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By Christina Mucciolo

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Who's There? An Elated Edward Jones Advisor.



Like all Edward Jones FAs, Andrew Boles got his start in the business making face-to-face contact with neighbors in his community.

Photographs By Jered Haag

# Edward Jones advisors are happy —very happy. What's with those guys anyway?

When Andrew Boles started as an Edward Jones rep 15 years ago, he was working out of the basement of his condo. These days, he manages north of \$100 million in assets for some 300 clients and is a limited partner at the firm. And to think he got his start walking down quiet residential streets in the New Jersey suburbs of Chatham and Madison, knocking on doors. Boles and other Ed Jones reps say the door-to-door exercise—which these days many FAs find laughable—does indeed help get a newbie broker some hard-earned experience. (Boles still praises the virtues of the door-knocking exercise, even though a couple of times the people he was trying to prospect called the cops.)

This kind of hard-scrabble optimism and small-town simplicity defines a lot of Ed Jones reps.

Wall Street big shots may make fun of them—saying they're not terribly sophisticated, their clients tend to be down market, and they don't really produce much revenue—but they're an awfully happy bunch. Edward Jones dominates workplace satisfaction ratings: It has consistently outranked other national full-service brokerage firms in *Registered Rep.'s* annual Broker Report Cards (for nearly 20 years now), and has long been near the top of J.D. Power's and *Fortune's* lists of the best firms to work for. In fact, the ardor that Jones reps show for their firm—in good times and bad—is often so great that some advisors at rival firms go so far as to grumble that it must be some kind of cult. After all, in an industry known for its eat-what-you-kill mentality and where many advisors express open suspicion towards management, the giddy enthusiasm of Edward Jones advisors sometimes seems out of place.

What is it about Ed Jones culture that fosters such loyalty? The answer seems to lie in the firm's unique model, which falls somewhere between full-service and independence, and a cohesive culture that encourages community building and partnership.

"I think if you talk about independence, you have the indie b/d channel, independent RIA channel and the partnership approach Edward Jones has," says Alois Pirker, senior analyst at Aite Group, a Boston consulting

firm. Edward Jones also has "a significant footprint, which allows it to rival the independent RIAs, because the indie RIAs' game plan is you are the local guy—so bringing that RIA philosophy into a brokerage environment is working to their advantage," says Pirker. Indeed, Edward Jones has 9,660 offices in the U.S.—more than any other financial services firm in the country.

Like many RIAs, Edward Jones offers most of its advisors limited and general partnership in the private firm—and it's the only large brokerage firm that still uses this kind of arrangement. What's more, like at the independent b/ds, Ed Jones advisors have a fair amount of autonomy and can direct their client relationships without a lot of interference from management, says Boles.

But the firm's culture also emphasizes conservative values: a rootedness in community and an adherence to buy-and-hold investing. Ed Jones' advisors live in the smaller bedroom communities where they work, and are typically active in community building and charity groups—not to mention mentoring junior reps at the firm. Like Boles, many Jones advisors get their start knocking on doors, and they tend to serve middle-market investors, with average assets of \$90,000. These are the kind of people for whom buy-and-hold makes a lot of sense, and the firm's investment philosophy today is the same one that was put in place when founder Edward D. Jones opened the firm's first office in St. Louis in 1922. Unlike the Wall Street wirehouses, Edward Jones does not chase the hot dot: It shuns options, commodities, online trading and wrap accounts, giving preference to blue-chip stocks and time-tested mutual funds. Such no-nonsense strategies kept Ed Jones out of the auction-rate securities and sub-prime messes.

Of course, the Jones model is less profitable than that of its rivals at large RIAs and Wall Street brokerages. At \$256,459 (gross commissions), average production among Ed Jones advisors is low compared to the average among advisors at the wirehouses, which tends to hover around \$600,000. But the firm's performance this year is not bad considering the current state of the market. In the first nine months of fiscal 2008, the firm pulled in \$3 billion in revenue and \$275 million in profits, with pre-tax profit margins of around 9 percent. Recruiting is strong: The number of advisors at the firm at the end of November was up almost 9 percent versus the previous year, bringing the total global FA headcount (including the U.K. and Canada) to 12,200—all of them dually registered.

## Meet Advisor Jones

"What I would categorize as Edward Jones' secret weapon is our ownership structure," says Randy Grossman, a four-time Super Bowl champion, who will be eligible for

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partnership in a year. "We're all employees, yet we feel very strongly this is all of our business," he says.

More than a third of the firm's 29,000 financial advisors, branch office assistants and home office associates are limited partners. (In all, 32 percent of the firm's advisors are limited partners, and another 1 percent are general partners.) All Edward Jones associates, including financial advisors, participate in the firm's profit-sharing plan, which paid 5.8 percent of earnings in 2007. Financial advisors must meet certain branch profitability requirements and show a record of volunteer activities in order to become limited partners. On top of a roughly 40-percent payout, profit sharing and the ability to participate in the travel awards program, Edward Jones financial advisors get paid a bonus three times a year, according to a calculation that includes the FA's branch office revenue and the firm's gross revenue. Between the profit-sharing program and the bonus-sharing program, the firm paid 42 percent, of \$375 million of the firm's \$883 million operating income to FAs and associates in 2007, says Jim Weddle, managing partner at Edward Jones. (Although he's got the top job, the firm doesn't use the term CEO -- a clear indicator of the horizontal structure of management.)

Because so many of Edward Jones' recruits go on to take a stake in its future, the firm is pretty careful about finding advisors who are the right fit: Some may not have any financial service experience, but what they do have is a belief in the firm's conservative philosophy and a desire to work locally and give back to their communities, Weddle says. (Unlike some other national full-service brokerage firms, Jones doesn't hire teams or pay upfront bonuses.)

"I was attracted to Edward Jones because the whole philosophy and value system of the firm were aligned with what I believe," says Michael Flynn, who works with Boles in the firm's "Goodknight" program. Under the program, a veteran invites a new rep to work out of his/her office for 12 to 18 months, in addition to giving the new advisor some smaller accounts to help them get started in the business. "I haven't been disappointed," says Flynn.

Jones also wants its recruits to come from already successful careers in other fields. In fact, the average Edward Jones recruit is 35 to 37 years old and has about 10 to 12 years of working experience. As a result, among the firm's advisors are people like Grossman, who played for the Pittsburgh Steelers

from 1974 to 1981. During that time, he says he saw "the good the bad and the ugly of financial advisory services," as a successful professional athlete. Deciding he wanted to be one of "the good" financial advisors, Grossman started out as a rep with now-defunct Kidder Peabody in Pittsburgh in 1990. He later joined Advest, but left to work at Edward Jones in 2006 after Advest was acquired by Merrill Lynch.

"One of the advantages and part of the mantra of Edward Jones is that we're 'next door' advisors," says Grossman. "We're an office that anybody can walk into. If they want to start an IRA with \$1,000 or \$500, we're here to give them really good service, but we also have the horsepower to respond to larger scenarios."

## Investing In Its Reps

Because many of the advisors the firm recruits have no experience in financial services, and because the firm's culture is so essential to its success, Edward Jones spends heavily to train new recruits, and relies on its own veteran reps to get them up to speed. In fact, the firm recruits and trains nearly 335 reps per month in the U.S., and Weddle says the training classes are filled through the first half of 2009. After they are licensed, recruits train with a veteran broker for eight weeks, often just a town or two away from where they will be starting their own businesses. Weddle says 90 percent of new advisors make it to the home office in St. Louis or Tempe, Ariz. (where Jones opened a training facility), for evaluation and graduation. For many of these trainees, it's a great first experience with the firm, and it breeds dedication.

Take Patrick Chanod Jr. Chanod worked for eight years in the bond brokerage and clearing business before he joined Edward Jones in March of 2005, so he's no stranger to the alpha male attitude that can dominate a Wall Street firm. One thing he said that struck him about Edward Jones was how willing another Edward Jones advisor was to help him get started. In the same way, he now mentors other junior Jones advisors.

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“Primarily we’re starting people from scratch with lots of support and lots of mentoring, but the first and second years are difficult for them,” says Weddle. Still, the firm has some impressive programs to help fledgling advisors get a foothold in the business and start attracting clients.

In addition to the Goodknight program, there is the “Legacy Plan,” which is similar to the Goodknight program in that junior advisors share offices with veterans, but there is no sharing of accounts. “Between Goodknight and Legacy, we have way over half of our new FAs getting started very well,” says Weddle. The success rate for an advisor in the Goodknight plan (the firm started 636 Goodknight partnerships last year) is about 80 percent compared to about half that when advisors start from scratch at the firm.

## Beneath The Hype

“It is a pleasure believing in your firm’s philosophy,” says Chanod. “I don’t go to sleep at night wondering if I put my clients in the wrong investments. It is that belief system that gets you through a year like this.” Some clients come to him saying, “So and so put 40 percent in hedge funds and is making a ton of money.” But now, more than ever, Chanod says he is armed to stand by the firm’s conservative investment philosophy.

Of course, even Edward Jones has had its hiccups. It wasn’t until last summer that the firm finally rolled out its much-awaited fee-based advisor account called Advisory Solutions, years after most other firms began pushing fee-based business. Technology has been another stumbling block. Chanod remembers, for example, that when he joined Edward Jones in 2005, the firm didn’t even have companywide email, and he often had to resort to making certain financial planning recommendations using a rudimentary retirement calculator. Since then, the firm has rolled out a suite of financial planning software called Financial Assessment and Solutions Tool (FAST), which helps put Jones advisors on more equal footing with advisors at other financial services firms.

One former Edward Jones advisor of 13 years says he left the firm a little over three years ago, precisely because these problems had yet to be addressed. The technology

was inferior and he wanted to move to more of a fee-based model. Perhaps he would feel differently today. Still, this advisor, who is now with Raymond James, says he also felt Edward Jones had policies and procedures which hampered his ability to do business: They didn’t make exceptions for special clients. For example, he lost part of a major account when he could not get an IRA fee waived (both the husband and wife on the account were charged the same fee) by management—such accommodations are often made on a case-by-case basis at larger firms for top producers. Overall, this advisor says he still thinks Edward Jones is a good firm, but he’s happy he moved on. While he was working at Edward Jones, he never thought he would work for another company, he says. “I see it differently now. Everyone who works there thinks they are with the greatest firm in the country, but they don’t necessarily know [first-hand] what else is out there.”

That may be part of the firm’s strength: The culture is very tight knit. Indeed, if you happen to see a very large group of happy families at Disney World it might be a group of Edward Jones reps, their spouses and their kids on a firm-sponsored trip. Under the travel reward program launched more than 40 years ago (called the diversification program), Edward Jones rewards FAs who have a diversified product mix and meet a certain level of business (\$102,500 gross for a six-month period) with trips to places like Mexico and Hawaii twice a year. Weddle says typically 45 percent to 50 percent of all FAs qualify every six months—and the firm spent \$75 million last year on the travel rewards program. Weddle says, “Every one of our FAs is in their own office—that is a tremendous sense of independence, but also accountability—so every once in a while we want to get folks together to share ideas to reinforce the culture and sense of camaraderie. You don’t want that independence to become isolation.”

Like at many Wall Street firms, there was no Christmas party this year in St. Louis at the Edward Jones headquarters. Instead, Weddle says he is having members of the management committee and their spouses over to his house for dinner. What do you expect? It’s Edward Jones. ●