

# Still Ringing Doorbells

Edward Jones defiantly resists trend among retail brokers to online accounts



*Bachmann of Edward Jones: "We don't believe our customers are served by do-it-yourself investing."*

principal of the private partnership began in 1981, he has taken Edward Jones from around 455 brokers and \$60 million in revenues to more than 4,000 brokers and better than \$1.4 billion in revenues.

That growth has made the firm's retail sales force the seventh-largest among full-service brokers. But despite its parity with other retail powers such as A.G. Edwards and PaineWebber in terms of national breadth, Jones has always been a bit different. The firm adheres to the one-broker office concept that it pioneered, as its competitors clustered up to dozens of brokers in large branches. While others to varying degrees handle the business of institutional investors, Edward Jones is the only firm of comparable size to focus exclusively on individuals.

And as its New York-based counterparts have stressed pulling investors' assets into accounts that bear a flat annual fee, spreading the word that it is easier and less expensive, Bachmann has taken the posture that these fee-based accounts are not good for an investor who follows the Jones philosophy.

He illustrates with an example: "Our customers' average holding period for a mutual fund is 20 years. Say you pay 3% (up front) to buy mutual-fund shares. In a fee-based account you'll pay 1% a year" for each of those 20 years, a whole lot more than the initial 3% charge. His firm even discourages brokers from selling mutual-fund shares whose sales charges are deferred, preferring that all expenses be transparent from the start.

This common-sense, slide-rule approach to the markets has made Edward Jones a trusted name among the take-it-slow retail set. Still, with the technological sands shifting fast enough to spur even the powerful Merrill Lynch to accommodate the panting desire of the public for low-cost keyboard trading, there would seem to be a risk in Edward Jones' stand-pat resolve to stay its course. The retail firms that are grudgingly adding Web-trading features also believe that they're fundamentally sellers of advice, but have decided they must play defense by trying to keep their clients from taking at least some of their business to pure online competitors.

Bachmann's answer to such concerns is that "nobody has the resources to be all things to all people. There is not one right way to do things, but many right ways." And he figures the right way for his firm is to stick with the elements that

have distinguished it for decades.

And so far, he says, there's been little evidence that Edward Jones' business has been eroded by the online threat. In fact, his brokers are under a standing order to get the particulars on any client who transfers a Jones account solely to get on the Web. "just to know what they expect to get out of it," says Bachmann. So far, the directive has yet to be invoked, though the executive says there have been the anecdotal "horror stories" of investors withdrawing some funds to stake their kids to some online-trading capital, often to see it shrink.

If the retail broker is as doomed in the incipient digital financial world as were the monastic scribes after Gutenberg, it's not apparent to the Edward Jones human-resources department. The firm hires 96 new broker candidates for its training program every two weeks; to select such a crop of broker hopefuls, the firm culls its way through 650 applications. Those that make it through training and licensing exams will be dispatched to open his or her own branch office.

A while back, the Jones strategy was to hang its shingles in rural areas neglected by the large wirehouses and send a broker to knock on doors, selling the gospel of long-term investing like the Bible salesman of old. Now, a newly minted broker is as likely to head to a metropolitan area, such as the suburbs of large cities, where Jones is now focusing on thickening its presence on the ground in a bid for market penetration. They still do ring doorbells, though, wherever they're posted.

It's not just aspiring customer's men and women who persist in clinging to the old-fashioned Edward Jones way. Bachmann points out that the firm continues to pick up market share in the geographic areas where it has a presence, as measured in terms of assets in its charge. And this year the firm surpassed the three million mark in client accounts, a number that would suggest a company much larger in terms of broker ranks and revenues. Most other brokerage-firm executives would blanch at the prospect of trumpeting that their firm garners less in revenue per customer than the competition.

Let one surmise that the adherents of the Jones approach are made up of set-in-their-ways types of a dying generation, Bachmann asserts that the median age of a Jones client is dropping at a rate of one year annually, which in demographic terms is akin to free fall.

"Younger people today realize they have more responsibility for their retirement," Bachmann figures, "and they don't have enough money that they can gamble with it. A lot of people are interested in just not doing something foolish with their money." ■

BY MICHAEL SANTOLI • The background of Edward Jones' Internet home page is an electronic rendering of a spiral-notebook page strewn with images of yellow pencils and paper clips, tools of the stockbrokerage trade for most of the 128 years

the firm has been counseling investors. Had you clicked through the Website a bit recently, you'd have come upon a mis-titled, "Why Investing in Internet Stocks Now Is Foolhardy."

That should be evidence enough that Edward Jones is a firm that refuses to cashier its time-tested business philosophy by bowing to the fashions of the moment, which number among them the endorsement of hair-trigger trading, the pushing of in-house mutual funds and the promotion of boom-and-bust Internet stocks.

Now, Managing Principal John Bachmann, who is closing in on 20 years at the helm, has vowed to swim against the latest riptide that's pulling full-service brokers away from their traditional business. As the St. Louis firm's main competitors maneuver to offer clients some form of online trading to counter the rise of the Charles Schwab and E\*Trades of the industry, Bachmann insists his firm will do nothing of the kind.

Oh, sure, Edward Jones plans to let the customers of its 4,000-plus brokers

study research, review accounts and perform "straightforward banking-type activities" over its Website. But despite the recent move by industry leader Merrill Lynch to unveil an online-trading option — and notwithstanding the vows by Prudential Securities, A.G. Edwards and other peers to consider such a plan — Bachmann dismisses the notion as antithetical to what his firm stands for.

"We don't believe our customers are served by do-it-yourself investing," he declares.

Here, in its purest form, is what Edward Jones does believe: "Investors should buy quality securities and keep them for a very long time," says Bachmann. That translates into a focus on pedigreed blue-chip stocks and prudent bond and mutual-fund selection — and an ethic in which a broker's most avid advice is likely to be "Don't sell." Such a recommendation is tantamount to saying, "I don't want another commission from you."

Since Bachmann's tenure as managing