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Put Your Broker to Work

By Peter Lynch

What rarely happens at the gas station happens all the time at the broker's office. Millions of customers pay the full-service rate without getting the full services. In a nation of smart shoppers, this may be the last great lapse. With all the attention going to discount brokers and Wall Street firms vying to offer the lowest commissions, nobody is talking about how people who pay for full-service brokerage can get their money's worth. Thanks to the computer, full-service brokers are a far more valuable resource than they were a few years ago. They spend most of their working hours staring at the same information the fund managers on Wall Street are staring at. With the newfangled terminals that have replaced the clunky Quotrons of old, even a broker in the boonies is only a keystroke away from a menu of high-powered sources including Reuters; Dow Jones New/Retrieval; Bloomberg, which reports on the vital signs (cash flow, revenues, etc.) of thousands of companies; Zacks, which gathers earnings estimates from all the analysts who follow a particular company; and charts and graphs that track stock prices and volume of trading going back weeks or even years.

Along with these data services, the broker can call up the latest

commentary from the in-house analysts at his own brokerage firm. This is the sort of fresh information retail investors normally can't get. To find out what the Dean Witter analyst is saying about IBM, the clients of Dean Witter have had to wait for the written report, which often takes weeks to be printed and sent out to the local branches. By that time, the information is stale and the fund managers and other large investors have already acted on it, because they hear it straight from the analyst's mouth.

I've argued over and over that the retail investor has an edge over the wholesale investor in many aspects of investing, but getting the latest news from official Wall Street sources isn't one of them. Look what happens, though, if the retail investor's broker is willing to pass along the analyst's comments as they appear on his computer screen. The information gap closes, and the retail investor no longer has to be the last to know.

"The research departments of the major brokerage firms are underutilized," says Tom Reilly, a Merrill Lynch broker from Boston who enthusiastically plays the new role of conduit between his clients and his database. Merrill Lynch has about 200 analysts in 37 countries, and when everone of them writes a report on a company whose stock is owned by a client of his, Reilly can retrieve it. "When I came into this business 18 years ago," he says, "the printed reports we mailed out could be three months old by the time they reached the customer. Now I can print a copy off the screen and fax it. Or if there's something that the compliance department won't allow me to print, I can at least read it to the customer off the screen."

Suddenly, there are better things to ask a broker than "Where's IBM trading today?" - which tells you nothing about IBM's prospects - or "Is the market headed up or down?" - the question brokers have to answer every day, even though they have no more idea of where the market's going than you or I do.

You can ask for the latest news on IBM from the Dow Jones wire, or for the latest summary of earnings estimates from all the brokerage analysts on First Call, or for a copy of the most recent bulletin put out by the in-house IBM analyst.

Or, if you want the complete story all at once, the broker can pull the relevant details out of Bloomberg, Zacks, and the rest, and string the pages together to produce what amounts to a homemade report on any company that piques your interest. Al Bernazani, a broker at Smith Barney with 35 years of experience, prepares these information packages as a matter of routine. "I can generate 20 pages of data on almost anything," he says, "and the computer prints it up at night."

It sounds like a lot of extra bother, but Bernazani, Reilly, and other brokers who are the pioneers of computerized services say it's not. They can gather 20 pages on the computer without leaving their swivel chairs, and in less time than it would take to walk to the office library and copy a couple of pages out of the S&P reports or the "VALUE LINE INVESTMENT SURVEY," which is the traditional way of doing research for clients. That old method doesn't compare with what's possible today.

Perhaps you're looking for companies with particular characteristics-- a low price-to-earnings ratio, or no long-term debt, or a high growth rate, or an unbroken record of raising the dividend, or all of the above. Ten years ago, there would have been no easy way to search through 10,000 publicly traded companies to find the suspects that fit the description, but now we've got online databases with screens. Some of these databases are so expensive it wouldn't make sense for the average person to acquire them, but the brokerage houses might. In that case, your broker can run the screens for you.

It's not a commonplace request at the moment, but Tom Reilly already runs screens for his clients, and there's no reason a stock screen can't become one of the standard full services. Meanwhile, useful information on annuities, foreign stocks, and mutual funds of all stripes is piling up on broker's desks. Many offices already subscribe to the Morningstar and Lipper publications that track thousands of mutual funds: stock funds, bond funds, open-end, closed-end, foreign, domestic, best total return over ten years, highest yield, you name it. A broker can help clients pick mutual funds by sending along the ratings and the rankings, yet few investors take advantage of this. People who believe that all funds seem the same might feel differently if they looked at these reports from time to time.

It won't be long before a broker's entire client base can be put on an alert system, where any newsworthy development that affects a specific stock or mutual fund will trigger a note to the broker, who can then relay the information to clients who own the shares. There are at least two programs that do this already: Reuters Money Network and Telescan. Both roam the news wires automatically, looking for news on the stocks in a subscriber's portfolio whenever that subscriber logs on to get the latest price quotes for the shares.

Computers have revolutionized the business to the point that the two most important factors to consider in choosing a broker are: (1) Does he have good software and good databases? and (2) Is he willing to use them on his clients' behalf? This is where the larger offices, particularly the flagship offices in major cities, have an advantage over the smaller, far-flung branches. Larger offices tend to have greater access to research and more elaborate databases than smaller offices do.

Bernazani is in a great spot. He works at one of Smith Barney's main offices in Boston, which has its own trading desk where big blocks of stock are bought and sold for institutional clients. An office with a trading desk is likely to have the most advanced research available, which is how Bernazani gets to use Bridge. Bridge is a premier database that runs 24 hours a day there and will tell you everything you ever wanted to know about a company's affairs short of the CEO's bedtime. It also tracks options and commodities and does the mumbo-jumbo calculations used by the esoteric market timers known as quantitative analysts, or quants. It's a great service, but for an individual to subscribe, the cost can run to a hefty \$2,000 a month. Bernazani makes use of Bridge for his customers free of charge.

I'm amazed that full-service brokerage firms aren't advertising the research benefits their clients can get from their computer systems, but so far they've been quiet on the subject. Asset allocation is what they talk about. That's where they hand you a questionnaire that asks you how much risk you are willing to take, and a worksheet so you can figure out how much money you'll need for retirement, or to pay tuition bills, or whatever. Based on your answers they design a portfolio with the right mix of stocks and bonds for your particular situation. Then periodically they review the portfolio to see if it's underweighted or overweighted in one investment or another. It's a valuable service, but not as valuable to the stock picker as the help the broker can provide ad hoc.

There's potential here for a total overhaul of the relationship between brokers and clients, which often has been less than satisfying to either party. Instead of the brokers calling their customers when they have something to sell, now they can call when they have something to say. The client will benefit from having an active research partner who does for him what the analyst does for the big players on Wall Street. The broker will benefit from being more useful. The brokerage house will be able to show that higher commissions are worth the price.

We're in the experimental stages here, so the client has to take the first step. Call your broker and ask him what he and his computer can do on behalf of the companies you own stock in. It might be the beginning of a beautiful new relationship.