Ameriprise makes its move upmarket by first moving its bonus payouts to Wall Street levels

by Lisa Shidler

Brooke's Note: Ameriprise is an enigmatic company. It doesn't love the media, rarely speaking to us and we see, stiff-arming Reuters when it tried to get comment for the article that sparked this one. I faithfully listen to its Ameriprise conference calls trying to get a shred of insight into its advisor business and generally come up empty. The conversation inevitably stays focused on the millions it reaps from its asset managers. But asset managers are a commodity, relatively speaking, and advisors are not. There seems to be some recognition of that here. In the mass market where Ameriprise advisors thrive, it has been able to push through its own products with some success. Those aren't sophisticated investors swallowing those products. But now Ameriprise is making a bid for bigger advisors who generally won't go for that sort of closed architecture. Their clients are too smart. So in other words, the play by Ameriprise to go head to head with wirehouses on bonuses indirectly signals a big strategic shift for the company — into bigger competition with RIAs.

"When someone says it ain't the money, but its the principle of the thing, it's the money." — Elbert Hubbard

Ameriprise Financial is offering 150% of an advisor's last 12 months of revenue as its base recruiting bid in an attempt to zap its recruiting efforts back from the dead, according to a Reuters article published Thursday.

The Minneapolis-based giant has had lackluster recruiting results, according to a Reuters database where it tracks firms' numbers. The decision to jack to 150% from 120% an advisor's last 12-months of revenues — 25% — in a public bid for advised assets was revealed in a recent call with analysts and recruiters. The new bid applies to advisors who bring in $830,000 or more of revenue. It would also pay signing bonuses of 150% for so-called "second quintile" brokers who bring in $585,000 in revenue, according to the Reuters report.

For a $1-million producer, the formula suggests that a signing bonus would jump to $1.5 million from $1.2 million, or a difference of $40,000 per year over a seven-year payout.

Needed incentive

John Furey: Their platform isn't unique enough so they are giving more incentives.

The bigger recruiting kitty at the American Express spin-off is certainly eye-catching, says Mindy Diamond, principal of Diamond Consultants of Chester, N.J., who no longer recruits for Ameriprise because of concerns about the firm. (More on that later.)

"That's a good deal. We don't take that lightly," DIamond says of her firm and clients, like St. Petersburg, Fla.-based Raymond James, San Franciso-based FiNet (Wells Fargo's independent broker-dealer); and Morgan Stanley in New York. The 150% bonus brings Ameriprise about in line with FiNet, Diamond says. See: FiNet's wirehouse-lite model scores with advisors.

It also puts Ameriprise on a par with the wirehouses but widens its advantage gap over IBDs like LPL Financial or Commonwealth Financial Network that are likely to pay in the 50% range, according to **John Furey**, principal of **Advisor Growth Strategies LLC** in Phoenix. See: LPL bags a big Ameriprise advisor-under-RIA after CFA pursuit 'opened my eyes'.

"If you have to pay more to get advisors to join your platform, it tells me your platform isn't as competitive as it could or should be," Furey says. "This is an acknowledgement that Ameriprise is going after larger advisors and their platform isn't unique enough so they are giving more incentives."

Fifth wirehouse

The newly found determination of Ameriprise to wield its financial power in the recruiting wars follows its virtual standstill in its recruiting efforts since Oct. 31.

Ameriprise has drawn just eight brokers who had more than $100 million in assets under management since then, according to Reuters, which cites tracking it does based on Ameriprise's own announcements.

In its article published yesterday, Reuters took pains to show that Ameriprise isn't the victim of a general slowdown. Since Oct. 31, Raymond James hired 32 new brokers with at least $3.2 billion in client assets under management, according to the Reuters database. See: Raymond James launches 'phenomenal' RIA-like pay structure to the $100 million set.

The move will make Ameriprise more competitive with wirehouses such as Morgan Stanley, Bank of America's Merrill Lynch and Wells Fargo. Recruiters have long described Ameriprise as the "fifth wirehouse" because of its stature as a brand with so many thousands of financial advisors. The firm does not do investment banking but its advisors sell many asset management products produced by Ameriprise. See: How Ameriprise used its franchise system to snare a Smith Barney breakaway.

Ameriprise advisors operate under both the employee and franchise model — a two-tiered system that has occasionally created channel friction with its advisors. See: In a move that risks a backlash from within, Ameriprise opens the door wide for bigger wirehouse brokers.

Money doesn't change everything…

Mindy Diamond: Advisors realize the Ameriprise name doesn't resonate with high-end clients.

The brand challenges facing Ameriprise run deep because the firm appeals predominantly to middle-class clients, which can make it less appealing to high-end clients. See: Wells Fargo targets tempting but treacherous UHNW market with Abbot Downing launch.

But simply infusing money into a long-existing problem facing Ameriprise won't fix everything, says Diamond.

"If I have a choice between Wells Fargo's FiNet or Ameriprise, and Ameriprise is synonymous with a more mass affluent or lower- end client, I'm more likely to choose Wells Fargo," Diamond says. "If an advisor is trying to get larger clients with $5 million to $10 million in assets, they realize the Ameriprise name doesn't resonate with high-end clients and they feel it hurts them in the end." See: Wells Fargo's FiNet deepens recruiting team, adds regions.

Diamond adds that has stopped recruiting for Ameriprise in the last six months with these concerns in mind.

Ameriprise declined to comment for this article. Nor did it comment to Reuters in its article on this subject.

...But it doesn't hurt

"Ameriprise is tough to label as a company, says Danny Sarch, president of Leitner Sarch Consultants in White Plains, N.Y. "The mass market reputation is there for them, but I think they're overcoming it."

But money talks to advisors regardless of its source, according to Sarch.

"I don't think this is desperate at all. If you don't have money, then you can't make the deals. You have to pay for talent. There's a shortage of new advisors. This fits the model, if you will, which is the price of the advisors keeps going up based on the shortage and increasing demand." See: Merrill Lynch makes bold moves to train new recruits for an RIA-centric future.

Sarch counts Ameriprise among the firms he recruits for.

Stock rising

Joe Duran: This could work for them.

But Joe Duran, chief executive of Newport Beach, Calif.-based United Capital Financial Advisers, warns that Ameriprise needs to be careful of what it wishes for in advisors who choose a mother brokerage firm based on payout.

"I'm not sure they'll get the most attractive element." See: A young advisory pair escaped wirehouse cost cuts to land at Wells Fargo.

Ameriprise has other positives going for it, according to Sarch. The company continues to see its stock rise and it experiences little attrition among advisors; announcements of firms poaching advisors from Ameriprise are rare.

The firm's shares have indeed been on a meteoric rise — jumping to a share price of $115 from $45 in the past 24 months. Since 2009, shares have risen from $25.

Much of that share-price appreciation can be attributed to its success in building up Ameriprise Financial Services Inc. the asset management business under its ownership. Ameriprise can earn especially high profit margins by selling those products through its own advisors. See: How Ameriprise used its franchise system to snare a Smith Barney breakaway.

Past evils

One way Ameriprise has traveled upmarket of late is by reducing its past dependence on pushing proprietary products, Sarch says. The firm is working to open its architecture.

"In the past, they only sold their own product and they don't do that anymore, but the issue is overcoming the past evils. Now, I think they're very focused on their own brand, which some advisors see as a real plus but for others it's not. If you want to tap into their brand, Ameriprise is a good spot, but if you want to create your own brand, it's not the right place for you." See: What ever became of RBC's RIA custody unit after it showed such promise.

Still, the higher bonuses may have a way of softening brand sensitivity.

"This could work for them," **Furey** says.