

Executive Summary

- Established in 1922, it is a financial advisory firm which takes a highly personal approach to clients
- Offers commission-based and fee-based services and currently has the largest number of branch offices among brokerage firms in the United States

Geography	US and Canada
Revenue	\$6.28 billion USD (2014)
Average AUM	\$831 billion USD (2014)
Yield	75 bps
Number of employees	41,142 , which includes 14,500 Financial Advisors
Branches	12,016 (11,426 in all 50 states of the US and 590 in Canada)
Clients	7 million

- Offers products like municipal, government and corporate bonds, mutual funds, ETFs; common stocks, tax advantaged securities, home equity loans mortgages, estate planning options. Recommends only high quality stocks with long holding period, does not sell options or commodities or other volatile assets due to its philosophy - **“it’s time in the market, not timing the market that counts”**. The average holding period for a mutual fund bought by an Edward Jones investor was **13.1 years**. This compared with the industry average holding period of 5.1 years. According to WSJ, Edward Jones had one of the lowest portfolio turnover (less than 15% annually), and one of the highest returns over the past five years, at +85.1% (S&P 500's return of +62.7 %)
 - Products are focused to serve retail investors and small business owners; mainly targeting the older age group, the younger customer especially Millennial population. The typical client is 54 years old, makes \$61,525 a year and has \$106,415 invested through Jones.
 - Operates on the one-broker-per-office model with 12,016 offices (11,426 offices in all the 50 states of the U.S. and 590 offices in Canada) and 14,500 financial advisors. Focused on tapping the rural and sub-urban markets, has one branch office in every neighborhood. HQ tries to ensure areas of branches do not overlap to best extent. However, many EJ branches are located close to each other. In such situations, EJ Advisors try to work in partnership to grow EJ’s market share rather than compete with each other to grab each other’s market share. They believe that the market is still very large and no firm has more than 5% market share, hence growing EJ’s overall market share in such a fragmented market is the best way for long-term success
 - At Edward Jones, there is only one profit center – the individual Financial Advisor. This means everyone at the headquarters (5,500 associates) is not managing his or her own revenue streams – each is there to support the FAs. Follows hub and spoke model, has established full-service headquarters in every country for comprehensive regional support system for all Financial Advisors.
 - The company recruits people who are self-motivated entrepreneurs who want to run their own business; it trains them internally to become FAs. It has successfully attracted and retained best talents with less than 15% attrition rate over the years and consistently ranked among the best companies to work for by FORTUNE magazine
 - Edward Jones was consistently the highest-rated employer by brokers. It did not recruit brokers heavily from competitors nor did it pay brokers to transfer their client assets or “books” into the firm. It hired self-motivated entrepreneurs who were new to the industry and wanted to run their own business individuals and trained them internally. Referrals from existing FAs were the best source of new FAs. Broker attrition was about 15% per annum and falling, which mostly involved new FAs who were failing to meet expectations
 - Getting senior advisors to move to EJ is harder than getting younger advisors to move – essentially because senior advisors want to shift their entire team of advisors. How EJ pitches to advisors to join it vs. going Independent – By saying they do not have to worry about other things of running your own business when they join EJ, they only need to work on clients
- Edward Jones divided FAs into five segments based on seniority and the value of their business
- Segment 1 brokers were newly trained FAs just starting in their own offices
 - Segment 4 brokers, on the other hand, managed assets of more than \$50 million
- The average EJ advisor is currently in his mid-50s and has 863 accounts worth about \$44 million
- Majority of the clients do move when their advisor moves to EJ

Branch Office Assistant is dedicated to that Advisor's work. It is not like other firms where there is often just one Assistant for quite a few advisors

- During first few months as an Edward Jones Financial Advisor, FA will work closely with our New Financial Advisor Development department to reinforce their knowledge of investments through monthly conference calls, broadcasts and in-depth training modules. Before even training begins, a mentor is assigned to FAs who will be with him every step of the way. The candidate will also meet with his regional leader – the person responsible for the health and growth of a geographic region of Financial Advisors. Additionally, candidate will be assigned to a Success Team consisting of 10 to 12 trainees, one academic leader and one veteran Financial Advisor

- No upper limit on income that a FA can earn. They pay stipend to FAs during 3 year training period

Commission payouts: Year 1: 18%-20%, Year 2: 22%-25%, Year 3: 27%-30%, Year 4 +: 36%-40%

Bonuses offered for (1) For obtaining licenses and completing training (2) New asset bonuses paid monthly during years (3) Milestone bonuses paid every four months during years. (4) Financial Advisors whose performance is 100% of standard or greater may receive enhanced milestone bonuses (5) Profitability bonuses earned and paid by trimester, based on branch and firm profitability

Profit sharing based on the branch and firms profitability

Incentive travel program

Partnership opportunity

There is also a bonus for helping clients diversify their portfolios

During Summer Regional Meetings, it invites entire family of the employee, which employees like a lot. It also gives them a chance to develop a more personal relationship with fellow advisors

- In 2013 to deal with new regulation and tougher competition, it has launched its fund platform named 'Bridge Builder' to serve clients directly, it has 8 funds with an AUM of \$ 20.2+ Billion. Making its business model move away from the commission to direct fees; moving away from just an intermediary to manufacturer of financial products it can cut a better deal on fees. These funds are only accessible to the clients of Edward Jones's 14,500 financial advisors. For sub-advisory services, it has hired the institutional fund managers who manages money for endowments and other institutions and made their services available to retail clients which wasn't possible earlier
- Edward Jones doesn't provide online trading facilities to its customers as it believes that helps prevent rash investment decisions. If customers have to execute a trade then they have to rely on calling their executive over phone. However, lack of online trading facilities keeps away a significant portion investing community from the company
- Moving towards fee-based model. One problem with EJ's advisors was that they were largely paid on commission sales, depending on the security bought by their clients. Commission model can have conflict of interest sometimes between client's actual financial objectives and product commission rates. However, EJ has been steadily moving its model towards fee-based model in recent years.

Value proposition of Edward Jones to clients thru empower Financial Advisors

- **Best advisor for New Investors:** People who have not invested before need an expert to help them learn. Hence, an in-person advisor would be the best to go to, and this is where EJ's branch model works best to build trust. Such new clients are often happy to pay higher fee for personalized attention, since they need that expertise. Moreover, for new investors, EJ's recommendations and strategies are easier to understand for laymen. So not only do they get service, they also learn the basics in the process. In terms of market size, EJ estimates over 47 million investors are there in US who would value face-to-face personal advice.
- **Consultative style of advice and Tailored advice:** USP of EJ Advisors is that they listen to understand what is important for clients, so that they can give long-term advice. EJ advisors try to understand what client is saving for, and how much they are willing to risk. For clients who do not have any idea on how to plan or build for their financial goals, such a consultative Q&A style may be best to develop tailored advice. Personalized attention means that, apart from meetings, EJ advisor may also have to contact clients to reassure them if the need arises, or advise them if client is not on the right track
- **Client segmentation based on their attitude towards investing, not by how much money they have.** A key aspect of EJ is its behavior-based segmentation. Instead of segmenting into HNI clientele based on the money the clients have, it segments clients based on why they are investing and their attitudes towards investing. Conservative investors who are ready to delegate their work to a trusted advisor would typically be less price sensitive and more loyal.

- **Extensive network** means a dedicated advisor who knows you is always close at hand to meet up. Its network covers almost every neighbourhood of USA. Hence, there is always a dedicated EJ advisor who knows you, within close distance to go and meet in-person. Moreover, its branches are typically located in convenient locations, like in malls or suburbs where most of its target audience will be. But this vast network means its occupancy costs will be higher than most peers
- **Expensive option, but worth the service:** EJ gives a dedicated advisor as personalized attention is its forte, rather than just a 1-800 phone or internet access. Hence, it is also pricier than discount brokers as it charges approx 2% commission on stock trades (on investment amounts) and \$40 annual fee on retirement accounts. However, clients find it worthwhile given the personalized, trusted face-to-face attention in easy-to-understand clear language
- **Portfolios are managed following a model that aligns with clients objectives and risk tolerance.** It offers more than 60 models (called Research Models) constructed by research professionals or client can create a custom mode. Financial advisor works closely with client to select or create a model best suited to clients' needs, goals and risk tolerance. The portfolio follows the three time tested approach of (1) Asset allocation covering a broad range of asset classes allocated in proportions appropriate to achieve a specific portfolio objective (2) Professional investment selection – extensive evaluation process conducted by team of research professionals. (3) Automatic rebalancing – A sophisticated rebalancing process helps ensure investments stay aligned with your portfolio objective and risk tolerance.

Financial Performance

- Revenues increased by 11% CAGR in the last 4 years. Within this, asset-based revenue increased by 22% CAGR, way higher than the 8% CAGR clocked by Commission revenue. In fact, within asset-based revenue itself, fee revenue from Advisory programs increased by 34% CAGR. This shift is largely in line with EJ's business strategy shift towards the fee-based model.
- Employee costs increased by 13% CAGR during the same period. This is in line with overall topline growth, but much lower than the traction seen in advisory programme revenue
- Number of Advisors have marginally increased by 2% in this period, indicating that much of the increased Employee Costs pertains to Variable Bonuses
- No of Branches have also remained largely consistent, only up by 1% CAGR. Occupancy costs per branch has remained constant over the last 4 years, indicating that the expansion into hinterland helped keep incremental costs low to a large extent
- Profitability has improved marginally, from 10% margin 4 years ago to 12% in 2014, largely due to the traction in fee-revenue
- ROE has improved from 25% to 35% during the same period, which is largely a result of increased leverage. Its Asset Turnover has, in fact, declined in this period, indicating reduction in productivity of its business. Higher leverage in the balance sheet (assets/equity) largely pertains to high accounts payables across all the years
- Overall Client AUM increased by 11% CAGR, while overall fee and commission revenue were up by a higher CAGR of 15%, largely due to fee income. Thus, yield increased .
- Advisory Programme AUM were up 32% CAGR, in line with the 34% CAGR in Advisory income.
- Asset-based business's contribution to Group topline has increased from 34% to 49% in the last 4 years, in line with the strategic focus on the fee model. Within this, the proportion of advisory programme revenue to Group net revenue has doubled from 13% to 28%

Edward Jones (\$ in Millions)	Year ended December 31					4 Year CAGR
	2014	2013	2012	2011	2010	
P/L						
Advisory Program Revenue	1,732	1,368	1,052	850	544	34%
Others	1,357	1,155	990	927	853	12%
Asset-based	3,089	2,523	2,042	1,777	1,397	22%
<i>As a % of Total Revenue</i>	49%	45%	41%	39%	34%	
Account and activity	617	568	574	523	503	5%
Total fee revenue	3,706	3,091	2,616	2,300	1,901	18%
Total trade revenue	2,460	2,439	2,247	2,136	2,105	4%
Total revenue	6,333	5,716	5,027	4,578	4,163	11%
Net revenue	6,278	5,657	4,965	4,510	4,107	11%
Total operating expenses	5,508	4,983	4,410	4,028	3,714	10%
Income before allocations to partners	770	674	555	482	393	18%
B/S						
Receivable from:						
Securities owned, at fair value:						
TOTAL ASSETS	14,770	13,795	13,042	9,584	8,241	16%
Payable to:						
claims of general creditors	12,552	11,664	10,959	7,528	6,432	18%
Total partnership capital subject to mandatory redemption	2,218	2,081	1,983	1,906	1,605	8%
TOTAL LIABILITIES	14,770	13,795	13,042	9,584	8,241	16%
Net Profit Margin	12%	12%	11%	11%	10%	
Asset Turnover	43%	41%	38%	47%	50%	
Leverage	7.x	7.x	7.x	5.x	5.x	
Return on Equity (ROE)	35%	32%	28%	25%	24%	
Total Client AUM (\$ Mn)						
Closing AUM	866,200	787,100	668,700	591,200	572,600	11%
Average AUM	826,650	727,900	629,950	581,900	535,800	11%
Yield (based on asset-based and commission revenue)	0.64%	0.64%	0.64%	0.60%	0.55%	
Advisory Program AUM (\$ Mn)						
Closing AUM	136,900	115,600	87,400	68,800	53,700	26%
Average AUM	126,250	101,500	78,100	61,250	41,000	32%
Yield on Advisory (based on asset-based revenue)	1.37%	1.35%	1.35%	1.39%	1.33%	
Financial Advisors						
Closing count	14,000	13,158	12,463	12,242	12,616	3%
Average count	13,579	13,579	13,579	13,579	12,694	2%
Attrition %	9%	9%	11%	14%	16%	
Branches						
Closing count	12,016	11,647	11,415	11,408	11,375	1%
Average count	11,832	11,531	11,412	11,392	11,306	1%
Occupancy costs per Branch	0.031	0.031	0.031	0.031	0.030	

Revenue Segments

Asset-based Fees

- **Investment advisory services:** Fees charged monthly based upon the average value of their assets
- **Portfolio management services:** Fees for these programs are based on the average value of client assets
- **Trust services and investment management services** offered to its clients through Edward Jones Trust Company
- The fees generally range from 15 to 25 basis points of the value of the client assets

Asset based fee revenue breakup

(\$ billions)	2014		2013		2012	
Advisory programs fees	1,732	56%	1,368	54%	1,052	52%
Service fees	1,129	37%	959	38%	809	40%
Revenue sharing	184	6%	155	6%	139	7%
Trust fees	39	1%	34	1%	28	1%
Cash solutions	5	0%	7	0%	14	1%
Asset-based fee revenue	3,089	100%	2,523	100%	2,042	100%

Commissions

- Commission revenue consists of charges to clients for the purchase or sale of mutual fund shares, equity and debt securities, and insurance products.

Principal Transactions

- The Partnership makes a market in municipal obligations, over-the-counter corporate obligations, government obligations, unit investment trusts, mortgage-backed securities and certificates of deposit.
- The Partnership maintains securities positions in inventory solely to support its business of buying securities from and selling securities to its retail clients and does not seek to profit by engaging in proprietary trading for its own account.

Investment Banking

- Investment banking revenue is primarily derived from the Partnership's distribution of unit investment trusts, corporate and municipal obligations, and government sponsored enterprise obligations.
- Investment banking revenue also includes underwriting fee revenue related to underwriting and management fees as well as gross acquisition profit/loss and volume concession revenue, which is earned and collected from the issuer.

Interest and Dividends

- Interest and dividends revenue is earned on client margin (loan) account balances, cash and cash equivalents, cash and investments segregated under federal regulations, securities purchased under agreements to resell, partnership loans, inventory securities and investment securities.

Key Highlights

- As of Dec 2014, Edward Jones distributed mutual funds for approximately 75 mutual fund companies, including American Funds Distributors, Inc. which represented 20% of the Partnership's total revenue for the year ended December 31, 2014.
- Client Account Administration and Operations: Edward Jones processes substantially all of its own transactions (does not Outsource)
- During 2014, financial advisors attracted \$52.3 billion in net new assets. During 2013, financial advisors attracted \$41.2 billion in net new assets.
- As of Dec 2014, average client assets under care grew 14% YoY to \$831.6 billion, which included a 26% increase in the advisory programs' average assets under care to \$127.7 billion. In addition, client dollars invested related to trade revenue were up 5% to \$112.8 billion. As of Dec 2013, average client assets under care grew 14% YoY to \$726.4 billion, which included a 28% increase in the advisory programs' average assets under care to \$101.0 billion. In addition, client dollars invested related to trade revenue were up 11% to \$107.9 billion.
- During 2014, Net revenue increased 11% YoY to \$6.3 billion. This increase was led by a 20% increase in total fee revenue. During 2013, Net revenue increased 14% YoY to \$5.7 billion. This increase was led by an 18% increase in fee revenue.
- During 2014, Operating expenses increased 11% YoY, primarily due to increased compensation expense driven by higher revenues on which financial advisors are paid. During 2013, Operating expenses increased 13% YoY, primarily due to higher compensation and benefits expense driven by increased financial advisor productivity
- Increasing number of FAs and declining attrition rate reaffirms the company's efforts to acquire and retain talents
- Edward Jones does not employ its own floor brokers for transactions on exchanges. The Partnership has arrangements with other brokers to execute the Partnership's transactions in return for a commission based on the size and type of trade. If, for any reason, any of the Partnership's clearing, settling or executing agents were to fail, Edward Jones would be subject to possible loss.

Awards and rankings

- The company has earned a strong brand name and image over the years
- Designated the firm with "Highest in Investor Satisfaction" by J. D. Power and Associates in 2002, 2005, 2006, 2007, 2009, 2010, 2012, and 2013.

- In Canada also Designated the firm with "Highest in Investor Satisfaction" by J. D. Power and Associates in 2006, 2007, 2008 ,2013, 2014 and 2015.
- Edward Jones ranked No. 1 in the annual SmartMoney magazine full-service brokerage survey. The firm received high marks in the four categories surveyed by the magazine: stock picking, customer satisfaction, trust and customer statements.
- Named one of the "Best Companies to Work for in America" by Fortune magazine in its annual listing. The firm took the No. 4 spot overall in the ranking (2014).
- In February 2012, Edward Jones named No. 15 on Training magazine's '2012 Training top 125 list.'

Partnership Structure

- Unlike nearly every other retail brokerage, Edward Jones remained a partnership. There were three levels of partnership: limited, general, and subordinated. Approximately every three years, high performers with more than three years of employment were given the opportunity to invest in the limited.
- Edward Jones and its parent company The Jones Financial Companies, L.L.P. are organized as partnership firms. As of February 24, 2012, the Partnership was composed of 362 general partners, 14,416 limited partners and 280 subordinated limited partners.
- Under the terms of the Partnership Agreement, an individual partner's capital balance is liquidated upon death. In addition, individual partners may request withdrawals of their Partnership capital, subject to certain limitations on the timing of those withdrawals.
- Accordingly, capital of the Partnership is not permanent and is dependent upon current and future partners to both maintain their existing capital investment and make additional capital investments in the Partnership.