

The Harvard of Broker-Dealers



“IF YOU WANT TO KNOW WHAT a broker-dealer is like,” says Joseph Deitch over a cup of first-rate lobster bisque at the Harvard Club on Boston’s beautiful Commonwealth Ave. (a.k.a. Grand Boulevard), “you need to understand the personality of its top management.”

This may be particularly true of Commonwealth Financial Network, which Deitch founded in 1979 and built into a Top 25 independent broker-dealer. The choice of the Harvard Club, where Deitch is a member, is no coincidence. His retail financial plan-

WHO: Joseph Deitch, Chairman and CEO, Commonwealth Financial Network

WHERE: Harvard Club, 374 Commonwealth Avenue, Boston

ON THE MENU: lobster bisque laced with brandy, Harvard “Club” sandwich, low rep to home-office-staff ratio and selling time for the advisor

ning practice, out of which Commonwealth eventually grew, was called The Cambridge Group. He also will have you know that the Boston Latin School, where he went as a kid, actually predates Harvard, having been established

a full year earlier, in 1635.

It may be a stretch to say that Commonwealth strives to be the Harvard of broker-dealers, but you can’t shake off this impression. The firm produces a print publication whose name — perhaps not coincidentally — is *Commonwealth Business Review*.

Deitch puts it a bit differently: “We want to be the Four Seasons, the Ritz-Carlton of the industry.” But it is the same idea.

Talking about how Commonwealth differs from its competitors is his favorite subject, says Deitch, and he can get quite enthusiastic about it. With around 1,100 financial advisors, Commonwealth is clearly not the largest broker-dealer, but it positions itself as a high-end player. While it ranked 19th in terms of the number of reps on *Investment Advisor*’s 2006 list, it occupied a much higher ninth spot in terms of gross revenue, and higher still, fourth, in terms of average annual production per advisor. Commonwealth advisors, Deitch claims, now average some \$300,000 in production.

“We are virtually alone among our competitors to have no conflicts of interest. We do not have a parent company, we manufacture no products and we are privately held — which means that we don’t have to worry about our share price.”

This is indeed becoming increas-

ingly rare in the age of industry consolidation, but Deitch sees no need to alter the situation. Commonwealth, he claims, is large enough, and financially strong enough, to undertake all the projects it needs.

Luxury to Cherry-Pick

“When I started in this business as a budding entrepreneur, I thought it was all about growth,” Deitch says. “Now, I realize that if you focus on quality, on what is important to your clients, growth will follow naturally.”

Growth has been organic, with only one small acquisition back in the 1990s, but Commonwealth has been steadily adding new advisors. Growth averaged around 40 percent per year, measuring 27 percent last year. The attrition rate has been low — in 2006, the firm dropped fewer than 90 advisors.

While talk of being the best may sound like a fairly standard marketing ploy, Deitch insists it is not. “We may not be the best in everything we do, it’s the real world, after all,” he admits. But like a professional sports team, it sets out with its eyes firmly on the top prize.

The eight partners in Commonwealth get together for lunch every Thursday, which, given the company’s dual location in Boston and San Diego, typically involves teleconferencing. It is a stable group, having been together for at least a decade

To emulate Harvard, you have no choice but to discriminate. After all, the real Harvard accepts fewer than one in 10 applicants for its 1,600-strong freshman class.

“We are fortunate to be selective as to whom we accept as our clients,” says Deitch. The minimum production for new advisors is \$200,000. Of those who contact Commonwealth, it turns away something like 70 percent to 80 percent after the first telephone interview. Of those who are invited in for a

personal conversation, about 70 percent to 80 percent get hired. It works out pretty close to Harvard’s level of competitiveness.

“We have the luxury to cherry-pick,” says Deitch. “It’s a nice position to be in.”

But if you get into Harvard, you probably expect to be taken care of better than at a run-of-the-mill state college. Accordingly, Commonwealth ranks very high among independent broker-dealers in terms of the ratio of reps to home office staff, at 3.3. It is, in fact, the lowest number among the top 25 independent broker/dealers.

Freeing Up Advisors

It is not merely about providing services to advisors, or responding to their needs. Deitch sees the function of the broker-dealer as taking administrative and other non-essential problems completely off its clients’ hands, not only performing them but performing them a lot better than advisors could ever do themselves.

In the past, says Deitch, advisors were clamoring for more services, more and better technology, etc. Now, it is often the case that technology has moved so far ahead that advisors no longer realize what capabilities they have at their fingertips.

It is even more complicated than that. In the 1980s and much of the 1990s, advisors were basically salespeople, most of them working individually with clients and averaging \$100,000 in annual production or less. Now, with their average production tripling and assets under management rising substantially as well, Commonwealth’s reps have become business owners. It is not that they need support to manage their practices; it is more that their businesses are now run by staffs who need help in running a business.

There is solid business logic for

the broker-dealer to invest heavily in support services. There are plenty of studies showing how valuable advisors’ time with clients is. When reps concentrate on their core tasks of working with clients, their time is worth as much as \$1,200 an hour, says Deitch. Most administrative tasks are worth \$15 to \$20 an hour.

Commonwealth has adopted a standard of excellence to become “indispensable” to its reps. Curiously, financial consultants are now encouraged to become “life coaches” to their clients — advising them not only on matters of investment, financial planning and retirement, but on many of life’s other issues as well. Commonwealth, in its business model, similarly strives to be an indispensable advisor to its reps.

Or rather, an educator in a whole range of issues related to running the practice, communicating with clients, using technology and selecting investment products. Which is where the parallel with Harvard comes in once again.

Learning, however, is a two-way street, and in order to educate your client you need to know what your client’s needs are. Deitch quotes a rabbi whose skills as a listener he admires. “If you’re listening to the words,” the rabbi told him, “you’ve already missed it.”

Commonwealth runs a large number of conferences, symposia and other events for its financial advisors every year. Deitch’s favorite is something called Chairman’s Retreat, which the firm organizes for its top producers with over \$1 million in production. Held in Boston, it features business school professors — from Harvard, of course — and is hard work in addition to all the fun.

“These advisors represent less than 2 percent of our total,” says Deitch, “but it is remarkable how much we can learn from them.” **B**