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## Technophobes

### For Edward D. Jones, Avoiding the Internet Is a Secret to Success

### Folksy Stock Firm Skipped E-Trading and Dot-Coms; It's Looking Into E-Mail

### Handwritten Notes to Clients

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*John Bachmann*

DES PERES, Mo. - For Edward D. Jones & Co., it's as if the Internet revolution never happened.

The securities firm, based in this St. Louis suburb, vows it will never offer online trading. During the tech craze it refused to push technology stocks. Managing partner John Bachmann concedes he hasn't turned on his personal computer in at least four years. The 62-year-old shuns cellphones and carries a rectangular L.L. Bean clock in his pocket. He scrawls out responses to e-mail with a pen, leaving it to an assistant to type and send them.

Jones brokers operate in solo offices, going door-to-door to drum up business. They don't have e-mail accounts; the post office delivers their handwritten notes to clients. Jones recruits brokers from local churches rather than business schools. Jones customers hold mutual funds an average of 20 years.

How hopelessly out of date.

Except that Jones, one of the last privately held securities firms, has managed to thrive while many of its white-shoe competitors are pulling back. The nation's seventh-largest securities firm based on number of brokers opens nearly four new offices each business day and plans to have 25,000 brokers on board by the end of the

decade, up from 7,653 today. At the same time, many of its Wall Street rivals are laying off staff.

Last year, the private partnership posted a pretax profit of \$230 million on net revenue of \$2.1 billion. For the first three months of the year, Jones's pretax return on equity was 25%, exceeding the industry average of 20%.

"Someone once said we shot ourselves in the foot," says Mr. Bachmann. "Well, I guess we missed."

But this decidedly not-com company is at a crossroads. Jones's 1980s-era technology is finally having trouble keeping pace with the company's growth rate. In an industry that prides itself on the latest technology, this puts Jones way behind. For instance, an extensive satellite-dish system that ties thousands of Jones brokers in remote areas of the U.S. and Canada to the head office -- providing everything from trade executions to investor video seminars -- lacks the bandwidth to deliver many applications, even e-mail. Brokers complain it is prone to outages in bad weather. Concedes Mr. Bachmann: "We have a massive paper chase on our hands."

#### Testing Systems

Jones currently is testing two fiber-optic systems that it hopes will replace the current satellite network. But getting the new system up and running could take several years. This is a company, after all, that took eight months just to install new printers.

"How they execute this is critical," says Harvard Business School Professor Michael Porter, who added Jones to the curriculum of Harvard's MBA competition and strategy course two years ago. "They need this technology to support their growth goals." The challenge, he adds, is to update the technology without destroying the folksy culture that has facilitated the firm's success.

Balancing the two is a constant internal battle. One flash point came in July 1999, in the midst of the Internet stock craze, when the firm's 17-member management team flew to Alaska for an annual retreat. To escape the midnight sun, the group went underground, meeting for five days in a windowless, wood-paneled room in the basement of the Best Western Bidarka Inn in Homer.

#### A Tough Sell

Rich Malone, Jones's chief information officer, came armed with what he knew would be a tough sell: adding an online-trading component for the firm's customers. Management already had rebuffed industry pressure to offer online trading, but the question was: Should the firm at least build the option into its computer system, allowing Jones to activate it down the road if their bet to stay offline was dead wrong?

Mr. Bachmann and the other executives shot it down. Jones decided at the meeting to have nothing to do with Internet trading, arguing that it would betray the firm's strategy of serving customers face-to-face. "We crossed the Rubicon River and burned the boats," Mr. Bachmann says.

That's got some Jones brokers antsy. Come on, they say, at least we can have e-mail. "The firm is getting there," says Wes Gregory, 30, a broker from the affluent St. Louis suburb of Town and Country. "Slowly."

But for many Jones brokers, technology remains an afterthought. They tend to take their lead from the top, reflecting Mr. Bachmann's low-tech approach to the business. David Parmer, a Jones broker in Eureka, Mo., for just seven months, is typical of many brokers at the firm, where the average age of a new recruit is 37. This is the 43-year-old Mr. Parmer's third career, after working as a state trooper and trucking manager.

Each week, Mr. Parmer makes at least 25 new customer contacts, a quota set by the head office. He begins one recent morning by going door-to-door, driving his white Chevy Suburban in his primarily rural territory. The cellular phone cradled on his dash board never rings. His clients, he says, aren't the sort that would need to unload a stock in a panic. He approaches potential customers gently, standing a few feet away from each door as he waits for someone to answer, clutching a single Jones pamphlet in his hand.

Many of Mr. Parmer's prospective customers are like retiree Mary Mahler, who lives in a yellow house with brown shutters on the outskirts of Eureka. She told Mr. Parmer that her Merrill Lynch & Co. broker, based in nearby Clayton, Mo., doesn't call much anymore. The Merrill broker, John Cooper, says Ms. Mahler is a "priority customer," adding: "I call her quite a bit,

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but I have been on vacation recently."

Ms. Mahler's mother recently died, leaving \$500,000, in money and real estate, which she said she will one day transfer to Mr. Parmer. "Unless you have \$1 million, most brokers don't want to bother with you," she said. "But Jones does."

Jones's brokers start off making an average of \$45,000 a year, compared with the industry starting average in 1999 of \$51,666, according to the Securities Industry Association. The average pay of all Jones brokers in 1999, the last year available, was \$146,000, against \$173,850 for the U.S. as a whole. As for Mr. Bachmann, he took home \$2.4 million in total compensation last year, one-tenth the \$24.7 million received by David Komansky, Merrill's chairman.

Jones brokers spend 120 days training at a massive campus on the outskirts of St. Louis before being sent out into the field. They have strict rules: Don't interrupt a prospect. Make contact with the lawyers, accountants and retired people in your community. Don't carry anything resembling a Bible -- you might be mistaken for a member of the Mormon Church, the other major enterprise that recruits door-to-door.

Old-fashioned letters are a big tool. When he returned to the office one recent day, Mr. Parmer hand-wrote more than a dozen notes. "Thank you for allowing me to introduce myself and my firm to you," he wrote to Ms. Mahler. "I appreciate the time you spent with me."

His only interruptions: the din of the fax machine, constantly receiving memos from the head office, and an occasional call. CNBC plays to no one in a back conference room.

### A 'Family Business'

Mr. Parmer was raised in the farming community of Tonganoxie, Kan., and has never been to New York. He sends many of his female clients a rose on Valentine's Day. He describes Jones as his "family business." His four-year-old daughter, Katie, joins him sometimes when he goes door-to-door and his wife, Carolyn, is senior vice president of administration at Jones.

Jones's culture is key to its success, says Harvard's Mr. Porter. It is a case study, he says, of a business that doesn't try to be all things to all people. Jones can afford to move slowly when making decisions about technology because its underlying business model is so strong, he says. "There are certain groups of students who think Edward Jones is a dinosaur, but by the end of the class they realize they just didn't get it. In many ways, Edward Jones is ahead of the

curve, not behind it. Most people simply want a conservative adviser they can trust."

Mr. Bachmann, who took over the firm in 1980 with just 309 brokers, is an increasingly rare breed, the broker-to-chairman executive. In 1959, Mr. Bachmann landed an internship at Jones. Company literature plays up the fact he started at the bottom, literally sweeping floors in a local office. In 1963, Mr. Bachmann opened the company's 15th office, in Columbia, Mo.

The son of a furniture-store owner, he and his wife, Kay, live in St. Louis in a parkside, three-bedroom apartment that is modest by chief executive officer standards. Even his attire is low key; loose threads sometimes hang from his jacket.

Mr. Bachmann has two fully stocked wine refrigerators at home, but his tastes aren't extravagant. Bud Starr, owner of a specialty wine store in town, grouches that Mr. Bachmann rarely spends more than \$10 on a bottle of wine. "His tastes are very ordinary," says Mr. Starr, adding that Mr. Bachmann checks his receipts.

The firm's down-to-earth approach doesn't play well with everyone. And Jones lost some clients during the Internet boom, both because it cautioned against owning such stocks and because it resolutely declined to make online trading available. Against the advice of his broker, Jones customer Scott Chaney, 37, opened up an E\*Trade Group Inc. account in 1999 after making a small profit from an investment in an Internet-related company his brother was involved in.

Over the next year, Mr. Chaney bought a number of dot-com stocks, including eToys Inc. and Virtualsellers.com Inc., a company he concedes he knew nothing about. Mr. Chaney logged onto his account several times a day, watching his stocks drop in value, 49% in 2000. He reckons he lost a total of \$40,000 trading in his E\*Trade account, leaving him with stocks valued at \$25,000. He plans to transfer these assets to his existing Jones account, which has a number of what he calls more "stable" stocks, including Oracle Corp., Exxon Mobil Corp. and PepsiCo Inc.

"Looking at it now, I should have listened to my Jones broker," said Mr. Chaney, who runs Piedmont Printing & Graphics in Danville, Va.

Jones, for its part, says it lost just 9,815 of its 4.7 million accounts in 2000 to online rivals Charles Schwab Corp., Ameritrade Holding Inc. and E\*Trade. (Jones doesn't track how many clients, like Mr. Chaney, opened separate accounts elsewhere.)

### Reprinting Mr. Buffett

In November 1999 Jones sent every client a reprint of an article investing giant Warren Buffett wrote for Fortune magazine, warning of the pitfalls of betting too heavily on technology. At 2.3 million copies, it stands as the largest reprint in Fortune's history. It was so big it held up a smaller reprint by Mr. Buffett himself. The firm's most-held stocks include Old Economy stalwarts such as Wal-Mart Stores Inc., General Electric Co. and Exxon Mobil.

But as Jones's makeup slowly changes from rural to urban -- 70% of its offices now are in metropolitan centers, compared with just 45% in 1990 -- company insiders know the firm's technology must change with the times.

The challenge, says Jones's Mr. Malone, the chief information officer, will be finding a fiber-optic system that can reach many of the firm's rural offices. Jones hopes to make a decision on how to proceed within six months. It also is reexamining its three-year-old mainframe computers, which require a major capital investment to keep up with the company's huge growth spurt.

Through it all, there's one technology that won't change. "We love the Internet," Mr. Bachmann says. "We just aren't going to use it to trade stocks."