

## FROM PRIVATE LEDGER TO LPL

### **How a vision of independence transformed an industry**

DNA: A nucleic acid that contains genetic instructions for the development of living organisms. Its main role is the long-term storage of information.

*By any measure, LPL Financial Services can stake a claim to being one of the most forward-looking and entrepreneurial firms in the financial services arena. Its enormous success in supporting independent advisors has literally transformed the playing field for an entire industry. How did Todd Robinson and his team in 1989 take two small firms separated by the breadth of a continent and create a new entity destined to become an industry force? What, if anything, of Private Ledger's "DNA" is reflected in the LPL of 2007?*

### **Introduction**

In 1989, Todd Robinson merged Boston-based Linsco Financial Group with Private Ledger in San Diego to form Linsco/Private Ledger – known today as LPL Financial Services. At the time, the combination of the two firms created a company with 720 registered representatives and approximately \$40 million in annual revenues.

The subsequent growth has been nothing less than astonishing: LPL Financial Services closed 2006 with more than 6500 advisors and revenues of \$1.7 billion. Today, LPL is not only the number one independent broker/dealer but is one of the nation's leading financial services firms.

LPL's pre-eminent standing can be attributed in large part to Todd Robinson's drive to realize the potential created by burgeoning communications technology, which made it possible to provide financial advisors in remote branches with resources previously available only through a wirehouse. In a very real sense, however, the stage for LPL's extraordinary success was also set with the founding by two former naval aviators of Private Ledger Financial Services in 1972 as one of the first independent brokerage firms.

The story of Private Ledger, the transition to Linsco/Private Ledger and the subsequent growth of LPL not only reflected, but helped shape, the evolution of the entire financial services industry.

### **Part I. 196X-1982 A Groundbreaking Firm**

#### ***An Independent Vision***

It was the late 50's, and 28 year old naval aviator Bob Ritzman was starting to think about the next stage of his career. He had joined the military out of college, choosing aviation in part for the opportunity to earn extra hazardous duty pay. After earning his wings in 1954, Bob was stationed in San Diego where he would serve with distinction

and go on to log more than 150 carrier landings. But with no wartime experience, Bob saw his opportunities for advancement within the military as limited.

Bob had always “had a knack for money,” having financed his Albion College years via a variety of entrepreneurial ventures, including running a canteen within his fraternity and maintaining a dry cleaning route. Actually, it went even farther back, to age 9 when he sold magazines door-to-door while living in a foster home. So given his demonstrated level of industry it wasn’t such a leap for him, in 1957, to study for and pass his securities and insurance licensing exams while holding down his regular duties at the San Diego Naval Base.

Upon leaving the Navy in 1958, Bob joined an insurance agency in San Diego. As was the case broadly within the industry those days, the agency’s business mix was dominated by the sale of whole life insurance policies. Bob’s natural client base, however, was naval aviators, who came with special circumstances. Specifically, naval aviators had the prospect of a roughly 20-year span of relatively hazardous duty, before being forced to find another line of work. As a result, most aviators would leave the military at a relatively young age -- and bring with them a respectable pension.

So these clients – more than most -- needed life insurance, but had less need to use it as a vehicle for asset accumulation. “I would advise aviators to buy term insurance, which was relatively inexpensive, to cover them during their time in the Navy. Then we’d take the money that would have been spent on whole life premiums and invest it in equities,” recalls Bob. “I looked at their pensions as playing the role of fixed income in a portfolio.”

Ritzman was soon to form his own agency, giving him the independence to pursue his holistic approach to meeting the particular needs of his fellow aviators and other clients. When it came time to name his venture, he wanted something that would be suggestive of a comprehensive approach to financial planning for individuals. Brainstorming with his business accountant at the time, they came up with “Private Ledger.” After all -- every business is run with reference to detailed financial information captured in various ledgers. In the same way, financial solutions offered to individuals should reflect their specific personal circumstances -- in other words, the client’s *private* ledger.

Of course, at that point in time, there was no such thing as financial planning in the public mind. “Financial planning was a profession-in-waiting,” notes Bob. Nonetheless, Private Ledger, Inc. was launched in San Diego in 196X, as a financial planning firm. Initially, Private Ledger sold securities through Wilford Securities, a like-minded broker/dealer in La Mesa, and processed insurance business through North American Life.

### ***Two Naval Aviators***

In 1969, Bob Ritzman had a successful business in Private Ledger. He felt, however, that he was coming to a parting of the ways with Wilford, and decided to look into creating

his own broker/dealer. Bob knew he would need help navigating the tangle of regulators and the myriad issues involved in establishing and managing the new operation.

Bob had recently run across Al Monahan at a recommissioning ceremony for a naval carrier in San Diego. He had already known of Al by reputation. "Al was in Iwo Jima and was a pioneer as a naval aviator. The word was he was guaranteed a star but – for family reasons – he wasn't willing to move to do the necessary stint in D.C. That didn't stop him from making captain, however. I figured with what he'd accomplished, he could handle dealing with the NASD and SEC."

The two men convened over lunch, and over the course of several subsequent contacts developed a rough game plan. Monahan was still in the Navy, and in the course of his duties he travelled the world. By using much of his time "en route" to study for his securities, insurance and real estate licenses, Al was able to pass those exams before retiring from the Navy. In 1970 he joined Bob in carrying his licenses at Wilford.

"I was looking for a new challenge, and Bob had been pinging me to join him," remembers Al. "Bob was looking to push out on his financial planning vision and the firm he had been working with was not as interested in going that route." In late 1972, Ritzman and Monahan launched Private Ledger Financial Services as a broker/dealer subsidiary of Private Ledger, Inc.

The business environment in 1972 could hardly have been more different than today's. For one thing, a new account file was basically "a card with the client's name, address and social security number," recalls Al. Perhaps most important, the stock market had essentially spent the 60s trading water, and it was by no means obvious that investing in equities was an essential part of a long-term financial plan. As with most brokerage firms of the day, Private Ledger's product lineup featured limited partnerships offered in large part on the basis of their tax benefits. Mutual funds and insurance were offered as part of a complete financial planning package.

Private Ledger Financial Services soon expanded, adding branches and bringing on, among others, Verne George and Paul Strange – two representatives who would be with the firm for many years. Soon thereafter, Bob and Al caught wind of an office in Long Beach that was experiencing financial difficulties; that branch added five reps including Wayne Warner and Dick Martin (as of 2007, both Wayne and Dick were still top producers with today's LPL). With this growth came a measure of scale but also new needs: individual securities were a big part of the business mix for the Long Beach office.

This initially presented an issue, as there were restrictions, related to net capital, on the ability of firms without a seat on the New York Stock Exchange to offer individual securities. (By requiring firms to maintain a certain level of ready funds, or net capital, regulators seek to ensure that brokerage firms can step in if a client who has placed a trade order subsequently fails to come up with the funds.) Monahan recalls that an SEC rule change loosened the net capital requirements for an "introducing firm"; Private Ledger soon began to offer individual securities through Los Angeles-based Wedbush

Noble & Cooke. According to Al, “we were the only firm clearing through Wedbush that used independent contractors.”

Thus the stage was set for Private Ledger’s initial growth. The firm could offer representatives a full product line – mutual funds, limited partnerships, stocks and bonds. It did so without pushing reps to sell any particular products. And Private Ledger let reps keep the vast majority of commission revenue generated.

In 1976, four years after launching, the firm would have in the neighborhood of 200 representatives. But going from a small below-the-radar-screen operation to a significant player would bring a new set of challenges.

#### Sidebar: Private Ledger and the Financial Planning Movement

The early growth of Private Ledger is intertwined with the birth of financial planning as a profession. Private Ledger Financial Services was founded the year before the College for Financial Planning matriculated its first class in 1973. Upon graduation, the 42 members of that initial class formed the Institute for Certified Financial Planners. Graydon Calder, a San Diego area financial advisor who had been providing comprehensive planning services for more than a decade, was named the Institute’s Western Vice President. Graydon started teaching financial planning classes that year. Among his first students – Al Monahan, the president of Private Ledger, a small broker dealer that was just beginning to add branch offices.

Graydon soon took his investment advisory practice over to Private Ledger, explaining to Monahan that his priorities were “a good reputation, a wide variety of products and to not be told what to sell.” Graydon would go on to be named CFP of the Year nationally in both 1975 and 1982. “Financial planning was an idea whose time had come, and we were pioneers,” observes Graydon. Private Ledger, with its independent contractor business model and broad-based product offering, provided much of the terrain in which the financial planning profession took root.

#### *Growth and New Challenges*

As the volume of business grew, Al Monahan hired Stan Brooks away from Wedbush to manage relationships with the firms Private Ledger used to trade equities. To help diversify Private Ledger’s trading outlets and increase pricing leverage, Brooks negotiated terms with A.G. Becker as a second trading resource. The Wedbush relationship became frayed following arbitration over a bond trade, and Private Ledger was soon back to one clearing firm. Brooks then signed with Pershing – who would later buy A.G. Becker’s clearing operation. “At one point we were Pershing’s largest client,” remembers Monahan. According to Monahan “Brooks was a master recruiter,” who was

able to leverage the relationships developed over years as a vendor to help accelerate the growth in Private Ledger's rep base.

As with any business, as Private Ledger grew, its operations became both more complex and more subject to scrutiny from various corners – namely the IRS and the securities regulators. For any company, dealings with various regulatory authorities generally come with more downside than upside, and they can present special challenges for a middling sized firm lacking a vast corporate infrastructure. This increased attention would require Private Ledger to respond quickly to formalize certain aspects of how it did business in order to support the firm's continued growth.

Al Monahan recalls that at the time Private Ledger was getting off the ground in the mid-70s, the IRS was very focused on the accounting surrounding the use of independent contractors. In broad terms, an independent contractor is someone who performs work for and is compensated by a firm, but whose services are not subject to that firm's "direction and control." Within the securities industry, a key issue was the status of branch managers. Private Ledger would send a check each month to the branch manager based on the production for that branch. The manager would then pay the reps based on their individual production. Since the branch manager was generally viewed as an employee, this arrangement risked the IRS taking the position that the payments to the branch manager were subject to withholding requirements – a potentially mammoth liability. "We had to take a very close look at the IRS requirements for independent contractors and rewrite our contracts to clarify the branch manager relationship," according to Al. Another outcome of this IRS focus was that Private Ledger began to charge reps for everything that was provided by way of business support -- account forms, for example -- again, to clarify their status as independent contractors.

The independent contractor issue seemingly addressed, it then evolved that California required that reps be *employees* for certain purposes. "This meant we had to rework our contract again, this time in a way that met the state guidelines while keeping reps independent contractors for purposes of commissions," recalls Al. Eventually this "rock and a hard place" issue was put to bed at both the state and federal level.

Beyond the IRS, there was increased attention from the NASD and SEC -- natural given Private Ledger's status as one of the first independent brokerage firms and the breadth of products it was selling. "The NASD didn't fully understand what we were doing with the limited partnership part of our business – these investments were related to oil, gas, real estate, even inventions" recalls Al. The NASD had a steady stream of questions and Monahan offered to meet with them and explain the policies behind how partnerships were being used with Private Ledger clients. Both the information and the forthrightness with which it was provided were well received; the relationship with the NASD improved. Then the SEC wanted to see Al – they had lots of questions about Private Ledger's operation as well. There was nothing specific raised by the SEC to suggest that Private Ledger had run afoul in any way but "I realized that we needed to engage a corporate attorney going forward," says Monahan. "We were clearly no longer below the radar screen." The SEC inquiries were handled without repercussion. "Limited

partnerships were a significant part of the business at that time,” notes Monahan. “We believed in the concept and did our due diligence, but there were risks and not all worked out.”

So Private Ledger had to raise its game as it became more visible to the IRS and the securities regulators. In the late 1970s, however, the firm’s increasingly far flung operation was to face a real crisis. It stemmed from a rep in Los Angeles selling a -- too large -- position in a stock to a client, who then backed out of the transaction. “The stock collapsed and we were on the hook to the point where we were below our required net capital,” relates Al. “It was a Friday and we would have to stop operations by the next Wednesday.”

There was a way to save the company from the disruption that would be certain to ensue, but it would take considerable fortitude. Al, Bob and other key individuals paid for the shares personally, each absorbing an immediate loss of tens of thousands of dollars in order to keep the firm’s net capital within guidelines. The story has a happy ending – the stock eventually rebounded and most of those who stepped up as buyers made a profit. But that could not have been foretold, and “It was at that point,” recalls Al “that I knew we needed to look into finding a buyer for the firm.”

## Part II. 1983-1989 The Path to LPL

### *Under New Management*

Private Ledger had been offering real estate limited partnerships put together by American Principal Holdings, a California-based company. American Principal had approached Private Ledger about a possible sale, and in 1981, after some discussion, Bob, Al and the other shareholders decided to sell. Bob and Al also agreed to stay on for some time to help with the transition.

Initially, Al Monahan continued to oversee daily operations after the American Principal transaction. In early 1983, American Principal hired a new president of Private Ledger, Phil Montross, a former senior executive with the Midwest Stock Exchange in Chicago. As is often the case in these matters, several senior people left the firm in the wake of new leadership.

In order to finance the purchase of Private Ledger, American Principal had borrowed \$9 million from Toronto-based Crown Life and put up Private Ledger as collateral. From time to time, Phil Montross would meet with Crown Life officials, and in early '84 he “got a hint that American Principal had some significant problems.” American Principal would be the target of a major law suit, its founder would be on his way to prison, and in August of 1984 the SEC would hand control over the company’s operations to a trustee. Soon, a battle would soon be on to save its subsidiary Private Ledger as a viable operation.

Despite the problems leading to American Principal's receivership, Private Ledger "had a clean record," notes Al Monahan, and was left by the SEC to run its own affairs. Nonetheless, the adverse publicity and overall uncertainty with respect to the parent impacted Private Ledger dramatically. At the time American Principal's problems came to light, Private Ledger had more than 700 reps in some 250 offices. The firm was to lose in the neighborhood of 40% of its reps in the wake of its parent's difficulties.

To make matters worse, the receiver for American Principal soon sought to pull Private Ledger in as an asset to dispose of in bankruptcy proceedings. "If a receiver had taken over it would have been a disaster," notes Montross, as the already depleted rep ranks would have been decimated in the rush to the door. Montross hired a law firm to keep Private Ledger out of receivership; after a year of legal struggles the firm was given to Crown Life in satisfaction of its original note. After a period of tremendous uncertainty and dwindling revenues ("There were times we kept the lights and air conditioning turned off," recalls Montross) attention could finally be refocused on rebuilding the business.

Among the initiatives launched around this time was Patriots Club, a representative recognition program. Patriot's Club expanded upon the earlier President's Council, which was designed to provide an opportunity for management to interact with a handful of key representatives. The first Patriots Club meeting was held in February of 1986 on Paradise Island in Hawaii, and required \$175,000 in production to qualify. Some 33 representatives would make the trip, including several who are active today: Bill Gregory, Dick Martin, Gerald Sudderth, Wayne Warner and John Weil. It was as a result of such efforts that "advisors first started to think of themselves as part of a firm," notes Jim Putnam, who joined Private Ledger out of Dean Witter in 1981 and headed marketing at the time.

Of course, the one constant in the investment industry is change. The Tax Reform act of 1986 brought the limited partnership business to a virtual standstill. Black Monday in October of 1987 did much the same for equities.

In December of 1987, Montross approached Crown Life to discuss finding a way to structure a possible acquisition of Private Ledger. "I was on my fourth boss in four years, and it was my sense that Crown had soured on the business," recalls Phil. Montross would learn that Crown was very interested in selling but, he gathered, not as interested in working to make it happen with someone associated with the American Principal days. Montross investigated funding a purchase of the company independently, including through a buyout by representatives and key employees, but this ultimately did not come together in time. Instead, Linsco Financial Group, a small Boston-based firm run by a relatively youthful entrepreneur would prevail.

"I thought Private Ledger had a great business, and not being able to buy the company was of course a bitter pill," reflects Montross, adding "Todd Robinson obviously did a masterful job with the firm, and he deserves tremendous credit."

[sidebar] The Founders Reflect

Bob Ritzman and Al Monahan were 78 and 84, respectively, when interviewed for this history. Now based in Las Vegas, Ritzman remains active in Nevada financial and real estate circles, having among other things put together the state's first publicly offered real estate limited partnership in 1978. Monahan continues to oversee his own investment advisory firm and a separate business that provides securities compliance consulting and software.

Both men note the influence of certain military mores in the shaping of Private Ledger. Given their prior careers as naval aviators, it was natural that they initially drew heavily upon the ranks of the ex-military for the firm's management and recruiting. Bob states "We benefited in building the business from the built-in integrity of the military, which is where our early managers came from. Our organizing principle in dealing with clients was 'How would you treat your friends?'" Al seconds the importance of the military influence in the firm's founding. "We were able to take young people with complete integrity and give them a system, support and recognition, as the military strives to do." In this vein, Ritzman remembers that "we actually welcomed NASD audits as an opportunity to improve how we did business."

Monahan notes, however, something that sharply distinguished Private Ledger from the military -- and the rest of the securities industry for that matter -- in the '70s. "At various times, perhaps 40 percent of our reps were women. This was very deliberate on our part -- we wanted to bring investing from Wall Street to not just Main Street, but to the kitchen table." Providing a welcoming environment for women was part of the culture from the start.

### *Todd Robinson and Linsco Financial*

Not long after graduating from Bates College, Todd Robinson launched his investment industry career at Smith Barney, where he planned to get a year or two of relevant experience before applying to business school. As it developed, within two years he had established himself as a highly successful stockbroker, and decided to forgo grad school.

By his fourth year at Smith Barney, however, Todd had come to feel it was time to look for a new challenge. **Although Smith Barney was "a small, boutique firm at the time," Todd found the process of seeking new clients as a commissioned rep increasingly "repetitious." Equally important, "I had become less and less comfortable operating within a traditional brokerage firm environment, where the firm's product focus was not the open architecture model it is today," relates Robinson.**



In 1985, Robinson left for a small investment bank where he would have the opportunity to put together “mini-institutional deals” – e.g., placing equity issues for local, privately held companies.

One of the early deals he was asked to evaluate as a banker involved Linsco Financial Group, a small, family-owned broker-dealer in Boston whose founder had passed away. Linsco had been founded in the late ‘60s by a group of seven insurance companies to provide a brokerage platform for their agents to sell mutual funds. At its peak, Linsco carried licenses for several thousand agents, but the stock market crash of 1973 caused this base of reps to collapse as insurers fled the securities business. Linsco was eventually sold by the insurance consortium for a dollar to its president – the just-deceased owner. By 1984, there were “20 or 30 reps who had stayed, and who operated as financial planners,” relates Todd.

So, on the surface Linsco was unremarkable. However, it did have a couple of potentially valuable attributes thanks to the substantial resources of its founders -- a very substantial computer system and licensing in every state. Todd saw an opportunity “to provide a place to land for reps who were – as I had been – dissatisfied with the product bias at other brokerage firms and looking to run their own shop.” Robinson declined the banking assignment in favor of becoming a bidder. For about \$300,000, largely funded from a combination of his Smith Barney savings and a note provided to the former owner’s estate, Robinson bought Linsco.

Robinson began – very successfully – recruiting reps chafing under the constraints of the wirehouse environment. In four years, Robinson would lead Linsco from revenues of less than \$1 million to the \$10 million level. By 1987, Linsco reached a point where the demands of servicing its base of – now approaching 200 -- representatives presented a significant challenge. Robinson needed to ramp up staffing and systems in order to meet these demands and support further growth.

“I read in the paper that Crown Life was putting a similarly structured firm called Private Ledger up for sale,” Todd recalls. “Not long after that we had the stock market crash of October ’87.” Insurers were also reeling from the collapse of the junk bond market, so Robinson knew Crown was a motivated seller. Still, it would help to have additional capital to make a deal happen.

“In 1988, I was trying to get Todd to distribute my mutual funds,” recalls Dave Butterfield, “and as it developed he began talking to me about investing in his business.” Dave had spent much of his career on the cutting edge of the fledgling microcomputer and networking industries, before spending two years as head of systems for nascent mutual fund giant Fidelity. More recently, Dave had launched a family of mutual funds in conjunction with Wainright Capital. The International Heritage fund family utilized technology to allow financial planners to “private label” funds run by third-party investment managers -- a model suggestive of some of the platforms later developed by LPL that employed outside managers.

The two men began to envision a partnership. One that would leverage Todd's investment industry acumen and instinct for motivating investment representatives alongside Dave's operational expertise and understanding of the intersection between the securities industry and the burgeoning information systems field.

After a year-plus on the block with no offers, "It was clear that nobody other than the current management team wanted to buy Private Ledger," according to Robinson.

In January of 1989, Todd and Dave visited Private Ledger's offices to assess the operation. Jim Putnam was at the time the 34 year old head of Private Ledger's marketing. "I knew people were coming from Linsco, and I had a slide presentation ready that I used with all of the companies that were coming to look us over," he recalls. "Todd knocked on my door, very casually introduced himself and sat down. Then he started asking questions about how we did things, what the strategy was to grow the firm, how we recruit." Jim never got to run through his deck. It would be some time before he learned that he had been briefing the owner of Linsco and the man he would work for and with over the next 18 years.

While Private Ledger had experienced its share of challenges related to the unwinding of American Principal and the demise of the limited partnership market, it retained a solid core of successful representatives and a capable staff. Private Ledger also had a less visible asset: a strong back office. Butterfield notes that, thanks in large part to Phil Montross's stock exchange background, "the degree of automation was well beyond what you would have expected to find at a firm of that size." All told, Dave recounts, "I knew there was an interesting opportunity."

How interesting exactly, of course depended in part on the price that Crown would accept for Private Ledger. The offer to Crown: They would buy Private Ledger for \$3 million -- essentially equal to the amount of cash in Private Ledger's coffers. Much of this was in the form of a note held by Crown. As collateral, Todd put in Linsco and its \$10 million in annual revenues. An "earn out" based on the new, combined firm's profits over the following five years could raise the value of the offer to more than \$11 million.

The earn out, to put it mildly, was no sure thing. Neither was Crown's acceptance of the offer. "The biggest difference between the current management team's offer and mine was that I had Linsco to throw into the pot. Both bidders were going to have to take back paper back from Crown," notes Robinson. When things moved, they moved quickly. In April, Crown called -- and on April 20, 1989, Todd and Dave flew to New York to ink the deal.

That night, after closing the transaction, Todd and Dave took a red-eye to San Diego and walked into the offices of Private Ledger. Four positions needed to be filled immediately: Chairman, President, CEO, and COO. A name for the new firm needed to be chosen. The combined firms had something more than 700 representatives, with perhaps 200 in Boston and most of the rest in Southern California. Long-time San Diego area representatives wanted to know if the firm would be "moving to Boston." Some had

previously offered to ante up \$50,000 to support Montross' buyout effort, and questioned the desirability of an unknown quantity taking the reins. And there was anxiety concerning the degree to which new management would support their continued independence.

It was certainly clear that a chapter in the history of Private Ledger had concluded. What was less evident was that a new era in the securities industry was dawning; that the stage was being set for the independent representative business model to support explosive growth.

As it developed, Crown would be paid the full amount of the earn out.

### **Part III. 1989-2006 Transforming the Financial Services Landscape**

#### ***A Commitment to Advisors***

It was critical that the new combined firm retain the core of Private Ledger representatives if it was to succeed. Robinson met with key advisors and held roundtables to get feedback. "There was a real sense of tension early on," remembers Jim Putnam. "There's always conflict between advisors and management to begin with, and given the ownership issues our advisors had lived through, Todd faced a challenge." The understandable anxiety began to ease as advisors grasped Robinson's commitment to supporting both their independence and the West Coast presence. In fact, LPL would have headquarters in both Boston and San Diego. "I saw the fact that Private Ledger was in San Diego as an opportunity to gain a broader recruiting base," relates Robinson. And while Linsco was positioned to benefit from Boston's talent pool on the investment research side, Private Ledger "had stronger systems in place and an edge in attracting technology professionals being on the West Coast." According to Putnam, "It takes time to develop trust, but Todd's roundtables helped build a sense of partnership and teamwork between management and advisors."

From the inception of LPL, Robinson stressed a relentless focus on supporting the advisor, as evidenced by the following credo (still displayed today in the firm's Boston offices and on the San Diego and Charlotte campuses):

#### ***OUR COMMITMENT TO LPL FINANCIAL ADVISORS***

- LPL Financial Advisors are the most important people in this company.
- LPL Financial Advisors are not dependent on us. We are dependent on them.
- LPL Financial Advisors are not an interruption of our work. They are the purpose of it. We are not doing them a favor handling their inquiries. They are doing us a favor by giving us the opportunity to earn their business.
- LPL Financial Advisors are not to be argued with or matched wits with. No one ever wins an argument with an LPL Financial Advisor.
- LPL Financial Advisors rely on us to help them prosper. It is our job to do so profitably.

“I had been a rep, and I knew how difficult the job is,” states Robinson, noting that others in his circle of top managers shared that background and perspective. “Our commitment has always been to treat each advisor as our client.”

In March of 1991, Todd was at a roundtable with some 30 advisors. One asked about a possible product: Could LPL figure out a way to package mutual funds together in a single account, and charge clients an annual fee based on assets rather than commissions?

In November of 1991, Strategic Asset Management (SAM) was launched.

SAM was one of the first full-blown mutual fund wrap programs, and it would experience tremendous success. But at the time “it was very controversial,” recalls Jim Putnam. “Not one load group wanted to let us use their funds.” Not to mention that pulling together dozens (and eventually thousands) of outside funds into a single account would also require significant systems development. There were legal issues as well, and LPL would need to form a registered investment advisor to offer SAM. Once the decision was made in April to develop the platform, however, all of these threads were pulled together in not much more than six months.

An early LPL advertising campaign for SAM stated “No Load? No Problem.” Robinson remembers being booed at an industry meeting during this time. LPL would go on to create a number of other fee-based platforms and make this approach a lynchpin of its growing business. “By promoting fee-based management, we gave clients with as little as \$25,000 ongoing advice and the ability to reallocate assets without paying a commission. What the rep got was a profession,” asserts Robinson.

#### [Sidebar] An Independent Voice at the Regulatory Table

Given the less-than-universal enthusiasm for the direction LPL was moving the industry with its focus on fee-based management and lack of proprietary products, it would be something of a benchmark when, in the late 1990s, Robinson became involved at the highest levels of industry self-governance. Todd would serve seven years on the NASD Board of Directors and five years as Chairman of the NASD’s Regulatory Board. “Given the growth of LPL and other independent firms, and the way the internet was changing our business, it was critical to have the independent perspective represented,” states Robinson.

#### *Using Technology to Empower Advisors*

A commitment to supporting advisors is fine, but there still was the question of how to hold such a far flung operation together. There was no precedent for how to run a broker-dealer with 700 representatives largely concentrated on either coast.

By the time of Linsco/Private Ledger’s creation in April of 1989, PCs had already leapt over the walls of secretarial bullpens and were proliferating on desktops of managers and

salespeople throughout the business world. The practice of putting a handwritten draft of a memo in an outbox was rapidly becoming an anachronism. Large amounts of data could be saved on a PC, backed up on a mainframe and transported via floppy disc.

The internet was in its early stages of commercialization, awaiting the standardization of protocols and construction of the "information superhighway" that would occur over the early 90's. "What changed the world for us, more than anything else, was the internet," states Robinson. To illustrate, a dedicated T1 line at \$5,000 to \$10,000 a month was a great way to hook up an office of 30 reps with access to market data, but was clearly not a feasible means of servicing a standalone rep. As the internet became more robust, however, it became possible to send large amounts of data in an instant to most areas of the country for a negligible cost. Personal computing along with the growth in the speed and capacity of the internet would make it increasingly cost-effective to distribute information to and do business via small remote offices.

With this backdrop, in the early 90s, Robinson and Butterfield began to lead Linsco/Private Ledger in a drive to give every freestanding advisor the ability to access information and process business like a wirehouse broker. "A number of us, including Jim Putnam, came from Wall Street, while many of our competitors came from the insurance side of the industry. I think we had an advantage in understanding the value to reps of real time data," notes Todd. "We almost couldn't believe that for \$20 a month we could provide a rep anywhere in the country with a workstation as good as any in the industry." Being an "early adapter" of the internet would prove pivotal to LPL's fortunes.

Perhaps nothing exemplifies LPL's use of technology more than BranchNet, its advisor workstation. Launched in 199X, BranchNet initially simply enabled reps to go online to perform all of the routine branch functions -- accessing client account information, placing trades, confirming transactions, etc. BranchNet has been enhanced on an ongoing basis, with new functionality added most years. One leap forward was in 2005, when it began to be used by LPL to alert advisors electronically of time-sensitive operational issues that require some action -- a trade settlement due, a margin call, and the like. Representatives are able to respond to these alerts online, saving untold hours. Most recently, BranchNet has been expanded to incorporate a tool that allows an advisor to view and analyze his or her book of business in myriad ways, and to offer document imaging that can help advisors get closer to the dream of a "paperless" office.

"All along, BranchNet has been developed based on advisor input," notes Jim Putnam. "Every significant upgrade or expansion has been tested extensively before rollout with a group of advisors, to gauge whether it has the desired impact at the day-to-day, branch level." The investment in BranchNet has been enormous -- as have the payoffs in efficiency for both advisors and LPL.

Of course, a financial advisor lives and dies with information on the economy, markets and investment vehicles. There's no "morning call" at LPL but to allow far-flung advisors to compete on an even playing field with wirehouse reps, it was essential to provide them with timely access to expert research. Robinson oversaw the transformation

of the former due diligence group into a world class research department, which by 2006 stood at some two dozen analysts. As you would expect, all published research analysis, commentary and recommendations are available to representatives 24/7 via their desktops. In addition, relevant information is now “pushed out” to advisors on an automated basis guided by their client positions.

No technology initiative, however, has been more significant than LPL’s move in 2000 to become “self clearing.”

In broad terms, a so-called “clearing firm” holds a brokerage customer’s cash and securities much like a bank – and in fact cash is insured by the Securities Investor Protection Association. The clearing firm is also responsible for settling trades at the end of each day. This is done by matching up information on trading relayed from the brokerage firm with what the securities exchanges have in their records.

The immediate result of LPL’s taking clearing in-house would be “straight-through processing” – meaning that transactions entered by advisors would flow directly into LPL’s systems. This makes for faster processing, better quality control and streamlined handling of “exceptions” and “reconciliations.”

As luck would have it, in 1998 a self-clearing broker/dealer firm consolidated its operations leaving a number of west coast industry professionals looking for new opportunities. In the fall of 1998 LPL brought on board Steve Black to head up a Clearing Services Group. Steve brought more than twenty years of experience working within a self-clearing operational unit and had also managed various client data conversion projects at Banc of America Investments. Equally important, Steve was able to recruit several of his colleagues to LPL. A project team was established within LPL to help facilitate and manage the firm's move from a fully disclosed to a self-clearing platform. Steve notes that “this core group of managers has continued to be the foundation for many departments within the firm.”

LPL’s conversion to self-clearing was the biggest in securities industry history, encompassing some 440,000 accounts. LPL Staff worked for months to plan the transition, run practice conversions, code and test system changes and produce communications. The planning took fully a year. Then for months, staff across the firm worked around the clock to convert accounts, implement changes, and address issues that arose. “Over the years the firm's greatest strength has been our staff,” asserts Esther Stearns, LPL’s President and COO. “Many times the LPL staff has gone above and beyond to take care of our customers and insure the strength of the firm. This was never more evident than during the conversion to self-clearing.”

The conversion required a very significant monetary outlay and took more than two years to accomplish. Yet Robinson viewed it as “an obvious decision” for LPL. Why? “Our competitors didn’t have a BranchNet. We stood to gain more than other firms because we had already done the tough part,” having built a powerful and flexible front-end system

for advisors to process business. This meant that self clearing on the back end would give LPL complete control over processing from start to finish.

As Dave Butterfield notes, "LPL – and every other broker-dealer -- is in the information management business as well as the securities industry." Self clearing gave LPL the ability to tailor to an extraordinary extent the way client information was presented to advisors. This was especially significant for LPL as an independent firm, because the clearing industry has historically developed "client views" with the needs of traditional brokerage houses in mind.

Another important outgrowth has been from the product development perspective: self-clearing has made it much easier for LPL to build upon its early success with SAM by creating additional, increasingly complex platforms that also leverage asset allocation seamlessly across investment vehicles. These platforms have made it attractive for an increasing proportion of advisors to "outsource" investment management, freeing them to spend the bulk of their time building relationships and helping clients plan to meet their goals.

A cutting edge work station and sophisticated investment platforms will only take you so far if the intended users don't have a high comfort level. "There was a strong focus on advisor training from early on, and training has become a real point of distinction for LPL," notes Jim Putnam. Advisors now receive training via multiple touch points -- city tours, Web casts, online modules and annually at LPL's National Conference. The investment in helping advisors make the most of LPL's new services, technology and platforms is substantial.

In recent years, LPL's annual investment in technology has exceeded \$100 million. "LPL's technology initiatives basically all share the same goal: to drive efficiencies to the advisor," observes Chairman and CEO Mark Casady, who joined the firm in 2003 from Deutschebank/Scudder Investments. The benefits of this focus were proven by a 2005 industry survey. Moss Adams LLP, a leading provider of accounting, tax and consulting services, compared the practices of 50 established LPL advisors with those of 100 other broker-dealer affiliated advisors. The key finding: LPL advisors are significantly more productive -- xx% more productive as measured by revenue per client -- than their industry peers. The reason: LPL's technology and investment programs allow advisors to spend more time servicing clients and less time on operational activities.

Of course, many people were behind the development of LPL's industry leading platform. "LPL's success as a business and at maintaining a standard of excellence in supporting advisors on a day-to-day basis couldn't have happened without an exceptionally deep, talented and committed senior management team," observes Todd Robinson.

### *Measuring Today's LPL*

One way to view today's LPL is as the ultimate fulfillment of the financial planning movement launched by Graydon Calder and his compatriots in 1973. It starts with the fact that LPL advisors have complete freedom to do the right thing for clients. In doing so, they have the ability to offer clients a comprehensive suite of non-proprietary financial solutions – investments, cash management, mortgages, insurance, credit cards, trust services. Delivery is backed by technology, research and training that empowers advisors in their communities in ways that could not possibly have been envisioned when financial planning staked its claim as a profession.

[Sidebar] Management and Advisors: An Evolving Relationship

*John Weil joined Private Ledger in 1979, and was a leading producer for both Private Ledger and then LPL for many years. John reflects on the evolution through the LPL era of the relationship between representatives and management.*

“In the 70's and 80's, representatives were always challenging management to improve the quality of service and the products that were available. This led to the creation of an Independent Representatives Advisory Council -- eight to fifteen reps came together, mainly at our own expense, to offer management ideas and improve our level of knowledge. We were hungry for education. In the early 1980's, this concept led to a more formally sanctioned group, labeled the President's Council. The meetings were held in San Diego, usually at the Sea Lodge in La Jolla. In the 1990's the Chairman's Roundtable was conceived by Todd Robinson and Dave Butterfield, as an opportunity to present to reps on key business plans and events, and then take questions.

Any time you have a field force there's going to be some natural tension with management over the level of home office support. In recent years, my observation is that reps are consumed with learning about the broad array of LPL services and products. The quality is evident and the evolution from conflict to acceptance is very evident as well. In the end, the client is the winner.”

Staying focused on doing the right thing for advisors and their clients while understanding the transformations wrought by technology has made it possible for LPL to achieve and support a level of growth unimaginable in 1989. In 2003, LPL first crossed the \$1 billion level in annual revenues. By all measures, the firm has continued to experience extraordinary growth in the subsequent years. Total revenue approached \$1.4 billion in 2005 – reflecting a remarkable 41% compound annual growth rate since Todd Robinson took over Linsco in 1985.



2005 would see a strategic evolution in the firm's ownership structure. "Given LPL's growth over the years, making a transition from individual to institutional ownership was inevitable," notes CEO Casady. Casady and Robinson have sought to manage this process proactively and in the interests of all of the firm's stakeholders. Following an extensive due diligence and bidding process, investment affiliates of Hellman & Friedman LLC and Texas Pacific Group (TPG), two leading private equity firms, agreed to become majority investors in LPL. The transaction was completed on December 31, 2005.

Throughout 2006, LPL continued to reinvest in its advisors and in the firm's future profitability. With the help of matching contributions from key product sponsors, LPL formed the Invest in Others charitable foundation to help advisors make a difference in their communities. With the August 2006 purchase of UVEST Financial Services, LPL became the nation's largest provider of third-party investment services to banks and credit unions. The year ended with LPL launching a new business that offers clearing and processing services to other financial institutions with broker/dealer affiliates.

LPL closed 2006 with more than 6500 advisors, \$115 billion in assets under management and revenues of \$1.7 billion. Todd Robinson, for one, believes that LPL has only begun to see the growth in its independent advisor business. "The independent business model has won the industry battle, and LPL is leading its growth," asserts Robinson.

The growth in LPL's business results speak for themselves. The scene at the San Diego Convention Center in early August of 2006 spoke volumes as well. Nearly 4000 advisors were in attendance for LPL's National Conference. Advisors were able to choose from among a staggering 250 training sessions on topics ranging from technology to practice management to marketing. More than 115 product sponsors exhibited. The keynote address was delivered by news industry icon and author Tom Brokaw. In short -- LPL's National Conference has become perhaps the premier event of its kind in the securities industry.

A short drive across town from the San Diego Conference Center and a million miles away stands the unprepossessing office building in Mission Valley where Bob Ritzman and Al Monahan launched Private Ledger Financial Services in 1971. At the core of their venture was a willingness to take risks in pursuit of a vision, and a commitment to supporting the independent representative. In meeting this commitment with great integrity and entrepreneurship, they created a groundbreaking firm that helped foster the early growth of the financial planning industry.

It's easy to believe that something of the original Private Ledger DNA remains in evidence as today's LPL transforms the financial services landscape.