Registered Rep.

Training Brokers Not to Flunk Out

By Michelle Leder

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It hasn't been an easy introduction to the brokerage business for Jody Carmack, let alone any of his classmates who started training at Edward Jones in January of 2001. But after knocking on door after door, Carmack says it is finally begun to click: Each month, he's now adding about 15 new accounts and $15,000 in gross production — better than many of his classmates. He estimates some 40 percent have left the brokerage business.

That's about average, according to the SIA, which estimates that the turnover rate for new brokers reached an average of 36.3 percent last year, up from 20.7 percent in 1998. Some consultants reckon that this percentage will continue to rise as time wears on. Andre Cappon, president of CBM Group, a New York-based consultant in the financial services industry, notes that 85 percent of trainees quit within four years (see chart).

The bear market, of course, has made it harder for newbies to get a toehold in the business. Even brokerage firm execs, however, acknowledge that persistently high turnover among young brokers may also be due to inadequate training and preparation. The turnover rate is particularly discouraging to the big brokerage firms that spend, on average, $250,000 (including salaries and benefits through the third year) per trainee.

The firms are responding, says Todd Taylor, head of training for Morgan Stanley's private client group. “Our clients' needs have changed. They're not responding to product pushers and telemarketers,” he says. “They're responding to individuals who are better able to assess their specific needs.”

Morgan, along with Merrill Lynch, American Express Financial Advisors and Prudential Securities, has made dramatic changes to its broker training programs and significantly lengthened the training period. Regional firms, like Edward Jones, and those connected to banks, including Bank of America Securities, have also beefed up their programs. Some of the highlights:

- Morgan Stanley lengthened its training program from three months to three and a half years. Rookies hired this year are required to complete all five sections of the coursework required to get a Certified Financial Planner designation, though they are not required to pass the test.
- In June, Bank of America created a new program for existing bank employees who want to become financial advisors for any of the bank's 4,500 branches. In the past, the bank primarily

hired new advisors from outside.

- Prudential has created a seven-step training program for new hires and now tracks all new associates for five years.
- Earlier this year, American Express began enrolling new trainees in classes that teach skill-specific techniques, such as phone presentations. Two years ago, it began paying new trainees while they were studying for their licensing exams and created a standardized program.
- Last year, Merrill expanded its training program from two years to five. Trainees are now required to complete the investments module of the CFP designation. In addition, new advisors must meet an internal designation that requires them to take 10 classes during their first 12 months of employment. New brokers are also paired with more seasoned advisors for hands-on training.

This is very different from traditional broker training. In the past, new trainees typically received an assurance of employment once they passed their Series 7 and Series 63 exams, but they had to pay for their own training to get through certification. Then, after passing the exams, they were sent into an office, handed a list of names, given an open phone line and told to get to work. Mentoring with more seasoned brokers typically wasn't encouraged and less time — and money — was devoted to training overall.

Morgan Stanley, for example, used to spend 66 percent of its training budget on travel and entertainment for new trainees and 26 percent on course work. Under the new program, the company spends 11 percent on travel and entertainment and 52 percent on course work, Taylor notes. He declined to say how much the firm spends on training.

By focusing their training budgets more effectively, firms hope to trim an attrition rate among new hires that, even in good times, exceeds that of other industries. “To get one guy who develops into a stable producer, a firm typically has to hire and train five to six people, which is a lot of money to spend,” says Cappon.

There is another welcome trend developing, courtesy of the weak economy: Recruiters and brokerage execs say they're seeing a higher caliber of applicant. Many of today's aspiring brokers, like Carmack, come with years of experience in a different industry. The work experience is a plus — but it is no guarantee that these more qualified trainees will reach the point when they can pay their own way with commissions and fees. “New brokers are trying to make it in a tough market,” says Maureen Robb, director of national training at Prudential Securities. “They really have to want it, and it takes a lot of motivation.”

In the meantime, the high rate of turnover means that firms have to continue hiring new brokers, although the bear market makes it harder for them to bring in new assets. By year's end, Merrill Lynch expects to have hired about 1,400 new advisors for its 13,400 broker force. Dan Timm, a partner in sales training for Edward Jones, says his company has a 60-day backlog, one of its longest ever, for new hires to start its training program.

As for Carmack, he's glad he made the switch to financial services. After pounding the pavement in the South County of St. Louis, offering financial opportunities to the parents of friends of his three children at soccer practices and school events, he's managed to build a steady, solid business. Old-fashioned shoe leather and moxie — the types of tool more associated with brokers of yore — helped Carmack establish himself in the business.

While certain tools of the trade may never go out of style, the current crop of rookies is benefiting from a new style of training that may be more comprehensive than ever.

Survivor: Wall Street

It's a jungle out there. Only 15 percent of training class members typically makes it through the fourth year, according to consultant Andre Cappon.

1st year	75%
2nd year	35%
3rd year	20%
4th year	15%

Source: CBM Group