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Thundering herd eyes exits at Merrill

New owner creates anxiety; rivals gear up for poaching. By [Aaron Elstein](#)



ADDED PRESSURE: New Bank of America exec Sallie Krawcheck lacks ties to Merrill Lynch.

Photo by Bloomberg News

Last December's acquisition of Merrill Lynch & Co. has caused massive headaches for Bank of America Corp., but throughout the turmoil at least the bank has been able to count on one key thing: stability within Merrill's "thundering herd" of retail brokers, its crown jewel.

Although virtually all of Merrill's top managers have been sacked or have fled of their own accord in recent months, the firm's 15,000 brokers have largely stuck with their firm's new owner. That may be about to change. With the stock market rebounding, opportunity is again knocking for Merrill's brokers as rival firms restart their hiring engines. Adding to the pressure, last week brokerage chief and 30-year Merrill veteran Dan Sontag abruptly quit. The move came shortly after BofA tapped Sallie Krawcheck to be his boss as head of the bank's global wealth management operations. While Ms. Krawcheck once headed another big brokerage—Smith Barney—she lacks ties to Merrill and its unique culture. Her loyalty is to bank management in Charlotte, N.C.

Better off untouched

"They're going to lose some good people out of this," laments Anton Schutz, manager of the Burnham Financial Services Fund, a BofA shareholder. "I'd rather see BofA leave the company alone." Asked for comment, a BofA spokeswoman referred to a press release welcoming Ms. Krawcheck. The fact that Mr. Schutz refers to the brokers, who after all constitute only about a quarter of Merrill's employees, as "the company" underscores just how crucial they are to making the deal pay off for BofA. Long the financial industry's most productive retail sales force, Merrill brokers carried the firm during last year's crisis, generating \$2.3 billion in pretax earnings, while its well-heeled dealmakers racked up the \$40 billion in mortgage losses that cost Merrill its 94 years of independence. In other words, the brokers were the reason BofA was still willing to pay a princely \$50 billion for what was otherwise deeply damaged goods.

Despite the turmoil, surprisingly few brokers fled in the months that followed BofA's arrival. Retention bonuses helped keep brokers in harness, but BofA also benefited from the problems of others. The logical stomping grounds for decamping Merrill brokers—Smith Barney, UBS and Wachovia—were also in turmoil. Meanwhile, brokers inclined to hang out their own shingle were shaken by the aftershocks of the Madoff cataclysm. "Post-Madoff, there's concern among individual investors about the safety of their assets," says Brad Hintz, a banking analyst at Sanford C. Bernstein & Co. "Brokers say that traditionally up to 75% of clients would move their assets when the broker moved firms, but now they're not so sure, in light of the scandal." Last week's management changes, coming as they do as the markets continue to rebound strongly and rival firms regain their footing, gives the brokers the motive and the means to take their talent—and clients—elsewhere.

Gustavo Dolfino, president of recruiting firm WhiteRock Group, says his midtown office is inundated with Merrill employees of all stripes looking for jobs elsewhere. "They come in by the hour," he says.

Similarly, Mr. Schutz reports that during a recent visit to a UBS office in Chicago, he stumbled onto four Merrill brokers negotiating a move.

Rival makes hay

In fact, UBS says that so far this year it has snapped up 38 Merrill brokers, each of whom generated more than \$1 million in commissions over the past 12 months. UBS is also reportedly close to hiring former Merrill brokerage chief Robert McCann.

In the face of such developments, BofA is fighting back, offering top dollar to lure rival firms' top brokers. Mark Elzweig, president of an eponymous recruiting firm, says Merrill is luring top prospects with a sign-on bonus equal to as much as 140% of their prior year's commissions, plus long-term incentives that make the bonus package worth as much as 300%. The going rate at competitors, he says, is a sign-on bonus equal to 125% of commissions and sweeteners that bring the package up to 200%.

"Merrill's package is significantly higher than anyone else's," Mr. Elzweig says. A BofA spokeswoman says that brokers coming in are twice as productive as those who left, adding that hiring is running 20% over last year's pace.

While BofA maneuvers aggressively to maintain Merrill's ranks, it faces troubles on another front. According to research last month from J.D. Power and Associates, Merrill ranked next to last in a customer-satisfaction survey of 4,500 clients of 14 major banks and brokerage firms. Last year, Merrill ranked No. 5 in customer satisfaction. David Lo, director of investment services at J.D. Power, attributes the drop to merger-related complications.

"Merrill never was at the top before," Mr. Lo says. "But it was never at the bottom like this." The BofA spokeswoman says its surveys show clients are quite pleased with the firm's service.

LESSONS FROM THE OTHER SIDE

WHAT BOFA WANTS TO AVOID on the retail side of Merrill Lynch is what has happened on its investment banking side, where scores of senior staffers have decamped in the past eight months. Those defections seem to have **cost the firm business**. In U.S. junk bond sales, for example, BofA/Merrill's market share as of last week stood at 18.7%, compared with 22.3% for the two firms combined last year, according to data from Thomson Reuters.

"As they lose talent, it'll be hard to pop back," says Brad Hintz, a banking analyst at Sanford C. Bernstein & Co.

Nonetheless, a BofA spokesman points out the firm still ranks as **the leading underwriter of U.S. junk debt**. What's more, in a move widely hailed by Merrill dealmakers, BofA replaced investment banking chief Brian Moynihan last week with Tom Montag, a highly regarded executive who joined Merrill last year from Goldman Sachs.

One of Mr. Montag's key tasks will be to restock Merrill's ranks. But paying top dollar for talent could be tough, given that as a recipient of \$45 billion in bailout money, compensation must be approved by the Obama administration's pay czar.