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## MERRILL REPS: WAITING FOR RETENTION NEWS

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At a press conference early Monday morning, John Thain, chief executive of Merrill Lynch, insisted that the firm's employees supported being taken over by Bank of America of Charlotte, N.C. "Already this morning, almost 100 percent of the [financial advisor] reaction has been positive," Mr. Thain told reporters.

Bank of America Chief Executive Ken Lewis—who was also at the conference—said that, via this deal, his firm will acquire "the best wealth management company in the world," and that Bank of America plans to keep the Merrill name and organization intact.

But, was all of this "reported" positive reaction on the part of Merrill's nearly 17,000 brokers truly accurate—or merely company rhetoric? Merrill brokers say that Thain and Lewis held a conference call with them later that day. "I was really surprised there weren't many angry Merrill reps on the call," says one Merrill broker in New York, who asked not to be identified. "I think it is more a result of a combined sense of shock and resignation," another Merrill rep says.

Brokers were told they would be offered retention packages, but no further details were offered during the call, he added. "When some of the shock wears off and we find out more the compensation numbers, that's when I think you'll see true reaction to this sale." Lewis called Merrill's 17,000-member advisor force "the crown jewel of Merrill Lynch," which another Merrill rep said implies—at least for now—that "we'll be well taken care of."

"Overall, our clients seem to be positive about this," says yet another Merrill rep, who asked not to be identified, because the deal removes "a lot of the uncertainty surrounding Merrill." Still, he described some of his clients as "mildly" panic-stricken about the safety of their money. Bank of America—which has about 2,000 of its own financial advisors—is said to be planning to ramp up its infrastructure to accommodate the new Merrill advisors.

**Recruiters Circling**

Mindy Diamond, president of N.Y.-based Diamond Consultants, a leading financial services industry executive recruiting firm, says she's heard from, "Merrill brokers who are absolutely shell-shocked, and feel very let down by senior management." Diamond says most of them say their clients feel a lot more comfortable with Merrill than they did a week ago because of Bank of America's financial strength. Still, the advisors are waiting to hear about the retention package.

"The wirehouse model is damaged and needs reform," says Elizabeth Nesvold, managing partner of Silver Lane Advisors, a New York-based investment bank and strategy consulting firm serving the financial services industry. "There has been a clear lack of transparency—and too much product pushing—at the expense of client. There have also been some incredible principal profits at the expense of firm stability."

"Institutions on sound financial ground with reputations for quality and a conservative investment approach stand to gain lots of assets from this mess," says another industry insider who wished to remain anonymous. He predicts what he terms a "flight to quality" among advisers, wealth managers and clients.

Of course, Merrill advisors considering other firms will consider their options carefully. While all kinds of firms are circling Merrill—including banks, trust companies and independent wealth managers—Merrill advisors are used to a grid-based compensation model and Nesvold thinks they won't want to walk away from that. "For example, every dollar I bring to Mother Merrill delivers 45 cents to my paycheck. Banks, trust companies and independent wealth managers typically offer a base and bonus system, in which bonus may be discretionary, a percentage range of the base, or incentive-based. Not all FAs are going to find comfort in a model that recasts their compensation away from 'the grid.'"

"Some advisors may choose full independence, given the myriad of outsourced solutions and commoditized options available today," adds Nesvold. "And some may find the reorganized [Merrill] platform to be a more stable, economically attractive environment. But, I feel it's likely that clients will stay close to their advisors until their ultimate decision is made," she says,

**Morgan Stanley: Not Taking Any Chances**

Morgan Stanley took the unusual step of sending its work force of some 8,000 brokers a Sunday-night bulletin assuring them that the firm was strong, that its advice was sought by government leaders and that clients must be told that they can sleep comfortably amid concerns "about the stability of global financial markets," according to one of its advisors, who declined to be identified.

"Sometimes clients misunderstand that assets in their accounts are held in custody away from the firm's balance sheet," the bulletin said in what the rep called a "convoluted attempt to explain segregation of brokerage assets." The memo also advised that if such client concerns arise, reps can assure them that their assets are safe and sound at Morgan Stanley. "But, we ourselves aren't so sure," the rep admitted, expressing concerns about his firm's fiscal health.

He noted that the bosses at Morgan Stanley and competitors such as Zurich-based UBS AG and Smith Barney are no longer urging brokers to push derivatives and other complex products fashioned by their investment bankers to wealthy investors. "You can be sure clients will insist on transparency, and we are becoming a much simpler firm. We won't be offering complex structured investments and pushing them down their throats," he says.