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Brokerage firm to drop client fees on unprofitable trades

By Alison Beard in New York

APB Financial Group, a brokerage firm that also manages \$175m for wealthy investors, has decided to stop charging clients for unprofitable trades.

Clients will pay fees on a sliding scale – from 1 to 3 per cent of gains, for example – only if the value of their portfolio increases. If they break even or lose money, they pay only transaction fees on the trades their brokers make.

The pay-for-performance structure is an industry first, according to APB's research. Brokers that do not charge trading commissions usually deduct a percentage of clients' assets instead. Some hedge funds charge only incentive fees – 20 per cent in most cases – but the majority

take a percentage of assets, as well.

By refusing to accept money for poor performance, APB brokers ensure that their interests are in line with their clients', said Ed Coyle, APB's president. "We only want to make money if we make money for our clients," he said.

The firm had been considering the new fee structure since last year, but recent allegations of misconduct at Merrill Lynch, Credit Suisse First Boston and Salomon Smith Barney, prompted APB to move ahead with the change.

"This is a business model that can really help restore investors' faith in Wall Street," said Jacqueline Chen, director of marketing. "The timing couldn't be better."

Steven Abernathy, who

launched APB in 1996, also runs a hedge fund, the Abernathy Group, which eschews management fees in return for a percentage of profits. Therefore, said Ms Chen, he "knows this model will work".

As with the hedge fund, which is under the Abernathy Financial Services umbrella along with APB, the firm's brokers will be able to short stocks, ensuring the possibility of positive returns even in a down market, Ms Chen added.

APB, which sets a \$250,000 minimum on accounts, currently has 300 clients. It employs five brokers, but hopes to expand that to 10 or 15 by 2003.

"This is a challenge to the best and brightest on Wall Street," Ms Chen. "If they're good, they can agree to our rules."