Taking Stock: Size doesn't guarantee success

by Malcolm_Berko

Dear Mr. Berko: I've saved all of your columns for the past four years and I need your advice. I have to find a broker because I'm not having the success I want (and I don't have the time, either) managing my personal portfolio. I'm thinking of joining Merrill Lynch as a client. It's a huge firm and should have many good brokers because of its size. What do you think of Merrill Lynch? I have over $270,000 in the market so would you recommend it? Also I can't find any of the Merrill Lynch mutual funds on the Internet. I can find Fidelity, Putnam, Vanguard, etc but why can't I locate the Merrill Lynch mutual funds, especially their performance record?

D.R.

Cleveland

Dear D.R.: I used to work for Merrill Lynch between 1957 and 1959 when female board markers used white chalk to post changing stock prices on a blackboard while a gallery of 40 or 50 male customers looked on. In those days, a broker was called a customer's man and daily volume on the New York Stock Exchange averaged 7 million shares. But I was fired from Merrill Lynch in late 1959 because they didn't like my attitude or sense of humor. Oh, well.

But I can tell you that Merrill is a grand firm with 15,000 brokers, 53,000 employees, $1.6 billion in client assets - as well as a powerhouse in investment banking, municipal and corporate finance, advisory services, underwriting, securities trading and so on.

However, it isn't the firm that makes the broker; rather it's the broker that makes the firm. Merrill Lynch has a lot of average brokers providing a lot of average advice and so does Oppenheimer, A.G. Edwards, PaineWebber, Dean Witter, etc. But size does not guarantee success. I know some great brokers at firms I don't like and I know some lousy brokers at firms I admire. So a firm's name and its prominence in the industry is no guarantee that your portfolio will receive the best attention and advice.

Merrill Lynch has good apples, average apples and bad apples. And so it is with most brokerage firms; however, the good apples are usually hard to find. So I advise you to follow the instructions in my January columns titled "How to Find a Broker" and don't allow yourself to think that size determines quality. There are excellent brokers at Wedbush Noble, Morgan Keesan, Rausher Pierce, Hillyard Lyons, Moors & Cabot, etc.

The reason you can't find a list of Merrill Lynch mutual funds on the Internet is that "there ain't no more" Merrill Lynch mutual funds. Merrill's high-powered talent, superb analysts and sophisticated research was having trouble convincing the Merrill sales force to peddle its namesake mutual funds that paid a tidy 4 percent to 5 percent sales commission. I wonder why?

Considering Merrill's enormous ability to attract top analysts, I seldom saw any of Merrill Lynch's 150 mutual funds listed among the top 10 or top 25 performing funds in Forbes, Business Week, Money magazine, Kiplingers, etc. So management, recognizing that their mutual fund group ($530 billion in assets) contributed only 8 percent of earnings and recognizing that retail sales didn't match their expectations (Merrill's funds suffered a net reduction in assets since the late 1990s and got lower Morningstar ratings than Vanguard and Fidelity), sold their mutual fund group to BlackRock.

Merrill now owns 49 percent of BlackRock, which prior to this deal was a well-known asset manager on the Street. BlackRock now has more than 250 mutual funds under management representing $1.1 trillion in assets. A lot of money, that! Frankly, I am not comfortable owning a mutual fund owned by a company running 250 different funds under a huge umbrella. Sort of a flea market for mature funds. And my dad would always remind me that you seldom find bargains in a flea market where sellers get rid of stuff they can't use.

Bigger certainly isn't better; rather, in most cases bigger fosters bureaucracy and bureaucracy fosters mediocrity. BlackRock is a powerhouse but I don't expect to see any of its mutual funds racking up superior 15-year, 10-year and five-year performance records and I don't feel compelled to own any of their funds and pay a 5 percent commission to a broker.

There are just too many no-load mutual funds with sterling 15-year and 10-year performance records and they are easy to find. I've mentioned many of them in my column over the past year and because you've kept my columns they should be easy for you to find. Their names are legion.

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