VIZIONARY WEALTH MANAGEMENT
"Perspective for the Decisions Ahead"

The Weekly Note
A Weekly Market Commentary

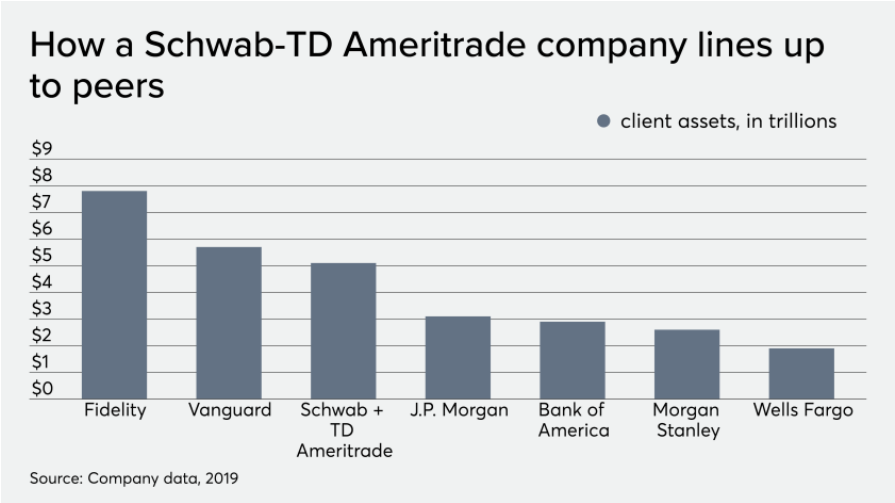
Monday, December 2nd, 2019

"Implications of Schwab Buying TD Ameritrade"

In a landmark deal for the investment management industry, Schwab came to terms with TD Ameritrade last week on a $26 billion all-stock deal. The deal, which unites the two largest publicly traded discount brokers, is expected to close sometime in the second half of 2020 with integration expected to take an additional 18-36 months. As part of the deal, Schwab will re-locate its corporate headquarters from San Francisco to the Westlake suburb of Dallas, close to where TD Ameritrade also held a large percentage of its employees.

For full disclosure, we partner with both TD Ameritrade and Schwab for custody of our client assets. Both firms, along with Fidelity, have been the go-to custodians for Registered Investment Advisors (RIAs) like us given their low trading costs, flexibility and technological capabilities.

Fidelity remains the largest asset manager, but over half of their assets are within their retirement plans division[1]. Given that Vanguard's business is predominately managed assets, the combined assets of Schwab & TD Ameritrade will now dominate the custodial market for both institutional (RIAs) and retail investors.



In terms of implications, it will be interesting to see how the roughly 7,000 RIAs who custody their business at TD Ameritrade will go along for the ride to Schwab. Many larger RIAs (like us) hold business with both, but TD Ameritrade had historically been a landing spot for smaller RIAs, while Schwab had generally been seen as reluctant to take on these smaller RIAs.

At this point, we do not know if we would need to re-paper any of our TD Ameritrade client accounts to Schwab, but doing so would likely cause more attrition for RIAs, who may use the disruption to consider other custodial options, so we are hopeful that this will not be the case. As precedent, when TD Ameritrade bought Scottrade a few years ago, clients were not required to re-paper accounts given the negative consent

clause built into the client agreement. Either way, we expect both sides to make the transition as seamless as possible to manage potential attrition.

Another question that remains is competition on pricing. Competition, like what we saw with the recent "race to zero" in commissions, benefits both retail investors and RIAs. Given that there still remains other players in the discount brokerage industry, like Fidelity, E-trade & Interactive Brokers, we wouldn't expect any reversal of these recently announced changes. Retail investors have shown their readiness to react to pricing competition, and the remaining players still exert enough size to influence Schwab moving forward.

As it relates to post-merger enhancements, we think Schwab would benefit from TD Ameritrade's platform technology, and it seems apparent based on communication from both parties that this technology will be integrated into Schwab's platform. We are also hopeful that TD Ameritrade's service capabilities will transition over to Schwab. As with most of these questions, time will tell.

Regardless, we will continue to evaluate our relationship pre and post-merger to ensure our clients are receiving the optimal service, execution & pricing. While the options have become more limited, we are not devoid of choices going forward. Cost compression has been a major tailwind for our industry for the past few decades, benefiting the all-in investment costs for our clients along the way. We don't expect that trend to change course even with last week's announcement.

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Source:

1. *https://www.fidelity.com/about-fidelity/fidelity-by-numbers/corporate-statistics*

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