Mr. Banis and other RIAs said that capturing these clients has become more difficult since the markets began their prolonged plunge last summer. Reasons range from the obvious fact that account values are almost universally suffering, to the reluctance of wealthy clients to transfer accounts and change pay models amid the market chaos.

"Our branch partners say that any financial decision at this point is difficult for consumers to make," Mr. Stimpfl said.

Mr. Banis, whose trust company manages about $1.5 billion of assets at its RIA, said he's been feeling the referral pinch for a while. Conversions from Fidelity's brokers fell about 33% last year from 2007, and are off a little more this year, he said. Leads from Fidelity brokers are arriving at about the same rate as usual, but investors are reluctant to make the jump, he said.

Richard Stone, founder and president of Salient Wealth Management LLC in San Rafael, Calif., is having a similar experience with his referrals from Schwab. Assets are pouring into Schwab from investors fed up with full-service firms, but the clients that Salient targets, those in the $5 million to $20 million asset range, are sitting tight on cash positions rather than seeking guidance, Schwab brokers tell him.

"I suspect our referrals and conversions from Schwab were down 20% to 30% in 2008, and it's down in the same range this year," said Mr. Stone.

Salient, which has seen its assets under management slide to about $350 million from almost $500 million a year ago, typically reaps 20% to 25% of its new business annually from Schwab referrals, he said.

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