

>: A Stockbroker Autopsy

Thursday, May 15, 2008 / Jason Jovine

Editor's Note: Jason is in bed with the flu, so I had the pleasure of reading through more than a year of his articles to find a suitable re-print. The below piece is one of our favorites, and since it was originally published before public commenting was available on our website, we look forward to your thoughts!

I decided to write this article for you today because I assume that most of you work, with the exception of those of you who are trust fund babies, have married rich, or won the lottery, etc.

The bottom line is that in our hyper-competitive global economy, our jobs ARE NOT SAFE! Do not kid yourself and think that your boss loves you and would never fire you. Chances are, your boss is selfish and narcissistic, and his love for you is conditional on how much you contribute to his or her bottom line.

If you get sick or have another one of those darn "human problems," the love may disappear. Today I want to do a "case study" of a career that is currently on life support, and share with you some key factors that have put it in the condition that it is currently in.

I am doing this because I want you to understand your own industries and jobs better, so that you can see the writing on the wall long before your own career dies or gets shipped overseas. In other words, I want you to think ahead so that you don't go down with the ship when it eventually sinks.

Stockbroker Autopsy

The job of a "stockbroker" is to basically sell or "broker" stocks and sometimes other investment products to individuals. Stockbrokers get their clients primarily through cold-calling. In other words, they call people over the phone and try to get them to buy whatever they are recommending at the time.

This sales strategy has made many people a whole lot of money, but in the early 1990s, things started to change.

1. T 3 (Government Regulation)

T 3 means trade date plus three business days. When you buy a stock today, you have three business days after the trade to pay for it. Sometimes your firm may be able to grant you an extension (give you more time to pay), but most firms don't like to do this. Too many extensions do not "look good" for the firm in the eyes of the NASD or SEC (the regulators).

Before T 3 came around in about 1994/1995, it used to be T 5. This was a good selling point for brokers because it gave clients more time to come up with the money to pay for a trade, which made it more likely that they would do the trade in the first place.

There is and was a lot of speculation as to why the rules changed, but some argue that the big firms, "the wire houses," were feeling the competitive pressure from many small firms who primarily relied on "cold-calling" and, through their lobbyists in the industry, pushed the regulators to make things harder on the smaller guys.

This is a typical strategy of "the powers that be." They do whatever they can to keep their monopolistic or oligopolistic power. In other words, they don't like sharing. Especially with outsiders such as many of the small brokerage firm owners. Guys from Brooklyn and Queens, etc. who didn't want to stay "Average Joes" anymore. They wanted a piece of the pie. The big boys didn't want to share with "Average Joes" (as usual).

2. Fractions to decimals (Industry Changes)

Stocks used to trade in fractions. For example, a stock would be \$10-\$10 3/4. The bid was \$10 and the offer (ask) was \$10.75. In other words, when you sell the stock, you (the sucker ... I mean the client) would receive the bid, and if you wanted to buy the stock, you would pay the offer (ask). This changed several years ago, and now stocks trade in decimals and with much tighter spreads. Now that same stock may trade at \$10-\$10.02.

Previously, the brokerage firm, including its traders and brokers, would all capture a piece of the inside. In other words, they would share or split a piece of that 75-cent spread. Now that money has dried up and hence, has cut the income of these Wall Streeters.

3. Technology & Online Trading (Industry Changes)

The SEC & NASD allow a full service broker to charge up to 5% commission on a stock that you buy. This is a guideline, not a rule. Most brokers

do not charge that much because they don't want the client to complain, nor do they want the regulators (SEC/NASD) to look at them.

Think about it. If someone bought just \$10,000 worth of stock with you, you could charge them up to \$500 ($\$10,000 \times .05$), not to mention the spread mentioned above. Life wasn't bad for brokers and traders.

When the internet came out of the blue in the 1990s (thank you, Mr.Gore), it gave the Average Joe at home something that most businesses hate: TRANSPARENCY. In other words, most businesses like dumb clients. They like asymmetrical information. They want to know the rules of the game, and they want you to be in the dark.

The internet shined light on what they were doing, and, as a result, they had to lower their commissions and decrease spreads.

Online trading also allowed and allows every Average Joe to sit at home in his/her underwear and trade all day for \$5-\$10 per trade instead of \$500 or \$1,000 per trade.

Also, technology makes it so the Average Joe can screen his or her calls. The salesman cannot use the sneak attack strategy anymore. The bottom line is that Wall Street has lost power, and Average Joe has gotten some (hooray for Joe!).

4. The National Do Not Call List (Government Regulation)

In 2003, the government decided to do what they do best and get into our lives more than they already do and give the Average Joe the option to put his or her name on the Do Not Call list. If you think that they did this because they truly want to help you rather than for some political and business interests, then I have a bridge to sell you.

Either way, this was just another blow for Mr. Stockbroker.

Final thoughts ...

I just want to reiterate that you may feel secure in your job, but ask yourself, "Is my job really safe?" Always try to look for the general direction your industry is going in; look for the writing on the wall.

As always, remember to save and invest your money, because good things usually don't last forever. You may have to change careers, and you might make less money, at least initially, in your new career. Get on top of your career before it gets on top of you.

Until the next time, folks, spend your hard-earned money wisely.



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