

April 2003

Cover Story

Clearing and Custody: Buyer's Market?

Ticker Staff

Clients have grown picky in their clearing and custodial choices — both as a way to protect their accounts, and to get the combination of functions and services that makes most sense for their business. One thing is clear for clearing and custody in 2003 — there may be newer items on the menu, but fewer places to go to.

It is the most difficult and challenging period in the past 15 years and this is painfully clear for the clearing and custodial firms. After cresting the peak in transaction volume in 2000, the bear market's thud was loud enough to shock the gear train of the securities' industry - the processing business.

Excess capacity was the thing that by and large created the clearing and custodial market in its present form. The exponential surge in trading volume in the 1990s mandated a heavy investment in technology and personnel to meet the demand not only for more but also for faster trade settlement. Having a strong clearing arm was not only good for the big houses' own operation, but also a decent stream of additional income as other brokers were willing to pay for the same level of service. By 2003, the capacity boon became the industry's plague.

"There's a tremendous amount of pressure in pricing. It's due to a combination of the low volumes that are out there with the market being down and also there's excess capacity right now," Clayton Moore, Senior Vice President in Southwest Securities told TICKER. "Those two ingredients force the prices down quite a bit. With the extra capacity that is available right now, I think it's definitely a buyers' market."

Three main forces - consolidation, customization, and short-term readjustment, are shaping this buyer's market in 2003.

Consolidating Capacity

Even if the merger and acquisition activity in the securities industry has progressed at quite a steady pace over the past decade, only in late 2002 to early 2003 the clear-cut consolidation within the clearing business started taking shape.

In 2000, the Swiss money moved swiftly into the U.S. money-management industry. Within four months, Credit Suisse bought Donaldson, Lufkin & Jenrette and UBS bought Paine Webber in deals worth \$12 billion and \$11 billion, respectively. In 2003, again within four months, the two Swiss banks decided to divest their U.S. clearing operations. This time, however, the buyers are established domestic clearing players. Credit Suisse sells Pershing to the Bank of New York, the most-aggressive consolidator in the clearing field, while UBS sells its Correspondent Services to Fidelity IBG, a top-three U.S. custodian and clearing provider.

Within the same period, Fiserv acquired the clearing business of Investec Ernst, while Prudential and Wachovia announced the upcoming merger of their clearing operations under a new joint venture.

The obvious trend is for both big and small players to become bigger, be bought, or have an increasingly harder time crowding the clearing and custodial market. "The clearing industry is ready for consolidation, and it is the middle tier firms that have to make the decision either to acquire other firms or grow the business or leave the business entirely," said Robert Iati, Director,

Securities & Capital Markets in TowerGroup of Needham, Mass.

“Cost is always a concern. If there was someone that provided a similar level of support at a substantially reduced cost, we would have to take a close look at that,” said John DuPriest, CEO of Presidential Brokerage in Greenwood Village, Colo., and continued: “We don’t believe that’s going to happen with the consolidation that’s occurring in the business. The clearing firms have been consolidating and there are fewer choices now.”

The cost pressures come not only from the lower volumes and excess capacity. The events from September 11, 2001, shot business-continuity expenses high up the firms’ priority lists. Prior to 9/11, the firms’ worst fear was probably having enough capital to avoid a squeeze after some botched big-time short sale. Now their clients want to see a reliable and sufficient back up of the direct capacity they already have in excess. This is an additional cost not many players are willing or able to meet in a bear market.

One Size Doesn’t Fit All

The benefits of consolidation in terms of stability may seem self-explanatory. However, “the bigger, the better” is not a very popular concept in the advisor space. There are two main reasons for that. First, some advisors preferred to cherry-pick features from different platforms for specific purposes. Thus they got the right tool for each job, without having to wait for the “ultimate solution” with all imaginable extensions. Second, and probably more important, advisors show growing distrust with the big clearing and custodial players and see in them a potential threat to their businesses in the retail space.

“Our biggest concern with those kinds of relationships is the TD Waterhouse, Schwab or Fidelity name would potentially compete with the client’s loyalty to us personally,” said Robert Grey, chairman and CEO of Denver Money Manager, a registered investment advisor in Denver, Colo. “The greater concern was that any of those custodians might at some point initiate some kind of a service that would actually compete with our professional advice. That was about 10 years ago. The fact and the matter is that fear has materialized. All of those custodians are indeed very much in the advisor business right now.”

In some cases, a client would use one platform for clearing and another for billing and reporting. Advisors also got used to having multiple custodians. “We have the majority of the assets that we manage at First Trust Datalynx. The other custodian that we use is Charles Schwab. We have a minimal relationship with TD Waterhouse as well,” said John Woodard, a Registered Investment Advisor with Woodard & Company Asset Management in Winston-Salem, N.C.

As clearing and custodial firms competed with each other in technology, service, and cost, advisors jumped at the opportunity to tailor the buyer’s market to their specific needs and preferences. Faced with the danger of custodians not only competing with each other, but also with their clients, this tactic gained an added benefit. Spreading one’s clearing and custody across multiple providers became a hedge against unwelcome competition from one’s single clearing or custodial partner.

“We have been a long-time client of Schwab Institutional but then about a year ago we identified a second custodian and that is Raymond James Financial,” said Robert Smith, President and CEO of Spero Smith Investment Advisors in Cleveland, Ohio. “The frustration with Schwab is that over the years they have gone from incrementally to strategically competing with us.”

As the technology became more sophisticated and commoditized, the smaller providers became competitive enough to offer a viable alternative. “The clearing business has been in major restructuring in the past four years,” said Carlos Otalvaro, co-founder and board chair of WallStreet*E, a securities broker/dealer in Miami, Fla. “Clearing has become so complex, especially from the point of view of technology that these firms have raised the benchmark of who they take in as a correspondent.” The ongoing consolidation is hardly likely to change advisors’ attitudes towards diversity and choice. It is a defensive market, and advisors want to protect their assets no less than their clients do.

Out of Commission?

There is a lot of talk in the industry about migration from commission-based to fee-based businesses. Some see evidence of such “trend” in the rapidly emerging advisor platforms or extensions offered by the correspondent clearing firms. It is too early

to call it a trend. The evolution of the fee-oriented platforms happened mainly because of the immediate demand within the existing fee-based market and not because of some sustainable and irreversible shift from commissions to fees. If advisors find a working and useful platform with compelling cost and level of service, they can start using it literally overnight or over a weekend. On the other hand, a quick survey of the consulting firms, offering advice on transition to fee-based models, showed that depending on market conditions it may take between three and seven years. It means that those who made the shift and have something to show for it, planned and started at a time when market conditions were quite different. There is indeed a short-term reaction to the bear market, but fees are no magic formula for survival. It all boils down to long-term expectations.

Charles B. Landreth, Senior Vice President at Fiserv, defines the problem: “The question is really are we in a market trough here and if we are then in the next three to five years money managers who are charging an asset-based fee because of the upward bias in the stock market, would see an upward bias in their revenue. So if you were to start a program believing that this is the trough in pricing, then it’s really the most ideal time that we’ve seen in a long period of time to make that change.”

The market, however, remains uncertain and cost-sensitive, while any change most certainly comes at a cost. For the time being, the expectations for the clearing and custodial services remain unchanged: meaningful functionality, faster and reliable execution, and last but not least - no competition from the back office service provider.

In order to assist advisers and broker/dealers who want to make a transition to a new clearing or custodial firm or are just starting their business and are looking for a partner, TICKER Magazine surveyed 14 top companies and their users and presented its findings in the following pages.

AIG Advisor Group

With the acquisition of SunAmerica in 1999, AIG placed its logo over a number of broker/dealer firms, and also of what is thought to be the largest network of independent financial planners in the U.S. Formerly known as SunAmerica Financial Network, this loosely defined community of some 9,000 registered reps, now uses AIG Advisor Group as its “marketing designation.”

The group’s broker/dealer members include Advantage Capital, FSC Securities, Royal Alliance, Sentra Securities, Spelman & Co., and SunAmerica Securities.

The firms came with their established client relationships, but also with their needs and ideas for an advanced technology offering to sweeten the bundle of financial services.

The Vision2020 and Vision2020 Advisor software are exclusively for the registered reps affiliated with the AIG Advisor Group’s broker/dealers. Presently, 600 of the network’s 9,000 potential users are actively utilizing its features. For those outside of AIG, it is only a part of the incentives the group offers to get them to seriously consider transferring their accounts, or to start fresh as independents. AIG Advisor Group boasts a compensation program that is “significantly higher” than those in the wirehouses and regional broker/dealers. As part of its Transition Suite, it offers interim office space, computers, meeting and administrative facilities in midtown Manhattan and San Diego. Dedicated teams of experts handle the transfer of licenses and rep codes.

The way out, on the other hand, isn’t all that easy. “If I did try to change broker/dealers, I think it would be difficult. I perceive that Royal would try, unjustifiably, to block my actions to move my accounts,” said James R. Faucett of Rosenberg Financial Group in Warner Robins, Ga.

Royal Alliance’s registered reps like Faucett have no choice of clearing and custodial services, since the broker/dealer platform clears through Pershing.

The Vision2020 software, currently distributed under the AIG SunAmerica brand, is not unfamiliar to some of the member firms’ clients and they have contributed a great deal to its present functionality and efficiency.

“The platform I use, Vision2020, is still in evolution but seems to work pretty well,” Faucett acknowledged.

Vision2020 Advisor is targeted at the fee-based advisory businesses. The system’s capabilities include building of unlimited asset allocation models, assessment of risk tolerance, and the ability to trade initial and rebalance from within. The portfolio optimization methods have been developed by Ibbotson Associates. They allow presentation of risk-tolerance questionnaires, assessment of personal risk-tolerance, and the subsequent asset allocation.

Apart from ubiquitous account management and portfolio performance, it generates graphically enhanced summaries for different clients and client types’ various investment goals, customized fee schedules, proposals, and investment policy statements.

On the user interface, however, it does have the look-and-feel of Internet-based software specifically tailored to the immediate needs of the Group’s membership. The system has more than 130 fund families with over 6,000 funds that can be traded via the Internet or through the live mutual fund desk. Bond trading, which supports municipal, government, corporate, mortgage-backed existing and new issues, is done only through the live bond desk and not on the Internet.

With portfolio building and tracking capabilities, access and discounts to many financial news and research vendors, support for adviser managed accounts, institutionally managed accounts, insurance and annuities, Vision2020 is looking well-advanced on this stage of its evolution.

The Vision2020 team offers 24/7 access to system, training, trading and support. It has a dedicated web site where users can check the newly added functionality, the upcoming features, and regulatory and compliance related issues. Information and feedback are gathered at the education committee made up of advisors and home office personnel to build conference and meeting curriculum throughout the year.

The training staff, organized in the AIG Advisor Group University, is located in New York, Atlanta, Phoenix, and San Diego. The group offers practice-management seminars on videotapes and CDs, and also in-person training.

“It’s a pretty complete system as it is,” Faucett asserted. “The only problem is getting bugs or stupid operations fixed in a timely manner.”

Raymond James & Associates Inc.

While not one of the big names in the clearing and custodial business, Raymond James has built up a loyal clientele on the back of its relationship-driven service culture. With over four decades in the financial markets, Raymond James’ clients also benefit from the firm’s other service divisions, such as securities brokerage business, investment management services for retail and institutional customers as well as banking and trust services. Founded in 1962, Raymond James has approximately 930 financial advisors in the United States.

Although the company has been servicing broker/dealers for a much longer time, it is a relatively new entrant in the field of clearing and custodial business for independent advisors. It has been working with independent advisors since 1972 and has made clearing services available for fee-only investment advisors since 2001.

The firm’s business may look small next to the big players like Charles Schwab, Fidelity Investments, or TD Waterhouse. The strong focus on meeting client needs, however, has seen Raymond James attract about \$1 billion in assets from independent advisors in just over a year.

“They are very, very focused in terms of meeting the needs of investment advisors and helping us support our clients,” said Robert Smith, president and CEO of Spero Smith Investment Advisors in Cleveland, Ohio. “With Raymond James what we like is the depth of the organization in terms of research and access to analysts.”

With about 275 clients and \$180 million under management, the company had been a long-time client of Schwab Institutional.

But Smith said a number of concerns with Schwab caused the firm to select Raymond James as their second custodian a year ago.

“The frustration with Schwab is that over the years they have gone from incrementally to strategically competing with us and it’s very, very frustrating,” Smith said. “Schwab still has the majority of our accounts but we are moving towards an equal split between the two custodians.”

“The primary reason (for selecting Raymond James) was the customer service level that they provided and best execution in terms of pricing,” said Ron DeLyons, CEO at Greystone Investment Advisors in Cincinnati, Ohio. Managing assets of \$260 million, Ron DeLyons selected Raymond James after talks with several other firms and has been clearing with the firm for two years now. “The first thing was the ability and willingness to get things done. They were more concerned about assisting us as opposed to changing our business to suit them. That was a huge difference,” said DeLyons, who also did a brief beta test with Schwab Institutional.

Danison & Associates in Columbus, Ohio, which provides investment consulting and investment advisory services to small businesses and trustees of retirement programs, uses Raymond James for its individual and small business clients. “I think we have a much higher level of service than what I understand some of the other organizations provide,” comments the firm’s president Dean Danison.

Besides service, clients have generally also been happy with Raymond James’ technology and products. “Our platform of Internet-based trading, monitoring, and account viewing systems is outstanding,” said Laurence Menna, president of LifeAdvisors, LLC. “Raymond James has made technology a high-priority for us. With the changing face of our business, access to timely information and speed is very important. We get both. It allows us to provide outstanding service to our clients and the ability to manage my branch efficiently and effectively.”

“Obviously there are a lot of things that we would love to see,” DeLyons added. “We’d like to see a continually evolving technology so that each piece talks more seamlessly to the next and that includes some real-time viewing of client portfolios, contact management, and portfolio management.” Similarly, Menna says that the only feature he lacks is “an overall performance reporting system that applies to all accounts, and not just to fee-based and high net worth accounts.”

“Raymond James has told us that it will be available by the end of this year.”

Schwab Institutional

With a 15-year track record, Schwab is among the oldest and biggest companies offering custodial services to advisors. The company provides a wide array of services designed for advisors. After entering the retail market in the late 1990s, Schwab is now facing growing distrust from the advisor community. In addition, some of the company’s clients interviewed by TICKER, expressed concerns over deteriorating customer service.

Schwab Institutional offers technology tools for automated end-to-end trading, investment alternatives, such as managed accounts, specialized tax-advantaged solutions, and trust solutions. Investment choices include OTC trading, IPOs, fixed income and more than 4,400 mutual funds. Cash management tools and online access to account and market information are other options. In addition, advisors are lured with practice management tools, events and networking opportunities.

Reporting options allow advisors to customize the Schwab Institutional statement with the advisory firm logo. Monthly statement copies on CD-ROM, which can be downloaded to a firm network, can replace paper archives. Tax planning can be assisted through quarterly summary of clients’ realized and unrealized gains/losses or average cost basis and calculated gains/losses on all mutual fund redemption/sales for all tax-reportable accounts.

In addition, through Schwab Alliance, advisors can offer clients direct online access to account data, intra-day trade confirmations, complimentary real-time quotes, market, securities and transaction updates via email, as well as cash management tools.

The company also provides a training program at no charge to advisors working with Schwab Institutional. There are numerous workshops, events, and regional seminars organized by Schwab and designed for advisory firms. Schwab even goes as far as to offer help in the client-advisor relationships — the company suggests redirecting routine client inquiries to the Schwab Alliance team.

All of the above would have been great if many advisors did not fear that Schwab is directly competing with them for clients. Even the proprietary technology platform, widely acknowledged as useful, is often perceived as a way to make it harder for independent advisors to leave the company. Some say that Schwab may even begin to acquire advisory firms.

Another problem is that just like other large custodians, Schwab has a preference for larger advisory firms. Starting July 1, Schwab Institutional plans to double its quarterly fee to small advisors with less than \$10 million in assets in custody, from \$600 per quarter to \$1,200.

The fact that current technology makes it easier for advisors to have multiple custodial relationships is negatively affecting Schwab's market share. In 2002, the company suffered its first decline in 5 years in independent investment advisor client assets, which dropped 5% to \$222.4 billion from \$235 billion in 2001. At the same time, the number of advisors using Schwab's services remains relatively stable at slightly below 6,000.

Opinions on Schwab's services among advisors vary greatly, ranging from complete satisfaction to frustration. Advisory firm Jarab Inc. in Rockland, Del. uses Schwab Institutional as a custodian partner and finds the platform very useful - company officials said, "It works beautifully." Jarab does not point any desired features and is not planning to switch custodians.

William B. Burns, Jr., CFP, of Burns Matteson Capital Management, is also content with Schwab. "Although we certainly have issues with Schwab from time to time, overall we are quite happy with the service they have provided us, and I believe their brand name has been instrumental in our growth," Burns said.

Armond Dinverno at Balasa Dinverno Foltz & Hoffman LLC in Schaumburg, Ill., chose Schwab Institutional when the company was about the only player in the market. Today, he would like to see improvement in certain areas.

"There is some technological advancement that we would like," Dinverno said. "Like billing platforms. The portfolio management systems and the custodian's accounting systems don't necessarily talk to one another. If they could, they would make billing a much easier process. On our checklist are customer service, being able to handle the volume that we put through them, and technology."

However, Schwab has managed to seriously aggravate clients like Robert M. Vance of Vance Capital Management, who is with Schwab since 1998-1999. Although Vance still finds the platform good for trading, he says the service is deteriorating by the day.

"They clearly are alienating our industry day-by-day," Vance said. "We do get pretty good technical support with the Schwablink software. We do like Schwablink. It has some great features like rebalancing, block trades, uploading spreadsheets, etc. The problem is they lose paperwork, ask for the same paperwork over and over, and accuse us of not sending in the paperwork. We have complained and were assured that we would get better service. In addition we were told if we had further problems to just call one of four supervisors. Guess what? Our calls were never returned!"

Robert Vance does not demand fancy, high-tech features or special service. "We just want people that care and are competent," he added "I wish for once that people would stop giving 'yes/no' answers. They seem to be trained to give as little information in the shortest length of time and are seemingly commanded to end calls quickly. They force my staff to make multiple calls for simple things."

The \$29.95 trades represent another problem for Vance. "We use more and more ETFs, DFA funds, institutional funds that have lower expense ratios. It's a killer to be dinged such a high amount every time we try to rebalance accounts. The alternative is to use the One Source funds that have higher expense ratios. This seems to be a conflict of interest because

Schwab wants us to use One Source funds so they make more money by keeping the costs of trades artificially inflated.”

To keep its competitive position, Schwab has undertaken several initiatives related mainly to changes in technology. It is introducing a newer, more streamlined version of its Centerpiece portfolio management software under a new name.

The company has also designed an open platform (PortfolioCenter Outsource) that downloads accounts not just at Schwab, but at other custodians as well. Obviously, Schwab has chosen to acknowledge the reality of multiple custodians instead of fighting it. In addition, Schwab stated that only the personnel supporting the service could view client data in response to advisors’ concerns that Schwab may use their client data for their own business development.

TD Waterhouse Institutional Services

TD Waterhouse is not only one of the largest custodians today, but has earned a good reputation for service at a reasonable cost. Over the past decade, the company has focused on offering to advisors several products and services backed by up-to-date technology. Its service-oriented attitude has helped TD Waterhouse to grow and become one of the top three custodians, with \$17.8 billion assets under management at the end of 2002.

For Jeff Weiland of RTD Financial Advisors in Philadelphia, Penn. a high level of customer service was a main factor in choosing TD Waterhouse as their custodian. “The main thing that was surprisingly good are their people,” Weiland said. “The way they react to any snags that we have, their willingness to help us with anything that we are trying to do. They make you feel important to them and they value your business and they really show appreciation for the client.”

“We have chosen to use just one trading platform for all of our assets,” said Mark S. Podolsky of Financial Solutions Associates, a fee-only firm that manages \$75 million, almost all in no-load mutual funds, in Dedham, Mass. “We went through a long and tedious due diligence process that took about one year. Some of the factors we considered were the ease of trading online, dedicated telephone support, low fees, financial stability of the firm, long-term commitment to technology, ability to integrate with our portfolio management systems.”

With a product profile covering a range of brokerage, mutual fund, banking and other consumer financial products on an integrated basis, TD Waterhouse currently serves over 2,400 independent fee-based advisors. Moreover, the company offers a free advisor referral service for individual investors, which referred more than 4,500 investors, representing over \$2.6 billion in assets, to independent fee-only advisors in 2002. So far a very big plus for TD Waterhouse has been that it did not directly compete with its clientele by also offering financial advice, as Charles Schwab did, and this policy has helped it attract several clients in the past.

“I honestly believe that they just follow Schwab’s footsteps,” said Nancy Jones, Principal of NL Jones, Inc., a small fee-only planning firm in Upland, Calif. “They are just two or three years behind. I don’t think that’s a viable option.”

In February 2003 a trade publication reported that TD Waterhouse announced plans to enter the retail market next year, effectively competing with its own advisors. Later, the company denied the claim in an open letter. But since Schwab Institutional made the same promises years ago and didn’t keep them, investment advisors have become much more sensitive to such allusions and hard to convince of loyalty.

While it interfaces with several portfolio management systems (PMS), a big advantage for its clients is that TD Waterhouse offers Advent Office, one of the best PMS available today. Veo, the company’s online platform, enables advisors to give their clients a realistic view of how their investments might perform in the future and also generate goal-oriented investment recommendations. In keeping with its policy of constant improvements, the company has recently expanded its Veo platform by offering new services.

Still, there is room for improvement. “It isn’t a perfect platform,” Mark Podolsky added. “Some additional technology enhancements would be nice and while they seem to be constantly working on enhancements, we sometimes wish they would move a lot quicker.” In terms of additional features, **Richard Winer of Winer Capital Management** in Woodland Hills, Calif. would like a reasonably priced interface with portfolio management software, while conceding that TD Waterhouse is currently

working on this through its relationship with Advent.

James F. Watkins, Jr., CFP, at Watkins Financial Limited has “a paperless environment with access to more software at discounted prices and a better pricing system with Morningstar” on his wish list. “It is onerous to a small advisor to pay for each module,” Watkins told TICKER. “There should be a discount for each module after one. A better referral program. TD Waterhouse has one free, but only if you’ve already arrived.”

But Watkins also said that he chose TD Waterhouse after reviewing different custodians to find the support he needed and a reasonable cost for his clients. Plus, for him the platform has improved since he chose TD Waterhouse. The company has added new features that make his work more efficient as well as provide more investment choice. “In our 17 years of operations we have switched twice, making TD Waterhouse our third platform,” Mark Podolsky concluded. “This is the best one so far.”

Bear Stearns Global Clearing Services

With a quarter of a century in the clearing business, Bear Stearns is today one of the leading players in the market. The firm also offers a variety of complementary services, such as domestic and international custodial services, mortgage-backed securities services, securities lending, collateral servicing and lending, as well as portfolio management and brokerage services.

Bear Stearns has achieved a high level of synergy amongst its varied range of services and this has helped it to expand its client base. Today, the firm services about 3,000 broker/dealers, independent advisors, mutual funds, hedge funds and institutional asset managers. In 2002 Bear Stearns cleared 202,000 daily transactions on average and as of November 2002 total equity in client accounts at Bear Stearns’ Global Clearing stood at \$164 billion.

“We chose Bear Stearns at the inception of our firm because of its leadership in the clearing business and its strong commitment to quality clearing services,” said Tom Sbotto of Round Hill Securities, Inc. in Alamo, Calif. “Part of the process of choosing Bear Stearns was also our comfort that it did not compete against our own business and did not market against its own clients. We wanted a clearing partner that would compliment our strategy, which is to hire producing reps that have wirehouse experience.”

A notable plus for Bear Stearns is that during its long history, the firm has constantly tried to reinvent its products and services to address the changing needs of its clientele. Today, the firm has refocused its business around capital markets, wealth management, and global clearing. Forming strategic partnerships and providing up-to-date technology has also served Bear Stearns well. For example, in order to meet client requirements for better assessing and managing risk, the firm is currently working with a leading provider of risk measurement planning and proposal solutions to provide risk management tools that will be integrated with its platform later this year.

“We clear through Bear Stearns because we do mostly general securities type of transactions and it is well known that Bear Stearns typically clears more than 12% of the NYSE volume every day, has great securities lending capabilities, and a global presence,” Sbotto said. In terms of operations, he says that Bear Stearns’ order routing capabilities provide quick and efficient executions. Plus, its total back-office systems are even more enhanced since Bear Stearns builds its platforms with multiple features in mind because of the variety of firms it may clear for, and so, a well-rounded system is provided to all of its clients based on the cumulative input provided by its clients.

“There is no perfect system,” said Drew MacEwan, President of Falcon Financial and Consulting in Sheboygan Falls, Wis. “We get pretty good execution. It’s Internet-based for the most part. There were some installations that I had to make but for the most part there was nothing that was complicated.” The features of Bear Stearns’ systems that Drew MacEwan especially likes include real-time statements of the accounts and that the cost basis is automatically put in. He comments that these features really make things easier and more efficient.

Fiserv Securities, Inc.

Fiserv Securities is one of the largest clearing companies and is still growing. With \$1 billion in annual revenues and more than five million trades processed annually, the company provides clearing and execution services to investment professionals, including registered investment advisors and securities brokerage affiliates of banks, independent broker/dealers, insurers, and mutual fund companies. Charles B. Landreth, senior vice president at Fiserv Securities, Inc. considers flexibility probably the company's key strength.

"If you are in a commodity business such as ours, services are more determined in terms of flexibility than they are in terms of traditional customer service," Landreth said. "So, the ability to have an open architecture on our back-office allows us to meet customer needs in terms of technology and specifically, the ability to connect with a variety of front-end desktop tools."

The trend towards industry consolidation is leaving fewer clearing firms on the field and Fiserv Securities looks like one of the survivors. Last year the company acquired the correspondent clearing business of New York-based Investec Ernst & Company, thus increasing processing volumes. The acquisition brought 80 new clients to a total of approximately 500 clients and what is more important, increased the presence of the company among institutional brokers, who generate greater volumes.

Volume is crucial because the clearing business model has high fixed costs and is built to support a lot of trade activity and the respective revenue. Small companies find it difficult to maintain expensive technology platforms and provide adequate products and service levels.

One of the main advantages of FSI is its gravity towards asset-based prices versus ticket charges. This strategy is especially helpful for smaller companies that are developing their business and need to avoid high fixed costs.

"We were the first to offer asset-based clearing three and a half years ago," Landreth said. "So, instead of the traditional ticket charge, we would match our methodology with the way our clients charge their customer."

The company's product list is long and includes outsourced and in-house systems, securities clearing, trade execution, account management, portfolio maintenance, quotes and research, IRA administration, asset custody, back office, automated record keeping and electronic mutual fund trading services, and custody and automated trade support for retirement plans.

A number of products involve a high degree of automation. Those who regularly transfer funds between bank and brokerage accounts can use the Cash Relay program for automation of transfers. Customers can also elect to automatically reinvest cash dividends and capital gain distributions on certain securities. Another program, Money Market Sweep, automatically invests free cash in top-performing money market funds and withdraws it to cover debits.

The Investment Management Account combines the features of a brokerage account and a checking account with a debit card. The product has several versions, but the original one allows customers to choose the group of money market funds, the check processor and the debit card issuer.

For investing in mutual funds, Fiserv offers an automated order-processing tool and has a system, Breakpoint Monitor, for tracking the incentives that mutual funds provide to customers. Another program, No Transaction Fee (NTF), processes no-load funds without a ticket charge to the investment professional and a transaction fee to the customer. Instead, investment professionals collect trailer income as long as the customer owns the fund.

Currently more than 1,500 no-load funds can be traded through FSI's system and the company has more than 750 funds in the NTF program.

For retirement planning, the Self-Directed Individual Retirement system allows investments in equities, mutual funds, and money market funds. The program tracks all IRS reportable transactions and handles tax reporting. It also supports periodic

contributions and distributions.

Internet tools include FSI Professional, which provides access to front and back office technologies; FSI Investor trading and research tool for retail customers, as well as FSI Administrator for managing compliance, direct submit rules, blotter access and message management.

The Life Goal Planner is one of the options available on FSI Professional. The financial advisor records a customer's net worth, current budget and investment profile, and helps the customer to define investment goals. By combining those goals with back-office data, the Life Goal Planner establishes an asset allocation for the client's assets, reviews the investments, and makes recommendations.

Once an action plan of transactions has been recommended, Life Goal Planner sends the transactions directly to the trading platform, so the representative can execute the recommended trades without performing double entry.

Technology is among FSI's strong points. Recent investments include development of browser-based products as well as enhancing and automating the services for the institutional market segment. The company's products and services are customizable and integrated.

"I think they are ahead of the curve right now," said Mark Backes, chief operations officer of SouthTrust Securities, Inc. in Birmingham, Ala., whose company clears through Fiserv Securities. "They have a financial planning package through Life Goal Planner and their strategic partner Standard & Poor's."

FSI has also invested in strengthening the conversion process. Timothy McAfee, CEO of J. P. Turner and Co. in Atlanta, Ga. with 100 offices, 450 registered reps and just below \$750 million in assets, has recently transferred the accounts of 20 offices to Fiserv Securities.

"When you go through the conversion process, there are so many little details," said McAfee. "The fear is that one or two of them won't work, and something may happen that would disrupt the broker's business. They've taken a tremendous amount of time and incredible amount of detail in the conversion process for these 20 offices and it seems the conversion is going great."

Yet, the company still has improvements to make in its system. Mark Backes wants to see in the future more concise cost-basis information, while Timothy McAfee recommends improvements in the access to research.

"The only area that we hope does improve in the future would be access to research," McAfee said. "Fiserv is not a 'brokerage' firm and our access to research through them is somewhat limited. Obviously, in this age you can get almost anything you want on the Internet anyway, but to have one concise portal or place to go on their site to access different types of research would be a tremendous benefit to our business." ☎

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