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From The Headhunter

Entrepreneurialism Is the New Trend

By Dan Sarch
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Over the last twenty-five years, one of the overriding trends in the retail brokerage industry has been consolidation. EF Hutton, Drexel Burnham Lambert, Dean Witter, Shearson, Smith Barney, Legg Mason are all part of what is now Morgan Stanley Smith Barney. And I've left off literally dozens of predecessor firms that make up each of those parts. Wachovia, AG Edwards, Prudential Securities, Kemper, First Union are all part of what is now Wells Fargo Advisors. Once again, I've left off dozens of predecessor firms. It's easy to see how the average wirehouse Advisor can be cynical, now that there are only four big firms left, and say that it doesn't matter if you move: you'll end up back where you started anyway.

The retail brokerage firms were originally established as partnerships, much like law firms and accounting firms today. As the years went by, young partners who wanted to invest in the business for the future were put into conflict with older partners, who wanted to get their money out of the firm. That drove the firms to go public. The need to grow and to assuage shareholders drove the firms to merge (I'm simplifying).

The drive to "wring costs" out of the new mega-firms has created an enormous talent pool of managerial talent who are either out of work or disenfranchised with their new roles at the new firms. These talented men and women are making the effort to once again control their own destinies and go back to the old fashioned partnerships of yore. Four prominent ones are HighTower, Focus Financial, United Capital, and Benjamin F. Edwards and Company. In addition, every week we read about Advisors forming their own Independent RIA or Brokerage firm. There are groups of Branch Managers who are looking into opening their own shop and hoping to attract groups of their former Advisors. And there are many thriving regional firms, already with platforms comparable to the Big Firms, capitalizing on the dissatisfaction rampant in the mega-firm model.

It's a fascinating time for this industry.

Next column: Questions to ask yourself and your "start-up suitor" to see if it's for you.

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