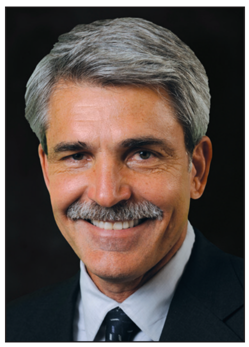
Client First

An Interview with Paul Reilly,
Chief Executive Officer, Raymond James Financial



Paul Reilly

EDITORS' NOTE *Paul Reilly assumed his current post in May 2010, after joining the firm's management team as President and CEO-designate in May 2009. He has served on the firm's board of directors since 2005. Most recently, he was Executive Chairman of Korn/Ferry International, beginning his tenure there as Chairman and CEO in 2001 and becoming Executive Chairman in mid-2007. Earlier, he was CEO at KPMG International. Before being named CEO, he ran the firm's financial services business and held senior management positions in its real estate consulting group. A CPA, Reilly earned his bachelor's degree and an M.B.A. in finance from the University of Notre Dame.*

COMPANY BRIEF *Florida-based Raymond James Financial (www.raymondjames.com) is a diversified holding company providing financial services to individuals, corporations, and municipalities through its subsidiary companies. Its three principal wholly owned broker/dealers, Raymond James & Associates, Raymond James Financial Services, and Raymond James Ltd. have more than 5,400 financial advisors serving 1.9 million accounts in 2,400 locations throughout the United States, Canada, and overseas. In addition, total client assets are approximately $278 billion, of which approximately $37 billion are managed by the firm's asset management subsidiaries.*

Were you surprised at how deep and quickly the economic crisis hit and where are we today in terms of a recovery?

If you've been in business long enough, you expect corrections, but this was a correction that threatened the financial system. I don't think anyone was surprised it happened, but the depth was severe.

Are we in a recovery mode?

I think we are. In 2008, you would not have expected to bounce back by this time. The problem is that you can fall into the trap of thinking that what happened last week will happen this week as well.

The recovery got a little ahead of itself, partly by stimulus and partly by bouncing off a low bottom. Our view was that it was going to be a slow, choppy recovery. It picked up more quickly than expected and we're now getting that adjustment back to reality. The economy is poised for slow growth.

The European debt market issues and the U.S. debt ceiling budget debate have taken center stage recently. The former doesn't seem to be going away any time soon. But the specific topic doesn't matter as much as the fact that uncertainty makes people cautious overall. The financial crisis is still very much on the minds of investors and their actions reflect that.

The same is true for what's happening with regulation. For a company like ours that made money in 2009, seeing a ton of regulation coming to the industry is staggering. The amount of time the major financial institutions invest in trying to understand these regulatory issues will be – and already is – huge.

You can't regulate enough or put so much capital in that you never have an issue. There needs to be a healthy balance but we've swung to an unbalanced position.

To what do you attribute your ability to grow during the downturn?

It goes back to the values the firm was founded on almost 50 years ago, as well as to Tom James being CEO for the past 40 of those years.

We have a strong culture that emphasizes conservative decision making. We're focused on long-term growth; we don't chase short-term profits; and we don't invest in products that we don't understand or can't track.

The central theme around the firm is client first. Every time a new product comes in, we send it through a committee and ask if there is a better way for the client to earn this kind of return with less risk, if there is a cheaper way to do it, and if the client can understand the product.

The attitude here of "our clients do well and we do well" combined with always keeping the company overcapitalized – by almost any standard – and having almost no leverage for much of our history has left us in a position that even during downturns, such as in 2009 when we had our worst year ever, we still achieved an 8 percent return on equity.

The firm has made money for 94 consecutive quarters. It has only lost a little money one quarter since going public. That was on Black Monday when Tom James refused to close our trading desk because he didn't think clients should get stuck in trading positions.

The firm has been managed to provide good growth and good return on equity, and to not do things for quick profits or to just try to be the biggest – we will grow over time in a controlled fashion.

If you look at almost any five- or ten-year historic period, we've outperformed the S&P and our peer group substantially because of that long-term focus.

How challenging is it to show what makes a brand unique in this space?

It's tough to differentiate on values that people say should exist in every company. But we can see what happens in our own surveys. In 2009, what we call our unaided awareness – how many people name Raymond James when asked to name financial services firms – quadrupled.

The downturn actually helped us in terms of brand recognition; people understand that we're focused on long-term growth. We were also able to recruit a substantial number of experienced, well-qualified people as many of the other firms got into trouble.

This company has put a heavy focus on community. How critical is that today as part of a company's culture?

We're a big player in our communities. It is a corporate responsibility to help your community. When your people feel your company cares about the community and helps them engage in it, it's good for employee morale and for the firm.

How concerned are you that regulation is stymieing entrepreneurship?

We handle other people's money so we should be more regulated. People deserve that protection and it's important to the country. But it's always about balance. Because of what happened in 2008 and 2009, people felt that Wall Street had failed them.

The government should set laws that make sure investors are protected, and should demand full disclosure. But there is a point at which you start interfering with the free market. And we've just gone too far in that direction. You have to give people room to innovate and put capital at risk as long as they understand the risk.

Of course, you can write as many rules as you want but there will still be some dishonest people who will try to take advantage. ●