

The New Superbrokers

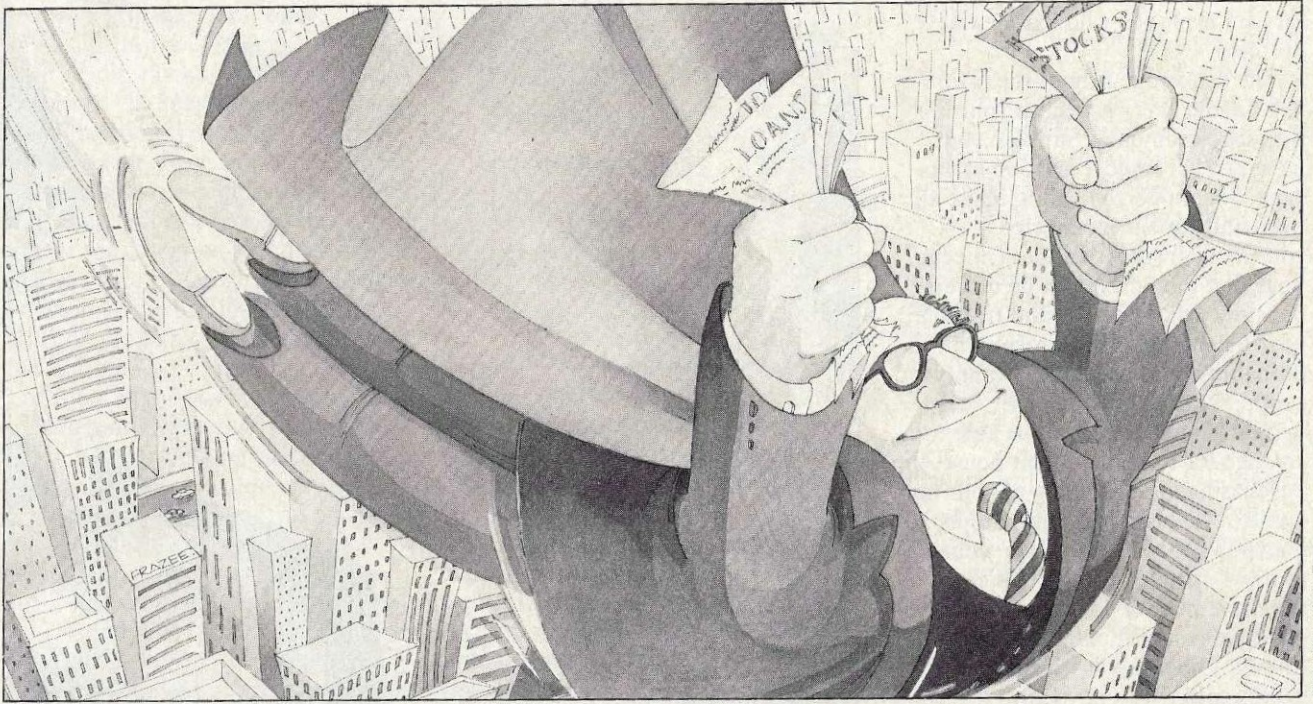


Illustration: Maria Frazee

From home mortgages and life insurance to a loan for a new refrigerator, you can get anything you want at a one-stop financial supermarket.

by Karen Feld

The brokerage house boardroom is as obsolete as the steam-powered locomotive. The corner bank has been turned into a laundromat, a casualty from the computer age. Your broker works on a computer terminal in an office in his home, connected to the financial marketplace through an electronic bank of instruments and telephones. And *you* are connected to your broker.

A single phone call, and *zap*, you can purchase everything from a crib for your toddler to snow tires for your automobile, and at the same time plan your summer vacation, buy life insurance and open a new tax-free IRA—all at a one-stop financial service center.

Sound far-fetched? Not at all. The day has come when banks can no longer satisfy all of our financial needs. Instead, brokerage houses and even retail department stores are expanding to offer a creative package of financial services to the consumer.

Never have so many dramatic changes taken place in the money world so rapidly. The growing com-

plexity of financial life has nurtured the demand for one-stop financial shopping, and the changes are the result of the competition among institutions for the financial business of individuals. Citicorp, the nation's largest bank holding company; Merrill Lynch, the largest securities brokerage firm; Prudential, the largest insurer; American Express, the largest travel-services company, and Sears Roebuck, the largest retailer, are all locked in a struggle with one another—and with other large companies—for the top slot in a multimillion-dollar industry: financial services.

Persistent high inflation has caused

changes in the credit, savings and investment habits of millions of individuals: Wall Street is no longer exclusively the domain of the wealthy. The services of brokerage firms are not only useful but necessary for everyone who has a money problem.

The brokerage firm of the future will handle every aspect of your life that touches money. Suppose you have just accepted a new job in Chicago. Whom do you call to make all the arrangements connected with your move from Atlanta to Chicago? Your first thought might be movers, but they will only pack and transport your belongings. Your broker will probably be far more important, your contact with the financial services market. Your broker will be able to arrange for the sale of your house, the purchasing and financing of your new home, mortgage insurance, adjustments in your car insurance, your family's airline tickets to Chicago, the movement of your household goods, a loan of money to see you through the move or investment of excess cash if you have any.

Many of these things can already be done today; all of them will be commonplace within the next two or three years. Financial service centers will be as convenient as one-stop markets and department stores, with no more complicated paperwork. All your financial statements could even be prepared for you in a single monthly statement.

As a result of the faltering stock and bond market during the last decade, brokerage houses were forced to turn to other services. "We've had to learn to plan for people's needs, rather than give them hot tips, just to stay in business," says Ronald Masci, vice-president and branch manager of Dean Witter Reynolds of Washington, D.C. Brokerage firms even today, in addition to offering a multitude of services that compete directly with those provided by banks and savings and loans, offer their clients a variety of tax minimization packages, such as films and equipment leasing,

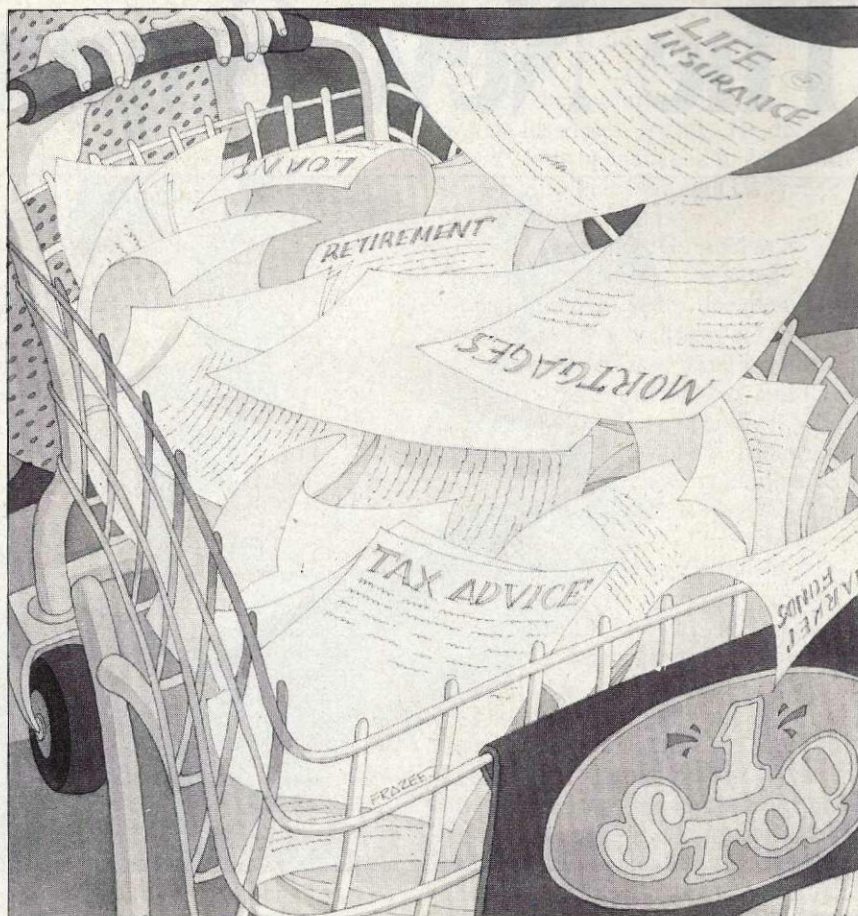


Illustration: Maria Frazee

and can even sell you life insurance and advise on cash management.

"The objective of brokerage firms today is to get somebody from womb to tomb," says Leslie Silverstone, also a vice-president with Dean Witter Reynolds in Washington, D.C. "You begin servicing a person when he's very young, not through investments, but through products offered for the newborn [at Sears]. The process continues as young children accompany their parents on shopping trips [to Sears], and then, when they get older, they get their own credit cards. With the same credit card, they can eventually put money in a money market fund." They can even write checks against the assets in that fund while their money is earning relatively high money market interest rates.

The financial revolution is not simply the shift of savings dollars from banks to money funds, as massive as

that has been. That was just the beginning. The financial revolution involves the shift of all money-related business from traditional institutions to the financial supermarkets that are now beginning to take shape.

"No brokerage firm—even the brokerage industry giant Merrill Lynch—will survive as a separate corporation," says Merrill Lynch's Wayne Nelson. But neither, he adds, will other specialized institutions. "A banker is not an investment manager. He has only a limited number of tools to suggest," says Nelson, "just as a real estate broker can show you only one-dimensional investments. A well-informed stockbroker can show you real estate, but can balance it against stocks, bonds and other investment vehicles." Institutions that are likely to survive are broad-based distributors of money services. They will offer super-powered money funds, banking,

home loans and consumer tax shelter services, according to Nelson.

In other words, the financial super-market will combine the services now rendered by savings and loans, credit unions, banks, credit card companies, finance companies, real estate firms, CPAs, insurance companies, department stores, tax attorneys and stock brokers. "The segmentation of money funds function is archaic," says Nelson. People who are now using money market funds are nibbling at the leg of an elephant of what is to be. At the core of these service packages will be an electronic payment package where a customer can put his cash in any instrument in any form he chooses and be able to change those instruments for any goods or service anywhere in the world, twenty-four hours a day, from a terminal in his house.

Once the brokerage firms started controlling such large amounts of money, major corporations such as Sears Roebuck, Prudential and American Express saw that when firms handle that kind of money, there is the potential for tremendous profit, and that money could be shifted from one area to another.

With a brokerage charge card—which would actually be a debit card, allowing you to draw cash or borrow against the value of the securities in your brokerage account—you could pick up cash anywhere in the world in the form of either foreign currency or travelers checks. Your broker could advise you if your will needed to be changed; when your spending for entertainment exceeded your budget plan; whether your retirement plan were on schedule; when your life insurance or college savings program needed attention, or how to use the equity built up in your home—all transactions where money might move from place to place. With each move would come profits for the brokers. *Big profits.* And a great service, unparalleled today, for the consumers.

There are already special money

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market funds available called Cash Managements Accounts (CMAs) that approach this level of service. With a CMA (which you open through a broker, not a banker, by the way), you deposit money or securities into a money market fund to take advantage of the currently high interest rates. With a special VISA card you can then draw cash, borrow against the value of the securities in the account or write checks in any amount; in other words, you can write a loan to yourself with your own securities as collateral. There are even statements and records to keep you—and the IRS—informed.

Nelson believes that the next innovation will be to tie the CMAs in with your home equity. That is, allow the broker to hold a second mortgage trust deed, thus increasing the amount of money available to you in your account.

"The modern securities industry has a tremendous amount of expertise to solve financial problems, and we all have financial problems," says Dean Witter Reynolds's Masci.

"With the new tax law, working Americans are going to be in a position to save, and in the mood to save," says Sears Roebuck President and Chairman Edward R. Telling. "We are well positioned to be a part of that."

Studies of public opinion confirm

that Sears is one of the most trusted and highly regarded companies in business today. "People like to have confidence in one company and do all their business there once they've established a happy relationship," says Silverstone.

Sears has unique resources, including an enormous customer base, and twenty-five million active credit-card holders, who receive direct mail monthly. Three out of four American households shop at Sears in the course of the year. Among brokerage firms clients with incomes in excess of \$36,000, three-quarters of them already have Sears credit cards. If Sears were to put a machine in each of its outlets where a customer could draw money out of a money-market fund, an 859-branch bank would be born.

"Our goal is to become the largest consumer-oriented financial service entity," says Telling. To that end, Sears recently acquired Coldwell Banker & Co., the nation's largest independent realty broker, and Dean Witter Reynolds, the nation's fifth-largest stock brokerage firm; these are in addition to the existing holdings of Allstate Insurance Companies and Allstate Savings and Loan Association in California.

Telling estimates that before 1986, 3 million new brokerage accounts will be added to the current 9.5 million accounts held nationwide. Of these new accounts, 75 percent, or 2.25 million, are expected to belong to Sears customers: Sears is well on its way to becoming the nation's leading purveyor of financial services.

There is always the fear that as a company gets larger, the individual client will get less personal service. Prudential's Robert Beck, however, says that it isn't so in the case of the so-called financial supermarkets: "The biggest winners will be the public. They're going to be offered sounder, more flexible and more convenient ways to manage and invest their money."

And that's something you can, well, bank on. 