

Is LPL Financial a \$60 stock?

Trading now at \$54, it just may be, one analyst says

By Bruce Kelly | *January 23, 2014 - 1:58 pm EST*

After a rollicking 2013 when the S&P 500 increased by about 30%, the broad market has tiptoed into the new year, with the emerging markets selloff this week pushing the benchmark index down a little more than 2% in January as of Friday morning.

But at least one brokerage firm stock, LPL Financial Holdings Inc. (LPLA), has bucked the market's recent general aimlessness and is continuing the roll it began last year when it started at \$28.90 a share and ended at \$47.05, a whopping gain of 62.8%.

Since Jan. 2, the stock has gained \$7.01 a share, an increase of almost 15% for the month. It was down a smidge in trading early Friday and was trading close to \$54, off new lifetime highs set on Wednesday.

Wall Street, which until a few years ago woefully misunderstand the independent broker-dealer and registered investment adviser marketplace, is obviously pleased with the company's performance. So much so that William Katz, an analyst with Citigroup Inc., slapped a target of \$60 a share on LPL's stock Jan. 10.

If the stock reaches that price level, it would be a significant achievement for the company and its investors.

Remember, LPL had its initial public offering in November 2010 at \$30 a share. Reaching \$60 a share this year would mean that the stock would have doubled in its fourth year as a listed company.

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That is a feat few thought possible when LPL chief executive Mark Casady rang the opening bell of the Nasdaq on Nov. 18, 2010, to celebrate the IPO.

Brokerage stocks are extremely volatile and prone to outsized gains and losses. Such stocks can go up and up and then come crashing down, particularly when earnings miss estimates or the firm is mired in bad news.

But the market last year shrugged off two potentially negative news events that could have scared investors away from LPL's stock.

The first was a front page story in the New York Times in March that was sharply critical of the firm for bungling compliance and mismanaging its growth to a 13,000 financial adviser firm. In May, LPL again made headlines when it agreed to pay \$7.5 million in a settlement with the Financial Industry Regulatory Authority Inc., stemming from allegations the firm for years failed to supervise properly broker e-mails.

The market yawned at those events, and LPL shares continued to rise.

Driving LPL's potential \$60-a-share price are four factors, according to Mr. Katz.

The analyst sees the company as a "play on retail recovery and [adviser] growth and productivity gains," he wrote, along with "moderate margin expansion" in the second half this year and into 2015.

In his research note, Mr. Katz also wrote that management could unveil a \$500 million stock repurchase authorization and boost the dividend to 25 cents per quarter, from 19 cents.

And, like all broker-dealers and RIA custodians, LPL's stock would benefit from an increase in interest rates.

The company's next earnings release is Feb. 11.

LPL is the bellwether for the hybrid RIA/broker-dealer business model.

So not only does a potential \$60 stock price bode well for its shares, but it has positive meaning for the broader investment advice industry and LPL's competitors, one investment banker said.

“Given the booming markets, there is a renewed interest in equities, which is a higher fee product than cash and fixed income,” said Elizabeth Nesvold, managing partner with Silver Lane Advisors. “Barring any extreme meltdown, the asset inflows are likely to continue with a keen focus on asset reallocation toward equities.”

That is good news for advisers, who charge clients fees, as opposed to brokers, who work for a transactional commission, Ms. Nesvold said.

“Since advisers tend to keep their clients focused on longer-term investment horizons and proper asset allocation, regardless of whether the market continues to boom, flatten out a bit or even fall slightly over the next few months, the demand should exist,” she said. “And as long as the demand exists, [LPL] and its comparable firms will benefit and deliver increased earnings and, thus, valuations to investors.”

LPL's stock this year might hit \$60 a share, or it might fall short, particularly if there is a sharp market correction in the next few months. Regardless, its recent dramatic price-per-share increase is a clear signal that Wall Street and other investors have woken up to the potential value of the investment advice business.

And that is something that advisers have known about for a long time.

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