DISPATCHES FROM THE FINANCIAL FRONTIER BY CHRISTIAN M. CHENSVOLD

SEND IDEAS, TIPS, GOSSIP AND ASSORTED COMMENTARY TO cchensvold@researchmag.com

THE ONLINE SCENE

Internet Financial Traffic Soars

THE CONVENIENCE of Web-based trading just doesn't compare to the colorful personality of a stockbroker, according to a new study.

Since July 1999, online traffic of new customers to the Web sites of financial services firms has grown 150 percent — twice as fast as overall Internet usage, says Mercer Management Consulting. However, consumers make purchases of loans, insurance and other financial services far less than they do of consumer goods such as books and travel packages.

Brokerages rated higher than banks and insurance companies in creating unique products for customers, improving productivity and increasing profits. Charles Schwab and Ameritrade came out tops in the field.

The study also found that nothing replaces good old-fashioned clout. Incumbents like Merrill Lynch and Fidelity generate much more Internet traffic than their greener competitors. Edward Jones also rated high for having a low-tech approach that is relationship-oriented: "Edward Jones leverages a business design built around relationship management focused on specific target markets to produce one of the industry's fastest growing firms."

The study also found that the market for financial services online is smaller than originally forecast.

THAT GUY'S GOT A LOT OF NIRV

Swami Dearest

WORRYING over the slouching Nasdaq is not going to bring it back up, nor will it get you to Nirvana.

Just heed the words of Swami Parthasarathy.

The Indian guru recently addressed a foreign-exchange traders' conference in New Delhi. "You've got to throw up your arms and say, 'I'm peaceful and happy,'" said the swami. "'And that happiness does not depend upon indices.'

"You could be as active as possible and the indices can shoot into the sky or go deep into the ocean," continued the sage, "but it wouldn't bother you."

Easy for him to say: Have you seen the portfolios of Indian swamis lately?

Parthasarathy said that despite what some Western psychologists say, stress is not good for you. "If the mind is agitated, you can't think properly. You can't work properly. There's no way that stress can give you better performance."

Parthasarathy is the founder of the Vedanta Life Institute and conducts holistic living classes near Bombay. As India's number of executives swells along with the rest of its population, he is one of many new age gurus preaching stress-management techniques.

GET ONLINE

Financial Domain Names For Sale or Lease

IF YOU'RE an independent, or planning to start your own financial services company, you might need an Internet address that's a little easier to remember than johnsmithcompletefinancialservicesincludingwillstrustsandestateplanningservingthegreaternorthwest.com.

Own Stockbroker-listing.com for a measly $10,000.

Back in the good ol' days of the Internet boom (you know, like one year ago), valuable chunks of cyber real estate were fetching $10 million. Even the guy who owned toenailclippers.com made a mint.

Thankfully prices have dropped, and now there's a new broker of financial domain names, wallstreetlisting.com. The company hooks up buyers and sellers of Internet addresses, offers appraisal services, and can even lease you a catchy address if you think you might tank in three years.

The site charges sellers a 10 percent commission to unload a site they've registered. And if you're in the mood to buy, here's a smattering of domain names for sale, as of January 10:

Stockbrokerlisting.com	$10,000
Mutualfundsfirm.com	$10,000
Stockmetro.com	$1,000
Bullgame.com	(make offer)
Wallstny.com	(make offer)

Finally, you can make an offer for the ultra-generic brokeragefirm.com.

A READER'S LETTER

Look Before You Leap

IT'S NOT leap year, but it's a giant leap to believe that fee-based planning is growing ("Leap Year," Editor's letter, January 2001). Your magazine is guilty of the same confusion that exists in our industry — confusing how we service our clients and how we get paid. You're right on target when you say we must be advisers rather than product-oriented, but that's got nothing to do with how we get paid.

Our firm offers each new client a menu of charges, commissions, fees or hourly fees. Regardless of which way a client chooses to pay us, they get the best ongoing advice we can provide. But our experience has been that those that choose fees based on assets under management switch to commissions once they realize that they pay and pay and pay. With commissions, they only pay for a new transaction. Moreover, most of our new clients are disillusioned investors from fee-based firms.

We believe this to be a trend in the making, because no one likes to lose money in a down market. But they really hate paying quarterly fees on an investment portfolio that keeps losing money.

Lou Nebel
Nebel Financial Services, Inc

IT'S BEEN A TOUGH FEW MONTHS

Remember: Investing is for the long term.

Asset Range	3 Mos.	YTD	3 Yrs.	10 Yrs.
Large-cap				
>20 billion	-1.76%	-.41%	24.59%	23.31%
5 bil-10 bil	-1.90%	1.94%	22.85%	21.56%
<500 mil	0.65%	1.38%	15.84%	16.37%
Mid-Cap				
>20 billion	-5.99%	-10.48%	38.63%	N/A
5 bil-10 bil	1.67%	9.73%	33.69%	27.78%
<500 mil	4.16	11.91	19.76%	19.27%
Small-Cap				
10 bil-20 bil	-2.27%	1.28%	28.83%	24.34%
5 bil-10 bil	-2.67%	-3.15%	22.93%	24.20%
<500 mil	2.04%	6.65%	10.89%	17.75%

SOURCE: WIESENBERGER. MUTUAL FUND DATA AS OF DECEMBER 2000.

SHANGHAI SURPRISE

Better in the Red than Dead

IN DECEMBER the Shanghai Stock Exchange celebrated its 10-year anniversary. But as the Communist country gradually embraces capitalism, accusations of cronyism abound.

After an 18-month surge in stock prices, regulators are investigating whether Chinese investment funds are a scam that preys upon small investors.

Apparently the cash-strapped government is trying to persuade much of China's billion people to put all their savings in the stock market. The state-run media is touting the market, while the government has instigated a new tax on bank savings accounts.

Meanwhile, markets in Shanghai and finance center Shenzhen were up 40 percent in 2000, making many investors rich.

China is still writing laws on investment funds, and is learning how to regulate its market. The China Securities Regulatory Commission has hired a securities regulator from Hong Kong to consult. Many are crying foul.

In 1990 the Shanghai Stock Exchange opened with shares in eight companies available. It was housed in a rented suite in an old hotel.

ODDS & ENDS

Jersey Pukes and Ill Reputes

IT'S BAD ENOUGH when you call your wireless provider and get a recorded message. But it could be worse; you could have called San Diego's **TSR Wireless (TSRI)** and heard a pleasant female voice say the following: "Hello. The rat-bastard owners of TSR Wireless have allowed their company to go bankrupt. TSR Wireless filed Chapter 7 bankruptcy on Monday, December 4. Another important date to remember is Friday, December 8, when pager service will be terminated. The New Jersey pukes that call themselves management would like you to know that if you're prepaid for any pager service, you've lost your money. Have a crappy day."

The bankrupt company's message said, "Have a crappy day."

Some new inventions just cry out for abuse. Take **RepCheck.com,** for example. Designed to delight the paranoid and the slander-inclined alike, the new Web site allows users to "rate the reputation of people they know, thus providing a source of information about one's personal and business reputations," writes the company in a release. "Because you never really know who you're dealing with, or what others really think of you."

In a high-tech take on the old bathroom wall, the site features a database of "reputation files" that allows users to evaluate and view scores, comments, rebuttals, descriptions and other "useful reputation information."

(I would like to interrupt this story to tell you that my broker, Mr. Charlie Churnalott, is a rotten scoundrel. Thank you.)

Being a private investigator is not as glamorous as it appears in Hollywood movies. You spend most of your time sitting in your car eating stale donuts and waiting for someone to come out of a building. Just ask employees at **Valentine Capital Retirement Planning Group,** who've been told to do practically the same thing.

The Bay Area asset-management firm has admonished its advisers, portfolio managers and strategists to spend time sitting in the parking lots of high-tech companies in nearby Silicon Valley in the hopes of gleaning information from employee passersby. As tech stocks continue to get dumped, company president John Valentine hopes to sort out the good companies from the bad by talking to employees at all levels.

Just don't forget to stop at Krispy Kreme first.

And lastly, have you ever had a client reneg on a trade and gotten so furious you strangled the mail boy? You could be suffering from **"desk rage,"** the latest buzzword for what was previously known as having a bad day.

OFFICE AMBIENCE

Setting the Stage to Sell

WHEN YOU'RE expecting a special date for a romantic evening, you need to set the appropriate scene with candles, wine and soft music. Same thing when you're expecting a special client.

While you won't set the scene with the same accoutrements, the strategy is the same. Larry Klein advises being highly aware of your clientele, and planning your dress and the location and decor of your office accordingly.

He has no facial hair and cherishes his receding hairline.

Klein is based in a San Francisco Bay Area suburb, and his clientele is 100 percent senior citizens, so he dresses the way they expect a financial adviser to look. That means traditional, conservative business attire. His office is decorated in a traditional style, no amoeba-shaped furniture, no eye-twitching abstract paintings, no pastels, which would be appropriate if his clients were hip young executives in Silicon Valley.

This may all seem rather obvious, but Klein has this down to a science: "You want your office to be on the first floor of a building, with parking right there, not in some underground garage. Be out in a neighborhood and not downtown; retired people don't go downtown." Klein also has a local phone number, as seniors generally don't like 800 numbers, he says.

And here things get really technical: "I don't have any facial hair," he says. "Because studies have shown that there's something about it that creates a little bit of distrust."

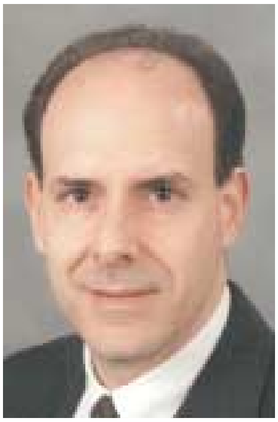
The 44-year-old Klein even cherishes his receding hairline.

SALES ADVICE

Hail the Salesman!

Note: The December issue featured an article on sales consultant Bill Bachrach called "Shoot the Salesman." Here Larry Klein begs to differ.

LARRY KLEIN is against hard-hitting sales pitches, in which one hammers away at a prospect like Michaelangelo trying to bring life from cold stone. But he still believes in traditional sales techniques.



But most brokers take a cookie-cutter approach in how they deal with clients, says the part-time adviser who gives seminars through his company NF Communications. The approach is usually based on the personality of the broker, not on that of his clients. "They go down the same track every time, forgetting that the track is determined by whom they're speaking to, not by what comes naturally to them."

Brokers need to quickly identify the personality type of a new client and plan their strategy accordingly. Klein might ask a more emotive person, "Are there any investments you have that make you uncomfortable?" while he would ask a more left-brain person, "Do you have any investments whose performance you find unsatisfactory?" Same question, but approached from different angles.

Speaking of personality types, brokers generally fall into two categories, he says. There's the broker who enjoys research, annual reports and spreadsheets. This person is really an analyst, and yet about 15 percent of brokers fall into this category. The rest are personality types who enjoy the client-broker relationship. So make sure you're working in the right department.

While trust plays a vital role in the broker-client relationship, clients will place their trust for different reasons, Klein says. Some might see a prominent family name and an Ivy League degree on the wall and that is all they need. Others won't care about that: They want to hear a compelling reason why you're better than their current adviser.

While understanding clients is important, you need a technique that fits your personality as well. According to Klein, Bachrach implores advisers to ask new clients, "What's important to you about money?" Klein says he'd feel like an idiot asking this. "My sense is most people would look at me and say, 'What the hell do you mean what's important to me about money? I'd like to have more rather than less.'"

INDUSTRY STATS

Broken Records

DESPITE A SLOW fourth quarter, in late December the securities industry projected a record year for 2000. The SIA reports that worldwide holding company revenues will hit $425 billion, 31 percent above 1999's $325 billion. Profits are expected to be $51 billion, a 22.5 percent increase over the previous year.

Domestic securities industry revenues were up 31 percent for 2000, to $241 billion. "Volumes on every market are at record levels," says the SIA.

Domestically, industry revenues were also expected to be up 31 percent over 1999, to $241 billion. The increase is due to greater demand from investors, says the SIA: "Volumes on every market are at record levels," said SIA senior vice president Frank Fernandez, who also noted that the industry' investment in technology seems to have paid off. "Investors are on average paying less to transact their trades thanks to a healthy competitive environment and upgrades to the Street's infrastructure."

Though each quarter in 2000 was lower than the previous quarter, Fernandez says that 2001 could show a rebound. "The increasing tendency of money managers to park cash in money market funds," he says, "and the backlog of offerings waiting to be launched, however, indicate that firms are well positioned to re-enter the market in early 2001."

ATLANTIC FINANCIAL

The Wellesley Wunderkind

LIFE'S MOST important lessons are learned in the home. Take the example of Bruce Fenton. He learned about the stock market through his broker mother. The summer before he was to go to college, he worked as a cold caller for Dean Witter. That's when Fenton realized his true calling.

A successful cold caller, Fenton was put in Dean Witter's training program, passed his Series 7, and at age 20 became one of the youngest brokers in the firm's history.

But after three years at Dean Witter's Worcester, Mass. office, the 22-year-old Fenton was already ready for a change. "I was looking for something with a little more control over my destiny," he says. "I wanted to do some unique things that were best suited if I was on my own."

Such things included exploiting the then new medium of the Internet. "Dean Witter had a very anti-Internet philosophy," Fenton recalls, citing a memo circulated by company president Jim Higgins. The memo stated that the company would not be using the "information superhighway" and that employees should not use e-mail. "When I saw that, I really decided that the firm wasn't for me," Fenton says, though he gives the firm credit for getting him started.

Fenton went independent and began working out of his apartment, taking very few clients with him. In the mid-'90s venture capital firms had not yet discovered the Internet, he says, and banks wouldn't dare lend to a young kid who wanted to launch a financial-services firm that would make strong use of the World Wide Web. Undaunted, Fenton continued to dream big: "From the first day I had bigger goals, and I wanted to be more than just a big broker. I wanted to have a big company."

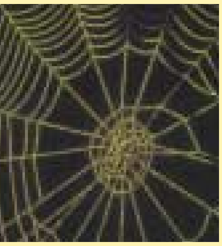
"Dean Witter had a very anti-Internet philosophy," says former employee Bruce Fenton.

Fenton found that the Internet was attracting a large number of monied investors who were seeking out information, mainly in chat rooms. Yet these people were very hard to find by the traditional practice of cold calling. "You could waste your entire day to find one person, whereas the

INTERNET TOUTING

World Wide Web of Deceit

IN DECEMBER the SEC filed charges against John Westergaard and two companies bearing his name for touting over the Internet.



The Commission alleges that Westergaard broadly disseminated press releases via the Internet purportedly offering independent analyses of stocks, when in fact he had been paid to publish the reports.

The complaint alleges that Westergaard Broadcasting Network.com charged small-cap companies up to $48,000 to publish positive reports about them. The complaint further alleges that Westergaard misled prospective investors by claiming the research was independent.

Westergaard's companies settled the charges by consenting, without admitting or denying the allegations, to an order permanently enjoining them from violating Section 17(b) of the Securities Act. This is not the first time improprieties have been investigated at Westergaard's companies, though he called the allegations "specious" in a Bloomberg interview.

The complaint echoes the one against 23-year-old Mark Jakob, who recently pleaded guilty to disseminating false press releases about Emulex, temporarily demolishing the company's market value.

The SEC's daily log is chock full of scams that make ample use of the Internet. Have we ushered in the Misinformation Age?

Internet had the potential to bring them to you. And they were people who really wanted your services."

So in 1994 Fenton's Atlantic Financial, based in Wellesley, Mass., became the first full-service financial services firm to go online, and one of the first companies of any kind on the World Wide Web. "Back then you could go on Yahoo! and there were like 200 links," Fenton recalls. His first Web site had only eight pages of financial information, but one day someone called and asked to open a $200,000 account. "In three years at Dean Witter I never had anybody call me," Fenton says.

Today atlanticfinancial.com boasts hundreds of pages of information and is just one of 17 domain names the company owns. And there are a dozen employees offering high net worth clients mutual funds, 401(k) plans and a small amount of individual equities.

Fenton says he has been fortunate to attract some wealthy clients, who are attracted to the unique services offered by a small firm. "These people want personal attention and immediate gratification," he says. "They want a firm that's able to drop everything to give them what they want, and we're able to do that. It doesn't matter what they ask for: They could ask for travel advice or for a restaurant, and we'll drop everything to give it to them." The firm's largest account is $100 million, and one client has his own phone and fax line to the firm.

Though Atlantic Financial is currently in an expansion phase, "I still believe in a commission-based structure. I'm not looking for hourly people like Schwab, because you can't attract the great brokers with a model like that." Fenton says his company does the bulk of the hard work for brokers — prospecting — and offers a payout of 25 percent.

ISSUERS BEGONE!

The Withdrawal Method

AT THE CLOSE of 2000, securities issuers withdrew some 370 deals expected to raise $42 billion in equity capital, setting a new record. According to data supplied by CommScan EquiDesk, this represents a 71 percent increase in activity and a 133 percent rise in withdrawn/postponed dollar volume.

Of the 370 deals that faltered, 273 were IPOs, forfeiting $27.7 billion. October brought a monthly record of forfeited capital, with 47 deals expected to raise $11.4 billion dropping out — about 27 percent of the year's forfeited capital. June saw the withdrawal of 56 deals, the largest decline of the year.

Technology and telecom took the toughest blows, with 145 withdrawn or postponed deals in technology and 58 in telecom.

WELLS FARGO & CO.

All's Wells that Ends Well

"All you have to do is introduce your existing clients to these services, and you'll increase your revenue by 40 percent."
David Skolnik

The following is an interview with David Skolnik, Director of National Sales and Marketing for Private Client Services of Wells Fargo & Co.

Research: Why would a broker want to leave his current employer to go and work for Wells Fargo?

Skolnik: Why would they want to stay where they're at? We have 17 million households here at Wells Fargo & Co., and one of our top strategic initiatives is to cross-sell multiple products and services to our clients. So if you're a broker building a book of business, you can call Dun & Bradstreet, use the reverse directory in telephone books, or you can come to an institution where we have access to 17 million households that desperately need our services. We have the same payout, so it's illogical to stay at a wirehouse. Let's say you're a $2 million producer: You take any wirehouse and it's doubtful it is able to offer the types of services we can. All you have to do is introduce your existing clients to these services, and you'll automatically increase your revenue by 30 percent or 40 percent, and lock your client in even further to where they'll never have the desire to leave this institution.

Research: How does Wells Fargo differ from a traditional brokerage?

Skolnik: I like to say that we have the best of a bank and the best of a brokerage. Close to five years ago we combined our private client banking group, which offers depository and lending products, our investment management group, our trust group (we've been administering trusts since 1857), and our brokerage group. We combined all these and created Private Client Services (PCS); that means that a

INTERNET CRIME

The Man Who Traded with Himself

IN SHIG AHN must have a split personality. The New York day trader has just been busted by the SEC for trading with himself.

Hey, can't you go blind doing that?

Ahn created losses in one account to profit in the other.

The SEC charges that in June 2000, Ahn fraudulently obtained over $180,000 by cross-trading between two online accounts he kept with two Internet brokers, Terra Nova Trading and Interactive Brokers.

To fund his Terra Nova account, Ahn wrote $351,950 in bad checks. But in a frantic effort to earn the sufficient funds before the checks bounced, he "traded stocks with himself over an electronic communications network," writes the SEC. Ahn intentionally created losses in his Terra Nova account in order to amass gains in his Interactive Brokers account.

Unfortunately, Interactive Brokers froze his account before he could withdraw his illegal proceeds.

The SEC has permanently enjoined Ahn from violating the antifraud provisions of the federal securities laws. The U.S. Attorney's Office for the Southern District of New York also indicted Ahn on criminal charges. In July Ahn plead guilty to securities fraud and wire fraud, and in November he was sentenced to a year and a day of incarceration, where he can trade with himself all he wants.

A READER'S LETTER

Something to Pru-ve

[Editor's note: This letter is in response to "Get a Bigger Piece of the Rock," a story on compensation at Prudential in the January Research Reporter]

Your mag sounds like it was talking to an executive of the firm. Realistically, Mastershare is like a contest where you have to send money to get your prize. If you don't pay, you don't play.

You also have to wait three years, asssuming you stay, to get your reward. As far as the 200 percent match goes, you have odds similar to Powerball. You have to be a producer in the top 20 percent already, *and* grow your business at 26 percent annually for three years (a 200 percent increase), to qualify.

Then, you won't be fully paid your "winnings" for eight years. For most brokers, the "house" is a firm with little direction and a bad history. The "bet" is $3 of your money now to win an extra $1 down the road. If you quit, you forfeit.

Most people consider compensation something you earn and receive, not something you have to pay for and then wait for!

Anonymous Prudential broker
Via e-mail

client now has access to all these products and services in a seamless fashion. And a broker can come in here and get paid to offer clients not only your traditional brokerage products.

Research: So are there more warm calls at a bank like Wells Fargo?

Skolnik: Absolutely. We also have a group called Intra-Bank Marketing, which goes out and structures agreements with other groups in Wells Fargo. It's a sharing arrangement: They will introduce their clients to us and we'll introduce ours to them. Often we will place newly hired people in that distribution channel where they can be introduced to these warm clients. There is no such thing at a wirehouse.

Research: What don't you offer?

Skolnik: We're not big on hot IPOs. It's just not part of our business strategy.

Research: What about your research and underwriting capabilities?

Skolnik: In the course of our acquisitions with Ragen Mackenzie and Van Kasper we now have some underwriting capabilities; people don't realize that. We do underwrite issues, but I wouldn't say that we will in the foreseeable future be one of the top underwriters from a quantity standpoint. We do offer research through Private Asset Management, one of the investment arms of PCS; so there's proprietary research there. And there's research through Ragen Mackenzie and Van Kasper.

With more warm calls and millions of bank customers, Skolnik says it's illogical to stay at a traditional wirehouse. "I like to say we have the best of a bank and the best of a brokerage."

Research: Does being a bank give Wells Fargo a more trustworthy image?

Skolnik: Our brand is well respected throughout the country. Our customers have an inherent trust with us.

Research: What's in the future for Wells Fargo?

Skolnik: We currently have 1,155 financial consultants. We'd like to grow to at least 4,000 over the next several years. We have nowhere near enough financial consultants to cover all the internal bank customers.

Research: What about the stage coach? Now that it's 2001, any plans to change it to a rocket ship?

Skolnik: No. It's a symbol that shows we were on the frontier, always moving ahead on the cutting edge, but with a lot of stability.