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"WE'VE ARRIVED"

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Mark Casady, chairman and CEO of LPL

SUSAN ADLER

(From l.) Robert Moore, CFO; Mark Casady, Chairman and CEO; Bill Dwyer, president, national sales and marketing; and Esther Stearns, president and chief operating officer of LPL Financial.

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BY PAUL MENCHACA

The numbers are definitely imposing. LPL Financial is the largest independent and fifth largest U.S. broker-dealer, has 12,500 advisors, a 98% retention rate and its 2008 revenues of nearly $2.6 billion more than doubled those of Raymond James, its next closest competitor in the independent space. Twenty years after the San Diego–based company was formed through the merger of Linsco and Private Ledger, LPL appears to have lapped its rivals, leaving nothing in its rearview mirror.

"Over the last probably four years we've had a chance to increase in size quite well, around the lines of what we hoped for in terms of size measured by revenues," says Mark Casady, chairman and CEO of LPL. "What the market crisis taught us was that our scale has arrived. We've arrived as a company."

Scale comes up a lot when talking with LPL's management team. What is perhaps most daunting for the company's competitors is that the separation LPL has created between itself and everyone else in the independent space appears permanent. Its investments in recruitment, research, technology and service are almost unmatched. Although LPL's executive team mostly sidesteps questions about the competition—their gaze is focused internally, they say—one wonders if the company actually still has any rivals in the independent broker-dealer world.

"That ship has already sailed," says Larry Papike, president of Cross-Search, a recruiting firm in Jamul, Calif. "It used to be 10 years ago that Royal Alliance would compete head-to-head with them for who was going to be the biggest. Now LPL dwarfs all of the AIG broker-dealers. So I don't think anyone is going to compete with them."

Even Casady, hesitant as he is to talk about competitors, offers a sobering assessment of what it would take for a broker-dealer to match LPL's expansion. Through a combination of acquisitions and organic growth, the company now stands at two or three times the size of its next competitor, Casady notes. And he doesn't see how this can be replicated.

"They would have to invest hundreds of millions of dollars," he says. "It would really be tough for someone to say they're going to be like LPL. I don't know how they would do it."

But despite the company's tremendous growth over the last several years, despite its peerless stature among independent broker-dealers, LPL's place in the greater financial services world is perhaps not as clear as it would seem to be on paper. There is the lingering question of when LPL will finally launch its much-anticipated IPO. There is also the matter of public identity—the company is still relatively unknown outside of the independent world and most consumers have never heard of it. To be fair, LPL's management team insists that it puts no thought into becoming the second coming of Merrill Lynch—which, at the height of its powers, was, of course, a global and iconic financial services company. In fact, the firm has grown mostly outside of the big urban centers of commerce—focusing instead on the suburbs and rural areas in America.

"We never really think of ourselves as being in a certain place in a certain time. So we try not to say we're going to be this big or do these things by this date because it doesn't particularly work well that way," Casady says. "What we try to say is that at the end of the day we want to be the best broker-dealer in America as measured by our customers."

RECRUIT AND RETAIN

While riding in a golf cart across LPL's pristine campus in San Diego, it's easy to feel as though one has woken up in an Oz-like paradise. There is, obviously, the weather. The blinding sunshine, deep blue sky and warm desert air of the idyllic La Jolla neighborhood, where the company is based, are intoxicating. There are also those weird quirks, maybe peculiar to corporate life in California, but maybe just peculiar to a successful company in general—like, for instance, was that maintenance worker who just passed us actually riding a Segway? He was.

"We spent extra money on this passive lighting," says Bill Dwyer, president, national sales and marketing. He's standing on LPL's trading floor, where people are busy working the phones. And he's right: The lighting is much more muted than the normal harsh fluorescent bulbs that bear down in most office buildings. Dwyer mentions something about setting the tenor and tone just right in the telephones as well. It's all part of a quality-of-life initiative that LPL has emphasized.

"It's about seeing our advisors as customers," Dwyer explains. "It starts with the buildings."

That's another word that comes up a lot when speaking with LPL executives—customers. It takes a little bit of getting used to at first to figure out that they're talking about advisors.

"It's sort of the hidden story of LPL," Casady says about the company's rise to the top. "People think of the success of the company and you try to explain in the simplest of forms—it could be drive, it could be luck, it could be a lot of different factors. What it really comes down to is that we're focused maniacally on our customers."

This focus gets to the heart of the LPL story, which is its well-known, and much envied, ability to recruit and retain advisors. The company has more recruiters in the field than anybody else, Dwyer notes. LPL recruiters will visit a specific location where an advisor wants to set up shop to see how the advisor interacts with the local community, while also taking note of regional needs, including how the economy has affected the town. It is this "highly consultative approach" that separates LPL's recruiting effort from those of other broker-dealers, Dwyer says.

"I think I've been in every Denny's east of the Mississippi from back in my recruiting days," he adds, talking about meeting with advisors. "It makes an enormous difference."

Steve Booren, president of Capital Consulting in Greenwood Village, Colo., joined LPL in 1996 from Smith Barney and is a member of the chairman's council, which represents LPL's top 1% in service and performance.* He credits LPL's deep resources, from technology to research to support, as being catalysts for helping him grow his firm.

"They really get it," he says. "They understand the relationship the advisor has with clients and they honor that. They treat the advisors as their clients and that's really big."

Booren recalls that Todd Robinson, LPL's former chairman, used to greet him by thanking him for his business. He says it's a culture that continues today with LPL's current management. Executives from LPL often refer to Robinson's "Commitment Creed," which is a mission statement that may or may not have been written on the back of a napkin while he was on an airplane. The statement is essentially LPL's oath to its customers, or advisors. "Our customers rely on us to help them prosper. It is our job to do so profitably," it reads in part. It is in every office, and was even erected on an 18-foot-high pavilion at LPL's national conference in San Diego this year.

"They live it, Booren says. "They ask us for our feedback and if they're falling down they want to know about it. They eat their cooking."

LPL's recruiting dominance should continue to strengthen as the disruption caused by the market meltdown has led many wirehouse brokers to seek a fresh start in the independent space. Esther Stearns, president and chief operating officer of LPL Financial, says the company normally recruits equally across the four platforms—wirehouse and regional firms, banks and credit unions, insurance company-owned broker-dealers and independent firms. In fact, Dwyer calls LPL the "true melting pot of the industry." Lately, though, as Casady acknowledged to *The Wall Street Journal* in July, the company is "reaping the benefit of the destruction of trust by Wall Street."


"In every industry, it doesn't matter what it is, middle-size companies don't do well," says Mark Casady, chairman and CEO of LPL.

Dwyer believes that the move away from large, manufacturing-oriented wirehouses to a "trusted local provider" will continue. "They're the guys sitting there grabbing all of these hybrid broker-dealer-type advisors who are not totally entrepreneurial," says Timothy Welsh, president and founder of Nexus Strategy, a San Francisco-based wealth management consulting firm. "If you need some help, you need some software, you want to call a research desk and you're just used to that model, LPL is absolutely the home for you. This is basically very similar to the New York wirehouse model from Merrill and Smith Barney. They will grab nine out of 10 advisors coming out of the wirehouses."

LPL also offers a generous compensation plan. In 2007, the company raised the payout for top producers to 98% from 92%.** Last year the company reduced ticket charges, raised its payout for more reps and lowered administrative costs on its advisory platform. Dwyer says these changes put an extra $43 million in advisors' pockets in 2008, compared with what they would have earned based on the 2006 compensation structure. In other words, it's no surprise that LPL has been able to clean up on the mess Wall Street left behind.

"Nobody [at LPL] ever put out a bullet-point business plan that said 'wait for Wall Street to melt down and then we'll execute on it,'" Welsh says. "But it did happen and they can execute like no one out there.'"

BENEFITS OF SCALE

In the 20 years since LPL Financial was formed through the merger of Linsco and Private Ledger, the company's rise to the top of the independent broker-dealer world has been accelerated mostly by organic growth, executives say. But the company has also made some key acquisitions over the past several years, including three broker-dealers in 2007—Mutual Service of West Palm Beach, Fla.; Waterstone Financial Group of Itasca, Ill.; and Associated Securities of El Segundo, Calif.

"Part of what we sought to do with scale is give ourselves options—to think about the way the world works for companies that have more resources versus companies that have fewer resources," Casady says. "In every industry, it doesn't matter what it is—you can make steel or you can be a broker-dealer—middle-size companies don't do well. Large companies do well and small companies serve a niche and are fine."

So when LPL was a midsize company with about $20 million in assets under management several years ago, it began investing in resources to get bigger and to help its advisors grow and expand their reach. Stearns says that her 13 years at the company have "been a very continuous process of investment." This has meant hundreds of millions of dollars devoted to new technology, including BranchNet—a proprietary web portal that also serves as the core operations and trading platform—and ClientsFirst, an all-in-one program that provides LPL financial advisors with the resources needed to generate an effective client prospecting and retention campaign. It also meant taking the entire company self-clearing in 2000. The three broker-dealers LPL acquired in 2007 were also brought onto its clearing platform this year.

Whereas LPL's focus in the early part of its history was to help advisors run their businesses more efficiently, Stearns says the firm spent the years before the market downturn investing in resources to help advisors grow. "This has differentiated LPL in the independence space because we've been able to transcend investing only in efficiency and processing," she says.

Late last year LPL rolled out its hybrid RIA model. The company had a sizable fee-based program since 1991, but that was under the corporate RIA. (LPL has roughly 9,900 advisors operating under the corporate RIA banner.) Stearns says LPL worked for about five years before deciding the time was right to enter the pure RIA space. After developing the right capabilities, assuring it had the right economics and building up enough scale, the company took the plunge. It named Gary Gallagher, a former senior vice president at Fidelity Institutional Wealth Services, head of RIA Services. As of Sept. 30 the company had $6.1 billion in assets under management in this space, with 97 RIA firms representing 418 advisors.

“I think we are uniquely able to create integration for fee- and commission-based business,” Stearns says. “While I think a lot of people would like to emulate it, it would be hard because we built up the infrastructure from a common base over all these years.”

As much as LPL has grown over the past decade, opportunities still remain. The economic meltdown has opened up the possibility of further consolidation within the industry. Having already made some smart acquisitions over the past several years, will LPL consider taking on some more? Casady says LPL will look at software companies and other services that can be added to its platform, but it is not looking to make any big purchases.

“We’re actually not that excited by acquisitions as a company. At the end of the day we view that we’ve done the ones that got us the scale, and we’ve achieved what we wanted in the banking channel and with independents,” Casady says. “That’s a big deal to have gotten to that point.” He adds, “Consolidation has already occurred [in the industry]. I think the clear winners are there and we’re a clear winner.”

GOING PUBLIC

In a meeting with *Financial Planning* in June 2008, Casady said that the company’s growth efforts were meant to position LPL for an initial public offering within two to three years. “The right place for this company is to be a public company,” he said.

Anyone who watches these things knows that this is the only logical endgame for LPL. This is, after all, a company that, in 2005, sold a 60% ownership stake to two private equity firms—Hellman & Friedman and Texas Pacific Group. Now it’s a matter of when, and the rumors are flying. Options grants are scrutinized, as is headcount. But the actual timetable is anyone’s guess.

“I don’t want in any way to make light of how important a choice it would be and the impact it would have on the company,” says Robert Moore, chief financial officer for LPL. “But if you sit where I sit and you are involved in the kind of conversations we are in, you think about that in terms of a step in the corporate journey.”

Moore already sees LPL as a public company. It has more than 500 shareholders, which means that LPL already files 10-K and 10-Q forms and complies with Sarbanes-Oxley. “So a lot of what people think about in terms of what it is to be a public company we live every day,” Moore says.

He adds that “it would get a lot of attention and people would be drawn to it,” but a public offering would not constitute a shift in strategy. It would actually emphasize LPL’s current strategies and priorities because these would be the things that lead to a successful listing and a sustainable track record of performance, Moore says.

The company has a sense of what it should be worth in relative terms, he adds, though he did not disclose this estimation. He is also tracking the dynamics at work in the marketplace to evaluate when conditions might be best suited for an IPO.

“We cannot put a definitive time frame around when we might be listing our stock,” Moore says. “There are too many variables at work that remain unknown and have to be addressed to land on that. But it is without a doubt an important emphasis for us on the overall corporate journey that we’re taking. So it is within the plans and it is something that we will look to do.”

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IS BIGGER BETTER?

Here’s a very unscientific way to gauge the status of the LPL brand: Run a Google search on LPL Financial. What you get are numerous job postings, articles from various trade magazines and a fairly brief Wikipedia entry. It can be easy to forget that, as big as LPL is in the broker-dealer world, it is still almost unknown among consumers.

“LPL Financial is nowhere close to a household name,” *The Wall Street Journal* wrote in a July article about how independent firms are grabbing market share by luring in disgruntled brokers. The name of the article? “Rise of the Little Guy.”

Welsh says the lack of name recognition could prevent LPL from attracting some of the high-net-worth accounts that go to Fidelity and Schwab. According to *Financial Planning*’s latest broker-dealer survey, roughly 86% of the accounts on LPL’s books in 2008 were worth $50,000 or less.

“The problem is that no one has ever heard of LPL,” says Welsh, a former director of business consulting services for Schwab. “What is Linsco/Private Ledger? Is that my accounting firm? Who knows? They advertise like crazy in the trades, so the broker-dealer community knows about LPL, but the $10 million end-investor has never heard of it.”

But Dwyer disputes the notion that LPL should be making a concerted effort to grab the high-net-worth (HNW) market. He argues that the company has built its business to be successful serving both smaller clients and HNW clients. He notes that many firms felt that to drive their profitability they needed to work with advisors who did more production, so they raised production minimums on their

Bill Dwyer, president, national sales and marketing, says LPL targeted the small markets other big firms abandoned.

advisors—and that in turn typically drives up the net worth of the clients.

"When you service all across the country, what you're going to find, especially in rural America, is that the average investor in Logansport, Indiana or Spearfish, South Dakota is going to be smaller," he says. "Since we didn't abandon those markets like a lot of major firms did, we're going to open a lot more of the smaller accounts than most major firms are. Most of the major firms are really in the big metropolitan markets. We're in suburban and rural America. In addition to that we're also in the major urban markets."

For Michelle Feland, president of Private Wealth Group, a Fargo, N.D. firm with $30 million assets under management, latching onto a firm with broader name recognition has proven an important business step. After five years with LPL, she left for Raymond James in March 2008.

"The timing was great when we joined [LPL]," Feland says. "But basically I was looking for more backup and support. LPL was getting massively huge. Raymond James was smaller but had the amenities that a wirehouse has."

Just as important to Feland is the fact that she is looking to take Private Wealth Group in a new direction: fewer clients, with greater net worth. She has found the more recognizable name of Raymond James useful when pitching HNW prospects. "I don't normally care about the brand, but the Raymond James brand builds credibility right away when I approach high-net-worth people," Feland says.

Adds Welsh, "All you have to ask is, which football stadium is named for LPL? Raymond James, which has the same business model, has a football stadium named after them in Tampa."

…WIN FRIENDS AND INFLUENCE PEOPLE

Before Doug Lockwood, principal of Harbor Lights Financial Group in Manasquan, N.J., verbally committed with his partners to joining LPL in February 2008, he wasn't sure he was ready to make a move. He and his partners wanted to get the firm's growth above 25% and build its fee-based business. Although they had been happy with Royal Alliance, they felt the technology had become stagnant. (The decision to leave was made before AIG, Royal Alliance's parent, began to unravel.)

After visiting with LPL's management in San Diego on a due diligence trip, Lockwood and his partners were basically sold. Lockwood was especially struck by the services center, which advisors call when they need assistance. The center has big screens in the room tracking the success rate in handling an advisor's question on the first call—the goal is to accomplish this in 30 seconds or less. The success rate on the day Lockwood visited was between 90% and 95%.

"I wake up almost every day feeling like it's Christmas morning," Lockwood says. "The resources are so deep inside LPL that we find something new every day."

Harbor Lights Financial Group built its fee-based business from zero a few years ago to $85 million assets under management today. It has been looking to add more financial advisors and has been relying on LPL's research and studies to calculate what to pay new advisors at their production level. "It allows us to build our business without having to hire a lot more staff," Lockwood says. "So there is economy of scale."

Casady says one thing that scale has brought to LPL, and what has been very helpful in the last year, has been the ability to get its message out. Since the market collapse, LPL has been able to do "tremendous things in research and marketing" and proffer advisors information they can take to their clients.

"There's this whole new chapter going on in the world and in that chapter the world has changed completely around us and financial advice is being rewritten," he says. "And we think that we're in a position where we can help influence the way financial planning is done forevermore. That's a great place to be and we worked hard to get the company to the point of having that influence." FP

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* Based on year end total gross production.
** Based on aggregate annual production.

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