

Does LPL's filing reveal an unspoken truth about indie B-Ds?

EC registration by LPL reveals big gaps between wirehouses and independent brokerages

By **Bruce Kelly**, June 15, 2010

When it comes to controlling client assets, LPL Investment Holdings Inc.'s recent IPO registration offers clear proof that the remaining four wirehouse broker-dealers still dwarf the more diverse galaxy of independent broker-dealers. That stark difference appears to extend to income generation as well, even though the 1,200 or so independent-contractor broker-dealers in the U.S. have experienced tremendous growth in the past decade.

According to information in the initial-public-offering registration, which LPL filed with the Securities and Exchange Commission on June 4, there are about half as many wirehouse reps (55,000) as independent reps (114,000). Despite their fewer numbers, wirehouse reps control a far bigger pool of client assets than independent reps. According to data in the registration supplied by industry consultant Cerulli Associates Inc., reps at wirehouses manage \$3.95 trillion in total client assets, while independent reps oversee \$1.8 trillion.

Thus, a wirehouse broker controls, on average, \$71.8 million in assets. That number is closer to \$16 million for independent reps.

The data supplied in the LPL registration also reveals a sizable gap in income between the two camps. Typically, reps of both stripes generate around 1% in fees and commissions on client assets. But wirehouse reps usually receive an average payout of 40% of those fees and commissions. Independent reps tend to get about 85%.

Based on those assumptions — and using the Cerulli data — the average wirehouse rep earns \$287,200 annually, before taxes. The average independent adviser? Less than half of that — \$134,300. (At LPL, the average [payout per rep is \\$155,360, according to the most recent InvestmentNews independent broker-dealer survey.](#))

Of course, with 12,000 brokers and advisers, LPL has unusual heft for an independent broker-dealer. Not surprisingly, the company's management played up that point in the filing as it looks to convince investors LPL can play with the big boys: Morgan Stanley Smith Barney, Bank of America Merrill Lynch, UBS Financial Services Inc. and Wells Fargo Advisors LLC.

In fact, LPL, which was acquired by two private equity firms in 2005, stated in the registration that its payout to independent contractor reps far outweighs that of the wirehouses, giving the company a competitive advantage. “Because of our scale and efficient operating model,” management noted, “we offer our advisers the highest average payout ratio among the five largest U.S. broker-dealers, ranked by number of advisers.”

But what is not clear in the IPO registration is the number of \$1 million-plus producing brokers who wanted that high payout and joined LPL from wirehouses since 2005. The filing does not include information about LPL's hiring of wirehouse advisers.