Trendspotter: Where Have All the Brokers Gone?

Registered reps and BDs have been declining in numbers for years. Susan Schroeder, Andy Tasnady and Danny Sarch explain why.

By Jeff Berman | June 24, 2021

The Trend

The total number of broker-dealers registered with the Financial Industry Regulatory Authority has fallen every year since at least 2011, while the number of registered representatives has fallen each year since 2016, according to FINRA (https://www.thinkadvisor.com/2021/05/25/number-of-registered-reps-falls-for-fifth-straight-year-finra/).

The number of BDs fell 2.3% — or 82 firms — to 3,435 in 2020 from 3,517 in 2019, according to FINRA's 2021 industry snapshot (//www.finra.org/sites/default/files/2021-05/Industry_Snapshot_2021_v6.pdf). Meanwhile, the number of registered reps dropped 1.1% — or 7,125 individuals — to 617,549 registered reps in 2020 vs. 624,674 in 2019, according to FINRA.

The Drivers

- The growth of self-directed trading.
- As registered reps retire or shift channels, there aren't nearly enough newcomers entering the sector to replace them.
- A shift in what business model is most appealing in favor of RIAs, especially to newcomers.
- The declining number of training programs.
- Increased consolidation of firms.
- Increased compliance requirements for registered reps and BDs.
- Changing demographics.
- Decreased appeal among younger Americans for Wall Street in favor of the technology sector.
- Technology itself, especially the ability for potential clients to screen incoming landline phone calls thanks to caller ID and the shift away from landline phones to mobile phones.
- The cachet of big-name wirehouse firms is not what it used to be, especially among younger Americans.
- Declining profitability.

The Buzz

Andy Tasnady, managing partner of Tasnady Associates:

"There's multiple reasons" for the declining number of registered reps, and "I do think the trend will continue."

“The growth of the alternative investment channel, I think, is one of the bigger” reasons, he said, pointing to the “Schwabs of the world and the Robinhoods of the world.”

Those alternative channels “require fewer advisors and, in many cases, don’t even require advisors [because] it’s automated, self-directed.” That is one reason why the “number of advisors that are needed is just going to continue to [decline].”

“Replacements are fewer and fewer” after registered reps leave the sector as well. It is more appealing for younger people entering the sector to “have more of the salary/service center-based position than it is the 100% high-risk, higher-pressure-type roles” that registered reps have. A straight salary-type position is more attractive to many young people than sales- or commission-based roles, he said.

In addition, “we used to have big-time training programs for kids coming out of college, and that’s largely gone.”

There has also been “a lot of consolidation” in the sector, he said, noting: “We used to have a lot of regional firms, and there’s very few of them left.”

Then there is the “increased cost of compliance coupled with the reduced levels of commissions.”

New rivals offering “zero-cost trading have really pressured the margins in the whole business,” he said.

BDs, meanwhile, face the same issues. “The trading volume and the revenue of trading volume have really fallen off the map in the last 10 years.

“It’s harder to make money in that space. But the larger firms can spread out their fixed costs and survive and still do well.”

However, “I don’t think that industry’s going away, because there still is a market” for it.

Danny Sarch, president of Leitner Sarch Consultants:

“We’ve got the demographic challenge that there are only half as many people born in the baby-bust generation as the baby-boom generation.”

And whom will investors trust with their money? “The odds are better” that it will be somebody “with a little bit of gray” in their hair than a newcomer to the sector. But a significant percentage of advisors are retiring every year, he said.

He pointed to one statistic he saw projecting that as many as one-third of advisors will retire over the next five years.

It is also “harder than ever to train in the industry, [but] in order to create new advisors, you need training.”

Once you get past that, “how do you get in front of people [now that] technology has made that more and more challenging?” This is “why so many firms have given up on training altogether or revamped their training programs to try to figure it out.”

One main tech culprit is caller ID. “People don’t answer their home phones anymore.” Twenty years ago, a broker would call a potential client (https://www.thinkadvisor.com/2021/06/11/is-cold-calling-dead/) and pitch a non-risky investment, and many people would send them money based on that. Few people would do that today.

At the same time, however, “RIAs, as they have grown, have become smarter and smarter businesses.”

Younger people also “don’t view the [big wirehouse] brands with the same reverence as they probably did, certainly, when I was coming out of school and younger.” RIAs are seen as more attractive to many younger people now.

“Another challenge” is “fewer people in general seeing Wall Street as desirable” vs. the 1980s and 1990s. “After the financial crisis, many people see it as evil,” he said with a laugh. Conversely, “high-tech is seen as sexy” now, he noted.

“In the ’80s and ’90s, I think, you were competing for the best and brightest on Wall Street going into wealth management as one of the options. … Now, Wall Street isn’t seen as sexy.” Today, the “best and the brightest are probably going into the tech space or biosciences and those types of things as a career choice, so it’s more competitive than ever for Wall Street … to compete for top young talent.”

BDs “have the same challenge as the wirehouses,” including declining profitability. “A lot of the smaller broker-dealers were able to succeed in some of the cracks in the industry.” They would, as examples, go out and be a “small stock purveyor or [become] a part of a community in a way that they would get known. But, all of a sudden, there are Edward Jones people on your block” as competition or “somebody who broke away from Merrill is now at Raymond James” or another firm on your block.

His forecast for the decline in registered reps and BDs: “I see it accelerating.”

Susan Schroeder, former executive vice president of enforcement at FINRA and currently vice chair of the securities department at the law firm WilmerHale:

“I think two major factors driving the decline in registered representatives are:

“(1) The relative costs of compliance for broker-dealer RRs and their firms, who are heavily regulated by both” the Securities and Exchange Commission and FINRA. “Especially in light of the increased cost and effort required to comply” with the SEC’s Regulation Best Interest (Reg BI), “the economics of commission-based brokerage advice continue to decline and compare unfavorably to registered investment advisers. You can see that not only in the decreasing numbers of RRs, but in the decrease in brokerage firms and the low number of new brokerage firms; and

“(2) The shift in customer demand as individual investors migrate to online and app-based self-directed brokerage.”

Schroeder expects the trend to continue, she told ThinkAdvisor, noting it’s a trend that has been seen for the past 10 years or so.

2021 will also be the first full year in which there will be impact from the Reg BI compliance requirements, she noted, predicting there will be enforcement of Reg BI by the SEC.

Meanwhile, the BD model is “declining pretty rapidly,” she said. Newer BDs also tend to be fintechs vs. traditional BDs, she added.
