Human Capital Resources, Inc.

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Bank Investment Program Hiring and Compensation Report

I've Got to Admit It's Getting Better...

INSIDE THIS ISSUE:

New Day or Just Before Darkness Sets In ?

Is there anyone not happy to see 2009 end? While many on Wall Street may have gotten huge bonuses, not many on the retail side of the business have fond memories of the year past. And while the consensus is that better times are ahead– a stabilized banking industry, bottoming house prices(?) and continued low inflation– we're clearly not out of the woods. With or without health care reform, our gov't is spending money faster than it can print it (which is one reason the dollar is in the toilet and gold seems to be setting new highs every day). And many experts say we haven't even begun to see the true extent of the damage in the commercial real estate sector. Maybe it's just that since the world didn't come to an end, just about everyone in the financial services industry is feeling at least a little better.

So what about 2010? Well, as far as the bank investment program business is concerned, my crystal ball sees both challenges and opportunities (surprised?) Challenges will take the form of continued low interest rates keeping fixed annuity sales slow, but VA's and EIA's with living benefit features will continue to sell well (as long as the manufacturers don't get spooked and pull, or scale back these features). I believe there will continue to be heated discussions about how to effectively regulate banks, b/d's and insurance companies to avoid another meltdown. The Fed, SEC and FINRA will continue their squabbling among themselves and with Congress. Regardless of the outcome, which may still not be resolved this year, you can be sure regulation and supervision will continue to demand more time and resources.

I believe the greatest challenges banks investment programs will face is retaining and attracting quality producers. As you will read in "The Perfect Storm" on page 2, demand for top-producers has never been stronger, and for many reasons, supply is down and will continue to shrink. The wires are dangling outlandish packages to attract the best producers in the industry. Bank program mangers will be spending more time than ever keeping their best people happy, motivated and focused, along with doing all the things essential to attract new producers. The key to success, as always will be staying alert, communicating effectively and flexibility. Happy New Year.

Breaking News and Developments:

New Networking Site for FA's
Page 2

New Bonus Plan at Wells
Page 3

FA Outlook for 2010
Page 4

A Perfect Storm? Recruiting in 2010

What an amazing year in financial services! In 2009, we went from “the brink” to banks repaying TARP funds and the DOW back over 10,000. And now, we seem to be in a period of some stability.

While the economy and the country as a whole may have gone from despair to hope, when it comes to FA recruiting, 2009 was a record year. Unprecedented numbers of FA’s changed firms, left the business or dropped their FINRA licenses and became Registered Investment Advisors. While statistics vary, many firms have publicly stated they set recruiting records in 2009. And as we begin 2010, despite the continued economic uncertainties, demand for producers- experienced FA’s with established books of business- is stronger than ever. Many wirehouses, regional's, banks and independent firms have aggressive recruiting targets for this year. Several high-profile firms have publicly stated their intention to aggressively add producers. It wouldn’t surprise me at all if that the industry as a whole is looking to grow their FA ranks by as much as 20% in 2010. So, the question is, where will firms find these producers, and how will they get them on board? I think the answer is, they won’t.

So many things came together in 2009 making it such a successful recruiting year for many firms, while others saw unprecedented defections. First and foremost, the financial crisis brought the financial strength of many banks/ brokerage firms into question. Merrill Lynch, Bank of America, AIG, and others found themselves under intense pressure. One thing registered FA’s don’t like is their firm’s very survival questioned in the press. It was bad enough that their clients were experiencing large losses in the market, but now their firms were cutting back, defending their reputations in the press and borrowing money to stay afloat. This alone caused many wirehouse FA’s to jump ship. And, with the plummeting of the stock prices of these companies, FA’s with 401k’s or deferred compensation plans with company stock got a double whammy, So, at the majors, just about any FA who was thinking about making a move did it in 2009.

2009 also saw the continuation of the exodus of FINRA licensed FA’s walking away from their registrations and go the RIA route. This trend has been going on for several years, but really accelerated last year. Many investment professionals have just gotten fed up with the regulatory burdens (and costs) of FINRA supervision and have bought into the argument of the inherent conflict of interest faced by commissioned brokers.

Much has been written about the ageing of the baby boomers, and the employment picture their retirement leaves behind. In an analysis I have just completed, approximately 20% of all FINRA 7’s are 56 years of age or older. So, we’re now beginning to see highly experienced FA’s retire or leave the business. I believe we’re just beginning to see the effects of this trend.

So, as 2010 dawns, what’s the prognosis for FA hiring? I strongly believe it will be the most difficult environment the industry has seen in 20 years. Many of the reasons I believe this are stated above: those FA’s who thought about moving have already moved; FA’s continuing to go the RIA route, and; FA’s leaving the business and/or retiring. But there are several other critical factors that will make 2010 a very tough year. First, traditionally, the wirehouse have had the budgets and resources to train new FA’s for the industry. But with budgets slashed, these firms are no longer pumping out newly licensed FA’s. And firms that are still training new FA’s are demanding very restrictive employment agreements that make it difficult (and expensive) for good FA’s to move. Second, the competition for prime FA candidates- those producing $300,000 plus has never been more intense. So intense in fact, that several of the largest firms have recently announced recruiting packages in excess of 300% of trailing 12 months gross! These firms wouldn’t be offering packages like this if FA recruiting were easy! But, demand for established producers with movable books has never been stronger.

What’s fueling this strong demand? That’s simple- firms need the revenue. The economics of the retail brokerage business is pretty simple: once the infrastructure is in place- clearing, communications, admin, compliance, etc., costs are pretty fixed. Firms need the volume. Firms that lost FA’s need to replace them. Firms that grew last year want to keep the momentum going.

2010 is shaping up to be a perfect storm of supply and demand. Shrinking supply for many of the reasons stated (less FA’s “anxious” to move; retirement; RIA’s; fewer new trainees), and strong demand will lead (and already has) to large recruiting packages and intense competition for top FA’s.

So, what can a bank program do to attract the FA’s they need in 2010? Well, it won’t be easy, but it can be done. To meet their needs, banks must:

1. Use their competitive advantages- referrals, support, and consumer oriented products and services to attract talented producers
2. Target FA’s that others may overlook. Most firms are fixated on just “top producers” $350,000 or even $500,000 minimums. Banks should look for “underachievers” or less- experienced FA’s who have strong upside potential.
3. Build a strong internal referral program. The days of giving an employee $50 for a referral that leads to a new FA hire are long gone. Build a strong program with “meaningful” incentives for employees who referrer new FA’s to your program.
4. Stay active and alert to opportunities. Like politics, recruiting is local. Make sure program management knows the competition and what’s going on in their markets.
5. Be flexible and creative. Some wholesalers can become great producers. Relos can be highly motivated. And, find new and innovative ways to reward production.

New Networking Site For FA’s

LinkedFA.com, a new and free website is set to become “the first and only FINRA compliant social-networking site for financial professionals.”

According to its cofounder and ceo, Brian Byrne, the site will be launched as soon as it has signed up 15,000 subscribers.

The site will adhere to all FINRA compliance, supervision and recordkeeping requirements. It will also comply with the document retention rules found under Rules 17a-3 and 17a-4 of the SEC Act of 1934, according to Byrne.

The site, while a “social networking site”, will allow anyone to sign up for an account, but members of the general public, investors, clients, etc. will need and invitation from an FA or institution to join.

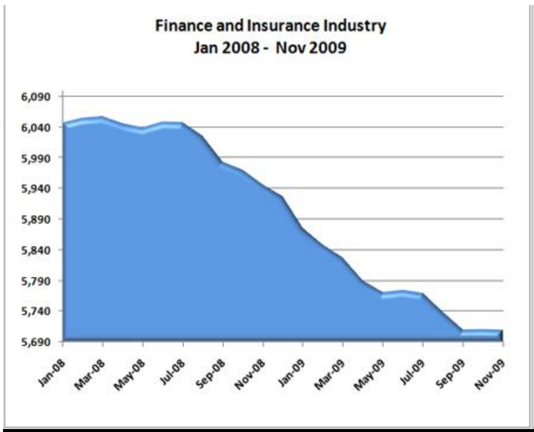
It should be noted that the site is not approved, endorsed by, or affiliated with, FINRA.

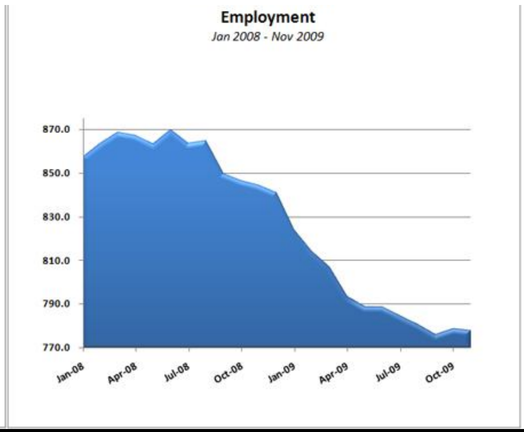
ENCOURAGING SIGNS FOR FIN. SERVICES JOBS

A much improved employment environment was highlighted by the November employment report by the Department of Labor, with nonfarm payrolls contracting by only 11,000 jobs. This is the fewest number of jobs lost in a single month since December of 2007. A consensus estimate was for loss of 100,000 making for a welcome positive surprise on the job front. In addition, unemployment declined back to 10%, beating expectations of an increase to 10.2%.

Securities Industry

The Securities Industry lost 900 jobs in November -- coming off of a stronger October 2009, which saw 2,700 jobs being created. This relatively benign loss is nevertheless encouraging with the job market in this industry appearing to be establishing a bottom. September represents the year-to-date low point for total employment at 776,100 workers and so far the employment numbers have held above that level. We are further encouraged by the level of hiring related activity and aggressive plans for next year by many employers in this industry. The broader sector consisting of banking, insurance and securities lost just 1,000 jobs in the month, but still hovers around the lowest employment numbers for 2009 at 5,710,000.





New Bonus Plan at Wells Fargo Advisors

Beginning on Jan. 1, 2010, Well's FA's bonus plan will be tied to bringing in new assets rather than growth in revenue. "The focus for this coming year is organic growth and incentivizing FA's for their expertise in gathering assets from new and existing clients," said Wells Fargo Advisors Spokes-woman Teresa Dougherty. "This complements the base award that is production based on the tenure of the advisor. The minimum amount of new assts to qualify for this award is $500,000 and the incentive is 2% of an advisors total revenue. The award is also effected by the tenure of the FA. For example, an FA with 7 yrs at the firm who brings in $600,000 in gross and $750,000 in net new assets would get a bonus of 2% of the $600,000, or $12,000.

THE FIVE PILLARS OF AN EFFECTIVE SALES COMPENSATION PLAN

Just about everyone in retail brokerage gets some or all of their compensation from participation in an incentive plan. Commissions, fees, referrals to other departments, effort, outside deposits, asset retention, and other factors all may be incorporated into a compensation plan. But whatever percentages, factors, goals, or targets are established, there are fundamental principals to effective comp plans for sales people.

1. *Align Plan with Corporate Objectives.* Good alignment means that each component of the plan maps directly to a larger corporate objective and significantly increases the likelihood that it will be achieved.
2. *Not a Substitute for Sales Management.* Don't be tempted to put effective, proactive sales management on autopilot. A comp plan is a tool to reach objectives, not a substitute for management.
3. *Execution.* Without clear communications, easy to understand goals and expectations, even the best plan will fail.
4. *Active Management.* Regular, ongoing analysis will make sure your plan is working-doing what you want it to do. Active management means a verifiable, factual basis for evaluating the effectiveness of the program and suggesting possible changes or revisions.
5. *Let It Work.* It can be very tempting to jump to conclusions much too soon. Seasonal effects, variable market conditions, or a wide range of other variables can and do impact results. Make sure the plan has had time to give meaningful results.

These "pillars" provide the foundation necessary to build and maintain an effective sales compensation plan. Now just get the right people, and lead them to success.

Don't Ask That Question

Why do interviewers ask inappropriate questions? They probably don't actually want to be sued for violating EEOC rules (Equal Opportunity Employment Commission). Sometimes interviewers are just trying to make small talk, or ask questions about family as a icebreaker, not realizing that seemingly innocent questions about a spouse or children, etc. are unlawful. Instead of asking inappropriate or unlawful questions (and avoid a lawsuit), try to find other ways to get the inforamtion you really need about a candidate.

Here are just some of the more common questions you can't ask:

- Nationality
- Religion
- Marital and family status
- Age (other than to verify they're over 18 or 21).
- Gender
- Health and physical abilities: You can't ask if they smoke, drink or take drugs. Height, weight or past operations/illnesses are also off limits.
- Residence: Can't ask how far away they live. Can ask if they can be at work by a specific time.
- Criminal record: Can't ask if someone has been arrested, can ask if they been convicted (of course this will come out in the U4)
- Military Service: Can't discriminate against a member of the National Guard or Reserves, but it's legal to ask if the candidate may need extended time away from work.

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The Anatomy of Best Advisory Firms

More and more banks are taking a hard look at the RIA business. It was just several months ago the CitiBank announced they were converting their licensed FA program wholly to an advisory model. So it's more important than ever to understand what makes Advisory firms successful.

Last last year, FA Insight released *The 2009 FA Insight Study of Advisory Firms: People and Pay*, a comprehensive human capital study. Sponsored by TD Ameritrade Institutional, the study provides firms of all sizes with extensive benchmarking data that is combined with perspective insight.

What characterizes a great firm? The Study considered two leading characteristics to identify the standout firms from the other 200 respondents: revenue growth and the ability to generate income for the owner (s). The Study divided the firms studied into 4 groups based on size:

» **Operators**– firms with $75,000 to $500,000 in ann. revenue

» **Cultivators**– firms with $500,000 to $1.5 mil.

» **Accelerators**– firms with $1.5 mil to $3.0 mil

» **Innovators**– firms with more than $3.0 mil in yrly rev.

Findings:

Perhaps the most staggering achievement of top firms was their ability to contain overhead expenses. By tightly controlling operating expenses, these firms achieved average operating profit margins that were 5%-23% higher than others. Containing the costs of non-professional labor was at the core of standout firms' success.

Within the Innovator group, top-firms had a median of 1.9 non-professionals per professional compared with 1.3 for other Innovator firms. This highlighted another of the Survey's findings– that top firms

had a greater tendency to shift non-revenue related tasks to a support team.

But for delegation to be effective, junior team members in particular must be trained to ensure competency within their given tasks. The study showed all firms greatly benefited from training across all position types, especially for management roles and technical specialists. By prioritizing training and development, firms can build the skills of their people at an accelerated rate, enabling individuals to become more effective within their roles at over a shorter time period.

Across nearly all firm stages, standout firms were better leveraging incentive compensation to motivate individual performance to achieve firm-specific and individual performance objectives. Top performing firms also use non-monetary rewards to ensure staff satisfaction. Chief among the factors cited by these firms for retaining staff was their ability to create a collaborative, team-like work environment for their staffs.

For more information go to www.FAInsight.com

Financial Sector See First Job Gains Since 7/07

On 1/08/2010, the Bureau of Labor Statistics jobs report showed a net gain of 4,000 financial jobs in December, the first gain in 29 months. Excluding real estate related jobs in the financial area, the numbers were even better. Finance and insurance alone added 9,900 jobs last month.

FA Demand Looks Strong For 2010

Perhaps the most telling sign that FA demand is strong is the magnitude of recruiting packages being offered. The "standard" upfront money from the majors is in the 120%-140% of trailing 12-month production in cash. With some deals offering 20% more when more than 70% of a book's assets are transferred to the hiring b/d. Backend bonuses– those tied to growing assets and/or production can be in excess of 150%, paid out over 5 years. Firms are putting more responsibility on FA's to deliver the numbers they've promised.

The squeeze on lower producers– cutting payouts for lower producers– seems to have abated. But generally speaking, the wirehouse are not keeping anyone doing less than $350,000 to $400,000.

Most regional firms had a strong recruiting year in 2009. Most experts expect the regionals to keep recruiting and to continue to capture FA's that can't keep up with the production requirements at the majors. Banks too may be able to attract these producers, but will need to be competitive on compensation and support.

Last year was spectacular for many independents and RIA firms. This may continue and even accelerate as reps nearing retirement have more control over ownership and sales price of their business as an independent.

It's shaping up to be a good year for producers.