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MSSB hits small accounts with new fees

Marks latest move in wirehouses' effort to focus reps on top clients

By Jed Horowitz April 18, 2010

Morgan Stanley Smith Barney LLC this month began imposing quarterly fees of $35 on households with total accounts under $25,000, the latest development in big brokerage firms' long-simmering campaigns to wean financial advisers from small accounts.

The penalty may seem puny, but combined with rising commission rates, lower payouts on accounts under $300,000 and additional payout reductions on discounts to clients, brokers at large firms say it is increasingly difficult to maintain their practices. The issue is particularly acute in middle-class communities far from centers of wealth.

“My job, more than in the past, is to help clients not only make their way through the minefield of the economy and the markets but also the minefields the firm is laying on with charges here and there,” said one broker at a large firm, who produces more than $1 million annually from client accounts that average $500,000. Like other brokers interviewed, he asked not to be identified because of firm restrictions on representatives' making public comments.

A Morgan Stanley spokeswoman declined to comment on specific changes in broker payouts or client charges — some of which come as it harmonizes its platforms with Smith Barney's — but confirmed that as of April 1, a single pricing schedule was imposed for all accounts, products and services. Payouts for the two forces, which combined last May, were unified as of Jan. 1.

According to advisers at the firm, which fields the world's largest retail brokerage force at about 18,000 brokers, the changes include:

• Payouts on household accounts under $100,000 are limited to 20%, no matter how high a broker's total production, and ratchet down to zero on accounts under $50,000.

• Plain-vanilla, no-fee brokerage accounts have been converted to financial-management accounts (with checking account and credit card “privileges”) that carry a $150 annual fee for clients. The fee is waived on accounts of $1 million and higher.

• Advisers who discount commissions beyond 20% on discretionary accounts are subject to higher “hair cuts” on their payouts. For example, an adviser who rates a 36% payout on the firm's grid gets 29.5% on a $400 trade discounted by 40% to $240. A million-dollar producer on a non-discretionary, fee-based account under $250,000 is penalized for every point below 1.2% that the fee is discounted.

• Discounts for members of advisers' families have been severely limited or eliminated.

It is no secret, of course, that full-service securities firms have been phasing in punitive pricing policies on small accounts, said Mindy Diamond, a recruiter at Diamond Associates, who said she was unfamiliar with the Morgan Stanley changes.

Merrill Lynch & Co. Inc., now a part of Bank of America Corp., has shunted small accounts from brokers to call centers for more than a decade by using a combination of higher fees and lower payouts. The call center model, known as the financial advisory center, generally serves clients with a combined banking and investment relationship of less than $250,000, said Matthew Card, a BofA spokesman.

Merrill still makes plenty of money on $250,000 accounts but doesn't want advisers wasting time on them, said the longtime head of a multimillion-dollar team, who noted that Merrill essentially eliminates payouts on accounts under $100,000.

“Our clients retain full flexibility and choice on the type of relationship they have with us, with no minimum-balance requirements to qualify for a relationship with a dedicated financial adviser,” Mr. Card wrote in an e-mail.

Morgan Stanley's new policies are “highly competitive in the full-service marketplace and give [financial advisers] the ability to price their services based on the totality of their client relationships,” spokeswoman Christine Pollak wrote in an e-mail.

Some brokers said that they understand that their companies need to eliminate unprofitable small accounts in order to maintain their high-fixed-cost support systems, improve profit margins and satisfy shareholders.

The system imposes discipline, said one midlevel Morgan Stanley broker, who asked not to be identified. He noted that a 15% payout has meant dropping some sub-$100,000 accounts of clients he likes, but he also said that he is eager to continue discounting. “I really feel guilty over the commissions that the firm raised earlier this year,” he said.

To be sure, Morgan Stanley's payout changes have benefited some brokers.

For example, the firm is removing penalties on discounted trades that generate a final ticket charge of $350, as long as the discounts are “moderate.” The floor used to be $500 at Morgan Stanley, but the company has accepted the Smith Barney discount policy, several brokers said.

Discount-sharing penalties aren't by themselves make-or-break events for most brokers, said Rene Lorio, a former branch manager who is now a recruiter at AlpineCRS.

“It's another pebble in the shoe, but it can take quite a few of those before someone feels compelled to move on. For the home office executive looking at the margins, however, the numbers can really move up with even small discount limitations,” Mr. Lorio said.

The people really limited by such across-the-board restrictions, he said, are branch managers who at many firms increasingly have less say over the profit-and-loss controls that determine their compensation.

Regional competitors said they are helped by wirehouses' restrictive small-account policies and payout penalties that drive out lower-producing brokers, while discount brokers such as Charles Schwab & Co. Inc. are stepping up their pitches to emphasize “straight talk” and low fees.

“We've been the beneficiary,” said Scott McCuaig, president of Stifel Nicolaus & Co. Inc. “Brokers in a lot of the areas we service take care of the community, and in smaller communities, how many millionaires are there in order to get the bigger payouts? They love it that we don't have any nuisance fees and that we don't direct their business.”