# E*TRADE Financial Corp (ETFC) CEO Michael Pizzi on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-17-19 Earnings Summary

*Press Release* SEC *10-Q*

EPS of $1.08 beats by $0.06 | Revenue of $767M (6.53% Y/Y) beats by $24.17M

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## Earning Call Audio



E*TRADE Financial Corp (NASDAQ:ETFC) Q3 2019 Earnings Conference Call October 17, 2019 5:00 PM ET

**Company Participants**

Michael Pizzi - CEO & Director

Chad Turner - CFO

**Conference Call Participants**

Steven Chubak - Wolfe Research

Richard Repetto - Sandler O'Neill

Devin Ryan - JMP Securities

William Nance - Goldman Sachs Group

Chinedu Bolu - Autonomous Research

Brennan Hawken - UBS Investment Bank

Daniel Fannon - Jefferies

Craig Siegenthaler - Crédit Suisse

Christopher Harris - Wells Fargo Securities

Patrick O'Shaughnessy - Raymond James & Associates

Kyle Voigt - KBW

Brian Bedell - Deutsche Bank

Michael Carrier - Bank of America Merrill Lynch

Michael Cyprys - Morgan Stanley

**Operator**

Good evening, and thank you for joining E*TRADE's Third Quarter 2019 Earnings Conference Call. Joining the call today are Chief Executive Officer, Michael Pizzi; and Chief Financial Officer, Chad Turner.

Today's call will include forward-looking statements. These statements reflect management's current estimates or beliefs and are subject to risks and uncertainties that may cause actual results to differ materially. The company will also discuss non-GAAP financial measures during the call. For a reconciliation of such non-GAAP measures to the most comparable GAAP measures and for additional discussion of risks and uncertainties that may affect future results, please refer to the company's earnings release furnished on Form 8-K along with the risk factors described in the company's filings with the SEC. As a reminder, all of these documents are also available at about.etrade.com.

This call will present information as of September 30, 2019 and October 17, 2019. The company disclaims any duty to update forward-looking statements made during the call, except as required by law.

This call is being recorded, and a replay will be available via phone and webcast later this evening at about.etrade.com. No other recordings or copies of this call are authorized or may be relied upon.

With that, I will now turn the call over to Mr. Pizzi.

**Michael Pizzi**

Good evening, and thank you for joining us on our third quarter earnings call. Over the quarter, we continued to build our leadership position across business channels, achieving strong operating and financial results. However, as you are all well aware, the most noteworthy developments took place after we closed the books on Q3 as October ushered in another round of commission reductions by competitors, prompting us to eliminate retail commissions for online U.S. listed stock, ETF and option trades.

Although we did not believe that this prior pricing structure presented a meaningful barrier to investing for our target customers, the step-down to 0 has taken the conversation entirely off the table. Whether through simple transactions or investment management through funds, individuals can now gain access to the financial markets with 0 friction. The value proposition for customers is truly extraordinary. While we did not favor this shift, we believe it enhances our competitive position in our core retail franchise. In this new paradigm, platform, functionality and customer experience are more important than ever. And that is where we truly differentiate.

We have an unrivaled active trader platform and service model, which has led to record customer engagement. We offer easy-to-use, intuitive managed solutions that deliver across passive, active and specifically tailored allocations in portfolio management in a manner that rivals the best in the business. For years, the E*TRADE business model has generated the highest revenue yield on customer assets across the peer set. And under the new pricing structure, we believe that gap should only widen. We now offer the #1 platform in the business at the lowest price point in the industry, which we expect to be a killer combination in the battle for market share.

We have a mobile experience that rivals the best confidence capabilities, packaged in a simple and intuitive interface. And we provide our customers with the best-in-class service experience. This strength is only reinforced by our broader franchise as our industry-leading Stock Plan Administration platform and our expanding adviser services offering provide differentiated growth vectors.

Shifting to published results. The third quarter brought a heightened level of activity across the capital markets. Rhetoric on international trade, mixed economical results across the global economy, shocks to the supply of oil, volatility in the overnight repo market and even speculation on impeachment drove significant volatility with some of the greatest day-to-day moves in equity markets, interest rates and commodity prices in several years.

Against that backdrop, we observed a meaningful shift in retail investor sentiment during the quarter as our customers were net sellers of securities for the first time since 2016. The increase in uncertainty and market volatility provides an environment in which our operating and financial model shines brightly. In a quarter that is typically associated with the summer slowdown, we generated a strong level of customer trading activity.

Even more encouraging in the volume of trade is the mix of activity with 95,000 derivative DARTs in the quarter or a 36% share of total DARTs representing our strongest mixed ever. This activity bodes well for our future, where the vast majority of the industry's transaction-based revenue will come from derivative trading.

In terms of product rollouts, we continue to keep our foot on the gas, launching a series enhancements to Power E*TRADE, our active trader platform, that should continue to drive growth in derivative trading. We launched new functionalities such as our enhanced strategy seek experience, which helps structure an options trade based on a preferred strategy or criteria, panel enhancements to our live-action market scans and an exit plan strategy to help traders mitigate risk on open positions.

On the mobile front, we've improved our voice capabilities by incorporating Google Assistant functionality, allowing users to check their portfolio using voice commands while on the go. In August, we were rated the #1 online broker in Kiplinger's annual review. This review is one of the longest running and best respected in our industry and largely focuses on the broker's long-term investing and managed product offerings. This result offers tangible proof of the progress we have made on the investing front. Over the past several years, we have delivered meaningful improvements to our offering. For instance, we offer the most no transaction fee mutual funds with 3-star ratings or higher and the broadest access to new corporate bond issuances. When combined with the frictionless and easy-to-use digital experience, the result is a top-notch investing offering.

On assets, we generated $2.8 billion of net new retail and adviser services assets, which includes nearly $400 million into managed products, one of our best quarters for managed product flows ever and a testament to our focus on building out a compelling investing offering.

With respect to the institutional, Stock Plan Administration remains in the industry spotlight as other providers seek to expand their market share through acquisitions and partnerships. We are the leader in the market and continue to build on our competitive position. Punctuated by ongoing success from our all-star sales team, we continue to differentiate ourselves from the pack with enhanced tools and functionality. As just one example, in September, we teamed up with Carver Edison, a startup in the employee stock purchase plan space that allows employees to maximize their plan contributions through an innovative cashless participation process.

Furthermore, we celebrated the #1 ranking in stock plan loyalty and overall satisfaction for the eighth consecutive year by Group Five. E*TRADE was also the highest rated among full administration plan sponsors for helping participants understand the value of their equity awards and how they can be used to help meet financial goals, which is key to unlocking the full value of our stock plan channel and translating it into retail growth.

We continue to benefit from the robust business momentum in this channel. And in the third quarter, we brought on $5 billion of new corporate services relationships. Over the last 12 months, we have generated approximately $100 billion of gross stock plan inflows through new grants, implementations and stock plan purchases. Our outsize success in this area has surpassed even our own lofty expectations and further bolsters our forecast for cash growth. As a reminder, relationships sourced through our stock plan channel tend to be more heavily weighted towards cash. And with $30 billion of participant proceeds over the last 12 months, the available pool of opportunity for retail asset growth continues to deepen.

As for adviser services, we are seeing strong interest from advisers on both the traditional custody side, where we have increased the number of small to midsize RIAs on the platform, and when the E*TRADE -- and within E*TRADE Advisor Network, where we continue to add larger advisers to local, regional and national levels. As of the third quarter, the referral program is operational at all 30 regional branches as well as our 2 national branches.

A key to capitalizing on the symbiotic growth inherent in our referral program as well as more fully penetrating our corporate services partnership relationships is our financial consultant sales force, a group in which we continue to invest for growth. Since last year, we have increased the total FC flow headcount by more than 60 to a total of approximately 380 and intend to expand this team further over the medium term.

Shifting back to the economic and competitive backdrop. The current environment certainly provides a share of challenges across the industry. Since the beginning of this year, the Fed has cut interest rates 2 times, and the market expects a greater than 50% chance of at least 2 more cuts by March of next year, while the 10-year treasury yield broke through 150 basis points to just 10 basis points north of its all-time low.

When we set our expectations of greater than $7 per share in 2023, we had accounted for potential macroeconomic pressure and contemplated offsets, including opportunistic strategies around balance sheet management and share repurchases as well as flexibility around expense containment. We also anticipated the potential impact of continued commission compression consistent with historical trends. What we did not include were value-eroding moves by competitors to slash commission revenue precisely when the markets look least robust.

We still believe our business model is geared to generate the best operating leverage in the industry, and we expect we can still grow EPS at a double-digit pace annually over the long term. However, after removing roughly $300 million in annual commissions, unsurprisingly, our long-term estimates have been revised downward. While EPS that exceeds $7 per share continues to be wholly achievable, we anticipate getting there are a year later than originally articulated. Given the reduction in commission revenue, the expected rate environment and the resulting impact on capital generation and capital return, our current management estimates produce approximately $6 in 2023 EPS and $7 in 2024.

In addition to slashing commissions and reducing interest rates, we layered in modest growth in cash from our institutional and retail initiatives and shifted to growing deposits on balance sheet earlier than previously contemplated given the anticipated modest steepening of the yield curve. We believe that our forecast remains robust across a wide range of economic and operating scenarios given the multiple often offsetting levers inherent in our business model.

We will continue to be proactive in driving value in this environment. First, we are staying focused on sustainable long-term revenue growth. While the commission cuts will result in a step-down, we anticipate being able to grow the top line by mid- to high single digits and expect to grow EPS by double digits, albeit off a lower base.

Second, we are continuing to use our substantial capital generation and balance sheet flexibility to deploy capital in the most accretive way possible. In that vein, we have the ability to complete our current buyback program by Q3 of next year. And if we were to freeze the current rate curve, that's exactly what we would do. But we will remain dynamic and shift quickly to resume balance sheet growth should the curve steepen to a level that makes the value of doing so more compelling for our shareholders.

And third, we are intensifying our focus on cost containment. While we had expense initiatives underway prior to October, we are executing with even more vigilance given the involved competitive landscape, committing to a sequential reduction in operating expenses in 2020. To that end, we have a taken a hard look at our corporate facility's footprint and have decided to consolidate our New York City and Jersey City locations by the end of this year, eliminating our higher-cost New York location while co-locating 2 high-performing teams for improved productivity.

To end on a personal note, it is a great privilege to lead this storied company. We have accomplished a great deal over the last several years. The current competitive and market backdrop certainly provides challenges, but we have the right team and strategy in place to capitalize on our leading positions, iconic brand and complementary channels to drive growth in our franchise and value for our shareholders.

I will now turn the call over to Chad to walk through the results.

**Chad Turner**

Thanks, Mike. For the quarter, we reported net income available to common shareholders of $254 million or $1.08 per diluted share on record net revenues of $767 million. Included in the quarter was a $12 million pretax or $0.04 per share benefit to provision for loan losses. As for core results, net interest income decreased by $35 million sequentially, driven primarily by a $6 billion decrease in our average interest-earning assets as we continue to shift deposits off balance sheet. This was partially offset by an 8 basis point expansion of our net interest margin to 328 basis points. Our NIM benefited from strong securities lending revenue and a favorable securities mix following the sale of $4.5 billion of lower-yielding investment securities at the end of Q2.

Our blended deposit rate, including deposits held off balance sheet, reduced by 2 basis points during the quarter to average 34 basis points, driven by cuts in our customer cash rates following the Q3 Fed cuts, offset by a mix shift resulting from promising growth in our premium savings balances. For Q4, we expect the blended deposit rate to be 27 basis points, noting this rate includes both on and off balance sheet sweep deposits, bank deposits and brokerage customer payables and assumes a 25 basis point Fed cut in October. Our average reinvestment rate in the securities portfolio is approximately 250 basis points.

For the full year, we anticipate generating a NIM of 315 to 320 basis points, consistent with the expectations we have given in prior quarters. This guidance holds customer margin balances at their current levels, assumes deposits grow off balance sheet and contemplates one Fed funds rate cut in October. Each 25 basis point move down in short-term rates translates to a 6 basis point annualized impact to NIM.

Overall, Q3 was a solid quarter for customer cash growth with total customer cash and deposits ending the quarter at $65 billion, up approximately $3 billion from Q2. While customer net selling helped drive overall customer cash balances higher, margin balances held up nicely with $9.9 billion of average balances over the quarter, down slightly from Q2 levels. This is another example of how our overall active trader business continued to shine even during periods of market uncertainty.

Commission revenue of $122 million was up $1 million sequentially, driven by an extra half trading day in the quarter and a $0.04 higher CPT, offset by 1,000 fewer DARTs. CPT of $7.18 came in as expected, well within our previously guided range of $6.90 to $7.30. Fees and service charges of $163 million were up $37 million sequentially as we shifted an additional $2 billion of deposits off balance sheet over the course of the period. The average net yield on third-party cash was 196 basis points, comprised of third-party money market fees of 53 basis points and third-party sweep deposit fees of 218 basis points, both net of deposits.

For Q4, we anticipate gross fees from off balance sheet sweep deposits will be around 195 basis points and expect net fees to -- will be approximately 180 basis points, which contemplates an expected 25 basis point cut in Fed funds in October. We anticipate net money market fees will stay flat to Q3 levels.

Towards the end of the year, we will have an option to sweep premium saving deposits to third-party institutions. This will provide added flexibility to manage our balance sheet size and extend FDIC insurance protection up to $1.25 million for our premium savings customers.

Outside of money market and sweep deposit revenues, the remaining components of fees and service charges totaled approximately $100 million, down $2 million from last quarter. Gains were $16 million in the quarter as we sold securities to capitalize upon the continued rally in rates and further reduce the balance sheet size. Going forward, we expect to realize around $10 million to $15 million of gains per quarter.

Shifting to expenses. Total noninterest expenses of $399 million were relatively flat to last quarter as a $7 million reduction in marketing spend was offset by a host of other impacts. We now anticipate our marketing spend to come in just over $190 million for the full year

2019.

Highlighting a couple of other expense items. Clearing and servicing expenses ticked up from $32 million to $36 million, while FDIC insurance costs ticked down slightly from $4 million to $3 million, both driven by our shift of deposits off balance sheet. We currently pay approximately 3 basis points in FDIC insurance for deposits held on our balance sheet and approximately 8 basis points in servicing fees for deposits held off balance sheet.

This quarter's adjusted operating margin, which excludes provision benefit, was 48%. For the full year, we anticipate generating an adjusted operating margin of approximately 44%, including potential discrete charges relating to the restructuring or exit cost from our cost containment initiatives in the fourth quarter.

Shifting to the pricing changes. The impact from eliminating retail commissions for online U.S.-listed stock, ETF and options trade is roughly $300 million per year, assuming the most recent quarter's trading activity. We plan to offset a material portion of this forward on revenue through a host of revenue and expense initiatives.

As we diligently review the profitability dynamics of our customers post commission reduction, we are thoughtfully approaching solutions and are exploring ways to minimize underutilized fees and features for those with less complex needs as well as ways to monetize customer activity most effectively. We are also taking a hard look at additional efficiency gains, including facilities expenses, vendor relationships, and are putting a deeper focus around the allocation of resources.

As Mike mentioned, we are targeting a reduction to our noninterest expense in 2020, even after excluding any onetime costs in 2019. To put numbers around this, we expect noninterest expenses to total approximately $1.5 billion in 2020, though we will remain tactical and spend into growth should we find opportunities.

Moving to capital. We executed on $566 million of share repurchases in Q3 as we completed our previously -- previous $1 billion authorization and made progress against our current $1.5 billion program. While the commission cut slows our near-term capital generation, we can offset this in the near term through our flexibility to shift deposits to third-party banks and further reduce the size of our balance sheet through expected securities runoff. Our effective tax rate in the quarter was 28%, elevated slightly from a few discrete items. We expect the full year 2019 rate to be approximately 27%.

We finished the quarter at $380 million of corporate cash, reflecting $695 million in subsidiary dividends less the $566 million used to repurchase our stock, $34 million paid in common dividends and $20 million paid in preferred dividends. As a reminder, we target holding a minimum of $300 million in corporate cash.

Before concluding, I just wanted to highlight a couple of other quick housekeeping items. First, we plan to complete our review of the new accounting standard for current expected credit losses, also known as CECL, in the fourth quarter. We currently anticipate this will result in a net benefit to equity of approximately $75 million to $100 million, which will be reflected in the first quarter of 2020. This benefit primarily relates to the write-up of the collateral backing our legacy loan portfolio. We will provide an update on the fourth quarter call when we have finalized our review.

Second, as we contemplate the presentation of our trading metrics, we anticipate future releases will look largely similar to today's, capturing all customer-directed trading activity. We will continue to separately present derivative activity. Given the addition of commission for ETFs and promotional trades to this metric, we anticipate the change will only slightly increase the amount of DARTs we report.

And with that, I will turn the call back to the operator for Q&A.

**Question-and-Answer Session**

**Operator**

[Operator Instructions]. Our first question is from Steven Chubak with Wolfe Research.

**Steven Chubak**

So I wanted to start off, Mike, with a question on the October strategic update. At that time, you had outlined some earnings and probability targets. And the message was that the firm sees incredible path to sustained earnings growth, ROE expansion and a $7 earnings goal, which is really, in my mind and at least the perceived mind of many investors, the foundation for your case to remain a standalone after considering the strategic alternatives. And so since that update, clearly a lot of things have changed. Organic growth has slowed. We have the earnings and -- earnings declines really driven by rate headwinds, commission cuts.

So all in all, I guess taking a step back, it would suggest to us that the case to remain a standalone company has weakened. And just given those developments, how has your thinking and that of the Board really changed since the October update, particularly around your willingness to consider some of these strategic alternatives again?

**Michael Pizzi**

Yes, Steven. Thanks for the question. The environment certainly has changed. Interest rates are much lower, roughly 100 basis points or so across the yield curve. While the increased volatility from some of the market events this quarter drove active engagement from our derivative and trading base, you are seeing some degree of longer-term investors reduce risk and move to the sidelines a bit. While we did not desire the move in commissions, it has removed really the final point of differentiation in the marketplace. And it substantially improves our competitive position, which we believe will accelerate growth over the near term.

We have the number one platform in the market, and it's now essentially free. We have a strong and front growing franchise, really the best platform overall in the market, unrivaled capabilities of derivatives and an unparalleled corporate services group. So we see a clear path to growth, Steven, and we still see that today. Going back to last October, we outlined very clearly a set of goals for that environment and that time that we thought were readily achievable. We were very transparent and provided uncommon view into the long-term value generation of the company.

Today, sitting here, we're doing the same thing, providing a transparent insight into what we think that we can generate as a company. But we're well aware that possible combination or alternatives could accelerate shareholder value. If that's the case, we remain open really to all discussions, as we always have been, around the direction that we should take to drive that value we should take to drive that value.

**Steven Chubak**

All right. Thanks, Mike. I certainly appreciate hearing about the openness of yourself and the Board to consider those opportunities to create the value -- or additional shareholder value. Just one 2-parter for me on expense. I was hoping to maybe unpack a little bit on what drove some of the elevated expense, which was up about 5% year-on-year this quarter on a clean basis, and just longer term, appreciate the commitment to cut expenses in 2020. But just given the updated targets contemplate high single-digit revenue growth and low single-digit sustained expense growth, if we enter a more challenging revenue backdrop beyond 2020, how should we think about expense flags? And is there room to actually cut expenses on a sustained basis over the next couple of years if that's required?

**Michael Pizzi**

Well, let me talk a little bit about the forward outlook, and then I'll turn it to Chad to talk about kind of the current year and the current quarter's operating expenses. We have made substantial investments in the past few years in our marketing area, in our technology area, in modernization efforts across the large footprint of the company, even in sort of the modernization of facilities. Much of that investment is behind us, and ongoing investment is really a matter of reprioritizing the portfolio of investment as projects roll off and new projects begin to get going.

So I feel very good that the expense cuts that we've discussed in the prepared remarks for next year really will not compromise investment in our business or investment in growth in any way. And I think we can be able to achieve that and drive that and deliver basically by reprioritizing, retiming, relooking at the portfolio of investment opportunities.

If there is continued degradation in the environment, can we go deeper? That's something that we'll have to look at as the environment evolves. So I think you always are constantly reoptimizing, constantly relooking at your overall expense base, looking at your portfolio of investment projects, your build versus run costs and constantly looking to reoptimize. We took the important facilities action in this period, and that's an ongoing consolidation that will deliver some expense saves going forward. It's things like that, that we'll always continue to look at, continue to evaluate what we're doing to really drive the best value for our owners.

our owners.

**Chad Turner**

I think Mike said it well, Steven. Just to add a few comments. You asked about the year-over-year view. I wouldn't look at any given quarter in isolation just as it relates to a comparison. There can obviously be a bit of noise there. But Mike said it well around just our operating leverage and the investments we're making there, where we not only invest for growth on the top line but we also invest to make sure that we maintain that best-in-class operating leverage that we talk about in the industry.

That's a bit of what we've talked about even doing this year. So I think some of that would materialize going into next year. That's why we know that the operating margin framework that we've used in the past has not necessarily been helpful for you guys. And so that's where we thought it was most productive to give you an operating expense number around that $1.5 billion as guidance for next year to help you understand the dynamics of how we can grow while still maintaining discipline on the bottom line.

**Operator**

Next question is from Rich Repetto with Sandler O'Neill.

**Richard Repetto**

I guess the first question is on the stock loan. It looks like you, just like other players in the industry, had an excellent quarter. So I'm just trying to first get some color on what drove it. And it looks like -- and then did you incorporate -- what are you assuming in 4Q from stock loan? It looks like it contributed, by our calculation, 8 basis points or so or $0.04 in EPS, the upside quarter-to-quarter in stock loan.

**Michael Pizzi**

Look, very strong quarter in stock loan. To give you little color in terms of it, it's some very specific names that are well known. Beyond Meat was one of them. It's the larger group of Canada stocks. All of them are very -- fell into the hard-to-borrow category. As sort of institutional risk positions built, the hard-to-borrow rates for those stocks kept climbing all throughout the quarter. They're a little softer here going into the next quarter but still overall very robust levels. I'll let Chad speak to kind of the forecast and kind of the outperformance in the quarter.

**Chad Turner**

Rich, as we look forward, obviously, this revenue can be a bit unpredictable. So we'll evaluate that as you see IPOs going or some of this does correlate with the margin book, and so would identify that there. So yes, definitely, we're not assuming that these levels continue. So I would certainly highlight that. The second thing I would note just as a kind of back-of-the-envelope comment as well is not only did see this in the normal securities lending book but we also saw this through fully paid. So that's an initiative that we've talked about growing over time. That will never grow to a significant level given that it's for a smaller set of customers, but it is a place where we made meaningful investment of reaching out to our larger, more sophisticated customers with opportunities around a fully paid program. That has provided benefit as well in this quarter.

**Richard Repetto**

Yes. Okay. Because it did -- well, your guidance is 315 to 320 in the NIM. It looks like that was again 8 basis points or so. So I'm just trying to reconcile that. But anyway, on to my next question. And Mike, with all due respect, just to be blunt, I mean I think it's debatable on how open, I guess, E*TRADE was a year ago to consolidation. So my direct question would be, today, compared to 12 months ago, are you more open, the same or less open to consolidation?

**Michael Pizzi**

Rich, I think it would be not really responsible to comment specifically around M&A. We are always open to look at transactions that will deliver more value for our shareholders than sort of a standalone performance of our business. We remain open to it today.

**Operator**

[Operator Instructions]. The next question is from Devin Ryan from JMP Securities.

**Devin Ryan**

I guess first question here, if possible to maybe go a little bit deeper into maybe some of those revenue opportunities that you noted that could exist around being at 0. And I'm just curious if you're thinking about potentially charging a la carte for any services or even a subscription model or I guess really what you're thinking around that. And also appreciate you have very little data yet on being at 0, but any anecdotes you can share around maybe people wanting to try the platform for free or anything interesting on engagement just post that change?

**Michael Pizzi**

Yes. Sure, Devin. On the revenue opportunity side, the way to think about it is we have always taken a modeled approach of giving everything to all customers, the full capability and suite of the platform. What that means really, it's not so much on the revenue side as much as we are incurring cost for every account for services and features that customers do not use or do not put value on. A good example of that is the high level of market data access we provide free of charge to just about all our customers. Look, many customers don't use it and would use -- would take a lesser offering without looking to what we're providing today. There are other areas in terms of tools, screeners, other items.

And so we can consolidate cost by customizing what we give to each customer. We're not really set up today to do that immediately, but over time, it allows us flexibility sort of in our overall expense structure by reducing portions in the offer that are really not important to that particular customer and reduce our overall usage of services that we pay quite a lot of expense for. A free model makes us really have to look at that. That's really coming on the expense side.

In terms of other revenue opportunities, we are always asking ourselves, are there ways to add adjacent services, adjacent products or optimizations or things. And maybe some of those things that we would be adding that would differentiate us in the past were offered to differentiate the price point we were at in the market versus other participants whereas today they could become the basis of alternative models. It's obviously early days and we've got a lot of strategy work to do here, but it's all out there for consideration.

**Devin Ryan**

Okay. Great. And then just kind of drilling down a little bit more into expenses. You touched on a couple of areas where maybe there's some expense savings. But just bigger picture, can you maybe go a little bit deeper around where the expense reductions are going to come from or where you can get leaner? How much does being at 0 change kind of innovation in the industry? I guess do people continue to invest in pushing platforms towards innovation? Or does this stifle that just given the kind of lower profitability from each customer all else equal? And then just lastly on expenses, the guidance for next year, does that -- what does that imply for advertising? I apologize, if I missed that.

**Michael Pizzi**

Look, we have always had a great and capable platform. We have the best platform in the derivative space today. We are #1. We are not going to stop improving our platform. It is a source of strength and growth for us in key portions of our business. Even with commissions going to 0, trading is still a very profitable business. As I highlighted in the prepared remarks, option trades are still strategically important to the company and really the source of most of transaction revenue remaining in the industry.

So looking at overall, we're not really going to be pulling back. Now that said, how you invest in what you choose to invest in and how you prioritize that investment will shift over time to areas that have the highest value. And this is a change in that value equation. But by no means are we going to pull back on our product or our service offering, which we see as real differentiators for us in the marketplace.

In terms of kind of some of the more technicals on the expense side, I'll turn it over to Chad.

**Chad Turner**

Sure. So a couple -- a few areas I talked about in my prepared remarks are around vendor negotiations. Prior to October, we were already actively moving towards cost containment initiatives internally to make sure that we could effectively maneuver around the landscape and what was happening in the overall macro environment. That only intensified further post-October. I think an event like the commission reduction that is widely publicized in the press is a prime opportunity for us to make sure that we're talking to our vendors in a very direct way around the products and services we are providing via them and how they can help us be more efficient in some of those. So I think that's an example there.

Mike mentioned New York consolidating into New Jersey and the collaborative nature that, that will provide for those offices working together. As it relates to the expense for that, we'll incur about a $10 million charge in Q4 we expect around that exit. But that will generate around $5 million annually in savings. So you can see that as a prime example of a really quick payback on something that we're doing. So there's lots of tactical examples like that.

Part of the reason, Devin, that we gave the $1.5 billion and not specifics, whether it be around marketing or other areas, is we are dynamically moving and making our budget now, our strategic plan for next year. Obviously, the commission impact, as Mike mentioned, is helping us evaluate where we're making those investments maybe a bit differently. So marketing is one of those lenses that we look at. Should the environment give us the returns we want in marketing, that would be a place we would actively invest. Should we believe they're not there due to the overall environment, that will be a place we would pull back as well.

**Operator**

Next question is from Will Nance with Goldman Sachs.

**William Nance**

Maybe I'll ask one about the balance sheet strategy. So I think I'm on board with the capital dynamics for the off balance sheet strategy. But I guess the resulting impact on the duration of your client cash pushes you farther and farther towards the short end of the curve. And I guess we've seen most of your competitors going the other direction to extend duration, whether that's on or off balance sheet. So I guess can you help us understand why going shorter on the duration curve makes sense right now given what the forward curve is implying for short-term rates?

**Michael Pizzi**

Well, we have always approached investing our own balance sheet cash to match the duration profile of the liability. We've always talked about our sweep liabilities and sort of the overall 4-year range and have invested them on balance sheet accordingly. When we moved in Q3 to move money off balance sheet, the right thing to do from an overall return dimension was to leave some of the off balance sheet in shorter term or closer to short rate type placements to third-party banks, giving us maximum flexibility to move the cash back if we want to or to move it out the curve into more fixed rate type agreements. At the time, that was not the compelling thing to do. It's still not to do right now. And our model contemplates bringing some of that cash back on balance sheet as the yield curve steepens.

**Chad Turner**

The 250 that we're quoting is a duration equivalent, right? That 3- to 4-year -- you think of our sweep duration being in that 3- to 4-year duration, that 250 would be -- if you were growing your balance sheet today, if the math of capital accretion determine that you would do that, that would be what you'd get in a duration-equivalent basis.

**William Nance**

Got it. That's helpful. And then maybe one more on some of the moving pieces on the margin. So I think by my math, in order just to hit kind of the high end of the range, you need to see a pretty sizable fall-off in the margin in the fourth quarter. So could you just help us bridge the gap. Understanding that the jumping off point from the stockpile was probably a little bit lower than what you printed today, just what are some of the moving pieces that kind of get us into that lower range? And is there any kind of opportunity to outperform that?

**Chad Turner**

Yes. You're right on the stock loan piece in that we don't assume that it reoccurs at that level. So that would certainly be one. I would also note that the guidance we give articulates that we would continue to move deposits off-balance sheet. So any additional, whether it be additional deposits we get would move off with the reinvestment rate we talked about there, also any paydowns we have in the portfolio, those would move off.

And so we're guiding being a bit more capital-light and shrinking the balance sheet in the quarter. So that's going to put a bit of impact on the revenue side. As it relates to expenses, there are a little bit of -- there's a bit of onetime in there around some of the cost containment initiatives. I talked about the New York piece being $10 million. There may be some other items in there that would also drive that a bit lower.

**Operator**

[Operator Instructions]. Next question is from Christian Bolu with Autonomous Research.

**Chinedu Bolu**

Just a follow-up on the comments around being open to a potential combination. Is the thinking still that a potential buyer has to underwrite the $7 EPS number for it to be interesting to the management team?

**Michael Pizzi**

Christian, I think what we've seen is the volatility of interest rate, the movement in commissions to 0 has created a degree of volatility in the businesses. I would say that there is significant upside to plans if interest rates were to move higher. There is downside if interest rates were to move materially lower, even though the term rates are really kind of at the lower end of historical trading areas. I think we have to think about what the combination looks like, what value it drivers for our owners, how that really comes together and what the overall value proposition is. It's not about underwriting a specific EPS number in a plan. It's about what value it drives in the combination.

**Chinedu Bolu**

Okay. Makes sense. And then, Mike, as you referenced in your prepared remarks, like the competitive landscape has meaningfully changed potentially to your benefit. But it doesn't sound like the strategy has changed, right? So how do you balance the opportunity to be more aggressive in growing the business, potentially increase your share of voice but just trying to hold expenses very tightly to sort of meet these EPS targets?

**Michael Pizzi**

Well, what we know today is our competitive position is substantially improved. We can look back in our data and see where we have lost customers, whether it was to a free offering or to a lower price point competitor or to any special promotion a competitor was running. And we can compare kind of where we stand today, free in our platform. We have actively engaged in a win back. You've seen some of our advertising out in the marketplace. We want to take advantage of the improvement in our competitive position.

It's early yet, but we are seeing a lot of anecdotal stories and evidence of win back some customers, customers coming back to use the platform and to engage with us, option customers coming in to have gained access to the platform, although they were small -- some of those were much more smaller-size customers, but really taking advantage of breadth of capability that we have. At the highest level, we are seeing a great increase in the number of hits on our prospect page. And that is translating into an acceleration in account openings.

But it's very early. And so we have to see if this is going to be sustained. All of that than needs to be factored in into our marketing plan and what we can really deliver from an overall marketing level and what the return on that spend is. So it's a little bit early to give any exact specifics of how we would optimize that, but that's exactly the work we're doing today.

**Operator**

Next question is from Brennan Hawken with UBS.

**Brennan Hawken**

So looking at the walk from $3.10 to $6 and $7 in 2023 and 2024, it looks like you need about an 18% earnings per share CAGR to get there. And so what I'm curious is if there -- do you guys have a period of time you could point to where you had earnings growth that was comparable to that, particularly at a time when we had an environment where you've was comparable to that, particularly at a time when we had an environment where you've got rates going against you rather than going with you? I'm just trying to understand -- because I'm struggling a little bit with what you guys model and kind of getting that level of earnings growth. And so hoping you can help shed a little light on some of the other factors involved with the model.

**Michael Pizzi**

Yes. Sure. Let me start with a couple. I mean the first one we talked about, we're not taking the commission cuts lying down. We've redoubled our efforts on the expense front. I think we've given you some pretty strong expense guidance for next year. That's an ongoing effort to try and drive to those results overall. We think there are some revenue side opportunities here, as I was just talking about, in terms of the overall level of growth. Some of that, I think, will be quick in terms of the pickup in growth that we're seeing given the capability and breadth of our platform and the price point that it's at now in the marketplace.

In addition to that, we talked about an investment in financial consultant headcount. The payback on those is pretty clear to me. And that's why we've been moving those numbers up, and we'll continue to move those numbers up. That drives both investments in asset builds, but it also improves cash.

Additionally, our corporate services channel has grown tremendously. It's exceeded even our own lofty expectations. We have $21 billion of plan assets put on this year, $5 billion in the quarter alone, generating $30 billion of proceeds. We've really looked carefully at those numbers and the cash generation capabilities of those business, looked going forward what we think we're going to be able to do and modeled out the value of the growth over the last couple of quarters to really show what that does to our asset build and more specifically our cash build.

And lastly, we've looked carefully at what we've done in the banking sector, what we're doing in sort of the savings deposit type products. We are at a good rate in the marketplace today, but we don't have to be at the best rate. And we're showing solid growth in our banking products as well. And we are still working on modernizing and building out the user experience. So putting that all together, we think we can drive substantial earnings growth over the period.

**Chad Turner**

Brennan, one thing I would add just -- is at the front end of the plan, a reminder that as of the end of the quarter, we have almost $12 billion of sweep deposits that are off balance sheet. Those are our deposits now that with the generation of capital in a very short period of time can be on boarded. And so when you think about the revenue build at the front end and the EPS generation that, that can create when the curve normalizes and steepens a bit and our assumptions we laid out, that gives you a tremendous amount of growth upfront.

**Brennan Hawken**

Sure. Sure. I get that, and that makes a lot of sense. And thanks for all that additional color. I really appreciate it. For my follow-up, it's my understanding that -- number 1, it's my understanding that in the corporate services business that the commission rates paid is sort of a dynamic that there's an interplay in between the platform fees and the commission rate paid and there's a sort of menu pricing that's available. And so that can result in commission per trade but skews away from your guys overall commission rates. And so since that's a menu pricing, the trading and the commission rates on your corporate services business wouldn't necessarily move with the rack rate. Number 1, I just want to confirm that, that's true. And number 2, if those commission rates in your corporate services business stay higher than your rack, does that provide like an incentive for you to retain some more customers, have them transfer over, become E*TRADE customers, increase that 15% because there's almost like a natural incentive for them to switch over for the better commission pricing?

**Michael Pizzi**

Yes. The initial first trade out of the stock plan, the commission on that is negotiated with the plan sponsor when they elect to use us. There's lots of different value elements there. There is what they pay for the software. We offer specialized consulting services, outsourced services that they choose to pay sometimes in a bespoke way. Sometimes they want it wrapped up in the fee they pay for the software. They also are aware kind of the commission level is a value to us. So it enters into the overall equation, as you've kind of talked about it.

So the value is really different for each client in terms of what they need from us and how they engage. Whenever commissions come into focus like this, there is some pressure on those commissions to make sure that they are close to the overall level of commissions that are being offered in the marketplace. We've seen some of that pressure overall. But by and large, these are individual plan levels that are negotiated.

In terms of just the retention side, we think -- I mean the stock plan business is a wide business. There's a lot of higher-income level employees in the plan, but there are also just companies that give stock to everyone. So while I don't think it will be an incredible shift, the 0 commission on the platform today may mean more of the smaller stock plan participants do open an account and stay with us in the long term. So I'm optimistic that, yes, it will have an impact in account retention, maybe not -- it doesn't -- maybe it will not total much in the assets, but it probably means more accounts for us and more customer activity.

**Operator**

Next question is from Dan Fannon from Jefferies.

**Daniel Fannon**

I guess a follow-up on the corporate services business. Are you assuming in your outlook that the 15% retention improves then from where it has been for, I guess, the sustained period recently? And if so, kind of what are the factors that gives you confidence around that?

**Michael Pizzi**

Yes. We don't model sustained improvement in the 15%. That would be upside to the modeled estimates. We did look at a little bit of the bank flows from this year, and we do think that is driving some of our savings deposit inflows and the strength of that we model for those in the long run plan. But we don't take up the 15% appreciably.

**Chad Turner**

And Dan, the only thing -- one comment I would add there would be around the implementations we've seen to date, right? So as Mike mentioned in his prepared remarks, we have exceeded even our most lofty goals internally with $21 billion of implementations to date. That obviously generates a significant amount of stock plan assets that results in cash. So that's something we've looked at in the model around the last few years, seeing that dislocation and the win rate that we've had there and the amount that we brought in the plan, that has increased that view in the out-years. We noted that on the slide around why we think that's going to provide a bit of an outsize growth rate versus core retail there. So that would definitely be something to think about as you model it.

**Daniel Fannon**

Okay. That's helpful. And then just with regards to the advisory services, can you put some numbers around the number of advisers that are coming on the platform? Or I think you talked about increased engagement with prospective adviser. Any numbers around backlog or anything that we could think about in terms of sizing that?

**Michael Pizzi**

Yes. We've increased the number of advisers on the platform in this period by about 20. That's just the natural advisers coming on that we're adding overall on the platform. But we've also signed some much larger national advisers that want to participate in our referral program. In the case of those, the number is not meaningful. The sizes are very large, and the flows that they control are also very large. We've talked about some of them in the past. That is a lot to do with the technology work that we're doing right now to make sure that we've got the seamless type of integration for the larger advisers and that the platform of liberty, which is the E*TRADE Advisor Services platform, seamlessly integrates to E*TRADE middle and back office so that it can be essentially seamlessly scaled as we grow this business.

**Operator**

Next question is from Craig Siegenthaler with Crédit Suisse.

**Craig Siegenthaler**

So just coming back to the $6 EPS target, how do you factor in future pricing pressure across your other fee streams? And then also, how do you think about further dilution to your ROCA ex spread revenues over the next 4 years? Because I'm imagining -- you don't give it to us, but imagine there is actually a pretty wide spread between your AUA target and then the revenue guidance you gave us?

**Chad Turner**

Craig, so first off, just as it relates to commission revenue, for example, Mike talked a bit about the stock plan side and some of the decompression there. We do assume a moderate bit of that continuing on the commission side. So not to the level obviously of what happened in October but consistent with what he talked about before, a little bit of erosion there.

As it relates to cash in general, I would just note that we frankly believe that we have a cash-generating machine that is really second to none, right, whether it's the corporate services business, the channel that Mike just talked about and everything that's generated there or the core retail business that is low-cost deposits, right, the best deposit franchise out there just around customers that are not meaningfully looking for yield, right? We continue to see that. This quarter was a prime example of that.

If you use this quarter as a microcosm for cash growth for the firm, we've always talked about in a normalized net buy/sell environment, right, over the last few years, you've seen significant buying at record levels that has put pressure on cash growth. This quarter, we had net selling just to a minor amount, and you can see that we brought in $3 billion of cash growth in the quarter from our customers. So we're not assuming net selling out over the period. We're just assuming that we have normal customer growth coming in through growth in our business that generates cash into the firm that can be generated -- that can be invested at a reasonable spread.

As it relates to rates, we do assume a couple of Fed cuts in the plan, as we outlined it. And then just follow the forward curve for reinvestment.

**Craig Siegenthaler**

Thanks. And just as my follow-up here. Now that the commission-free ETF platforms have essentially ended, will any of the third-party ETFs on your platform, which is all of them, still use shelf user rev shares in 4Q or 1Q post the commission cuts?

**Chad Turner**

Craig, that's something we're still working through. It's a good question. And something that we're working through. I don't think it's very significant as far as impact to us, but it's something we're still working through.

**Operator**

Next question is from Chris Harris with Wells Fargo.

**Christopher Harris**

So it looks like the yield you guys earned on off balance sheet customer cash went up sequentially quarter-on-quarter. A little bit of a surprise because the Fed funds went down. What drove that?

**Chad Turner**

Chris, the yield actually went down. So in Q2, the gross yield on the sweep deposits, so that's before any deposit cost, was 2.63. It went down to 2.44 this quarter with the Fed cuts. And the guidance we gave is that it will go down to 1.95. So it does follow -- it does broadly follow short rates. The only thing I would note is, and we mentioned this a bit on the Q2 call, is that with the significant amount that we were moving off balance sheet post the $4.5 billion sale in Q2, it does give you an opportunity to negotiate a bit more with some of the third-party banks that are looking for blocks of liquidity. And so we do see that a bit where our ability to earn a little bit more of a spread of off short rates from some of those providers reach through a bit. But it did go down by just under 20 basis points in the quarter.

**Christopher Harris**

All right. So maybe I can try to ask in a different way. If I look at just that revenue line item, money market funds and sweep deposit revenue, it tripled sequentially but the balances didn't tripled. So I guess I'm having a hard time squaring why the revenues were up that much relative to the balances growth.

**Michael Pizzi**

Yes. Chris, I think because if you go back far enough, the proportion that's money funds is larger. As we're moving sweep deposits off balance sheet and growing deposits off balance sheet, the sweep deposit rate is the higher rate. It's taking the weighted average rate up against the backdrop of the Feds that's cutting. The Fed cut doesn't hurt the rev share on the money funds, but it does bring the sweep rate back down.

**Chad Turner**

And the message, Chris, would be to take the $4.5 billion, for example, that we moved off at the end of last quarter, if you just apply that average rate for the quarter to it. And then we moved another $2 billion off this quarter, taking whatever, taking the average of $1 billion for the quarter there, I think you'll be able to get to just the marginal math of the change in that line item for the quarter.

**Operator**

Next question is from Patrick O'Shaughnessy with Raymond James.

**Patrick O'Shaughnessy**

Okay. Following off of a previous question, how do you think about future disruptive pricing actions that competitors might take in terms of your EPS outlook? So if somebody were to eliminate the options for contract fee or maybe somebody would start rebating [indiscernible] revenue to their clients and you guys -- you had to match for competitive [indiscernible], how do you -- can you still achieve your new targets in an environment where you had direct like that?

**Michael Pizzi**

Look, the substantial amount of transaction revenue that's left, Patrick, is related to option pricing and our corporate services business. Now what I will say about option customers that's a bit different than equity and ETF customers is the platform truly matters to them. It is the tool set by which they're finding their trade opportunities, the ability to execute complex order types. They are your more sophisticated traders. Superior execution quality matters to them. So it's not about payment or free. It's about where they're getting filled at on a complex option order. They also are extensive users of your risk management tools, your strategy seek that I mentioned in my prepared remarks.

We look at it from -- we are helping the customers identify the trade opportunity, execute the trade opportunity in the most efficient, straightforward way given the ability to execute complex order types and to manage complex positions once they have them on. So there is a premium that can be maintained in the option space. Obviously, we would have to assess whatever competitor it was. There are platforms that are closer to ours in capability. And there are platforms that are clearly -- just clearly not there.

So in options, I think it would depend on what really moved. Order flow on, I think, individual trade, well, that's a tough concept to really talk about because a lot of it is driven on volumes or other numbers. So how do you map that all back could get very cumbersome. So I think that there is -- while there could be some additional disruption, I don't think we're going to see much of it.

**Patrick O'Shaughnessy**

Got it. That's helpful. And for my follow-up. You mentioned a couple of times that moving to $0 commissions eliminates a competitive disadvantage for E*TRADE. As we look at the Top 2 charts in Slide 14, your net new retail and adviser services asset growth and your account growth, and certainly we've seen a slowdown -- a pretty significant slowdown in 2019. Would you say that some of that slowdown is because of that competitive disadvantage that you've been in terms of commissions?

**Michael Pizzi**

Look, I think that on an account side, I think you can look at kind of younger customers who have been looking more at free platforms. So I would say smaller accounts, certainly, there's been a competitive effect. For the smaller, less sophisticated new entrant to trading, they are trying the free platforms first. So I think on the account side, there has certainly been an effect. I think we are in a great position to recapture that into our growth today given the competitive shift that's happened.

On the asset side, I think we had strong asset flows for a while. I do think we are seeing the resultant effect of very high degrees of volatility in the marketplace around the events that in some ways are not even macroeconomic related to some degree, whether it's impeachment, whether it's geopolitical risk in the Middle East or other events that caused the market to move, it takes core investors and get them to move to the sideline a bit and sort of diminished interest in investment overall until we move past these type of market environments.

**Chad Turner**

Patrick, one comment on the account side that I think is important that we didn't cover in our prepared remarks. So for the quarter, the net new retail account, it was impacted by some Cap One attrition that was broadly in line with expectation. So as a reminder, we acquired a closed block of accounts of just under $1 million. In the quarter, there were about 20,000 accounts that attrited from that population or inactivated from that population. That population was fairly low-value accounts at acquisition. So not higher-value accounts that we have retained. The balances and all the activity of Capital One is performing at or better than we expected. But that is something to highlight just as it relates to the account metric for the quarter.

**Operator**

Next question is from Kyle Voigt with KBW.

**Kyle Voigt**

Maybe just a follow-up on Patrick's question. Something on the competitive environment. Just wondering. You described it on the option side. But do you believe that the heightened competitive pressures in the industry that were previously concentrated on the commission side of the business will now begin to migrate and kind of seep into these other revenue streams, so towards brokerage pay rates or proprietary asset management products or something else? And then I guess when you're looking at the industry and you look at your offering versus the other 3 larger players, I guess what do you see as the key differentiator for the average retail users, so maybe not so much traditionally the active trader platform, what's the differentiator for E*TRADE?

**Michael Pizzi**

Yes. Sure. On the first point, I think you raised an obvious point that you're going to target your user promotions to the things that generate the best revenue capacity. That said, I would just keep in mind that an active option trading customer is still an excellent customer even with the commission change. And I don't think you'll see any -- you won't see us and you probably won't see any of our competitors stop competing aggressively for that business. Trading even across the equity products still generates cash. It generates order flow. It generates all of the characteristics that continue to drive revenue overall. So it's still something that you're going to pursue.

But obviously, you're going to tailor your efforts around promotions, around sort of what you're doing to try to attract that customer to the products that generate the best return overall. And this has changed the landscape quite a bit. So we have to sort of -- we're still doing that work and still carefully thinking how we're going to change. But we think this offers up -- it creates a number of advantages for us in the marketplace of where we are at an improved competitive position and continue to drive at that improved competitive position to overall drive growth.

On the second side, I think we've put a lot of work into our investing platform over the last couple of years. The user experience is better than ever on our robo, on our other managed products largely distributed through our FCs. We've seen customers drive, pull in more assets and consolidate relationships with us as we build out those relationships over time. So we are seeing really the payoff of that. I can't point to a better outcome than the Kiplinger survey rating us #1. That's a long-standing survey that really looks at the investment capability of your platform and what you're offering your customers.

**Operator**

Next question is from Brian Bedell with Deutsche Bank.

**Brian Bedell**

Maybe just to come back to the M&A discussion. I appreciate your answer earlier about being just open to ideas. If you -- first of all, you obviously need to think about some of the risks that could impede the ability to get to $6 that are outside of your control mostly, mostly rates and other competitive moves. You balance that against potential combinations. Does it make a big difference? You mentioned value creation for shareholders. Does it make a big difference for you to consider something that would be an in-market consolidation versus combining with someone outside of the online brokerage industry and broadening out the consumer financial platform and then, of course, E*TRADE being a part of that growth business as opposed to being subject to cost cuts with an in-market transaction?

**Michael Pizzi**

Yes. Brian, look, I'm not going to get specific about any particular transaction or style. I think all of the -- most of you have published merger models in the past that focused on consolidation-type transactions. I would say your question and the point you're making in the question is a very valid one. With 7 million accounts and roughly that many customers and really the touch points we have broadly across financial services, our corporate stock plan business is a strategic deal of the better deal. I'm not going to speculate on that except to say that obviously, we bring a lot of strategic value, including the most epic brand in financial services today.

**Brian Bedell**

Okay. Fair enough. And then just a housekeeping back to the -- you mentioned the possibility of moving the savings account off balance sheet. Can you just touch again on the timing of that and then the economics of how that would change it?

**Michael Pizzi**

Yes. From an economic side, it's more flexibility. It gives us the ability to optimize versus the sweep program, what cash is off, what cash is on. If the investment environment is there and it's the best thing to do to have it all along, we can easily do that. If it's not, we can begin to optimize and move those positions. So think about it as a tool that allows us to continue to grow those savings deposits over time without losing any capital flexibility for our balance sheet.

**Chad Turner**

And Brian, that flexibility will be available towards the end of the year.

**Brian Bedell**

Okay. And would it be something that would be a onetime move or just as you see fit over time?

**Chad Turner**

I think Mike mentioned how we would do it, right, just how we make the overall duration of the portfolio, what we think is the best use of capital. So it would not be something that is -- it would be something that would just be a tool on our toolbox to manage our balance sheet.

**Operator**

Next question is from Mike Carrier with Bank of America Merrill Lynch.

**Michael Carrier**

Just a quick one. Just in the updated $6 target, just focusing on the upper single-digit revenue growth target, I guess can you explain with the NIM compression -- and then when I think about the net new asset growth being around 2% versus that target, if you make money on client asset -- client assets or activity levels, like how can you get, say, like a three multiple on that organic growth rate to get to like a revenue growth rate without either pricing power or a big shift until like advice?

**Michael Pizzi**

Well, look, we have, and I think we've demonstrated it so you can see some of the impact of it in the quarter, a significant ability to grow cash. And that comes from a number of areas. The things that are sort of -- that are new, and we talked about them in the prepared remarks, how we're thinking about it is we've upped our investment overall in financial consultants considerably. That drives increased asset flows. That drives increased cash. We've taken sort of the growth rate in corporate services that has occurred. That growth is already here. It's already booked on our platform. But we've taken that out to say what is that growth worth in cash generation as we begin to move forward.

Putting that all together, that's really kind of the key revenue driver along with the other revenue streams in our modeled approach. And we think that there's going to be, as we've already talked about, a degree of lift from the improvement in competitive position to overall activity.

**Operator**

And our last question is from Michael Cyprys with Morgan Stanley.

**Michael Cyprys**

Mike, so it's been about a year since you guys concluded your strategic review and introduced new targets and since, I mean, you've had time to assess and talk to shareholders and incremental owners. So I guess just realizing the environment has changed versus a year ago and your targets have changed, I'm just curious what lessons you and your management team take away from the past 12 months.

**Michael Pizzi**

Well, look, I think the commission change that we've seen in the market, we looked at and hoped that most competitors would have learned the lessons of 2017 that you really can't gain share, that everyone has the ability to adjust, can adjust and would this day would not come for that reason. What we've seen is irrational moves can happen. They happened in 2017 and they happened again last month -- sorry, this month. So one thing to think about is the unexpected and what that drives.

But that said, commissions were never a source of growth in our modeling approach. We had always seen -- we always model a degree of erosion due to the competition. So they were not really driving growth. They were really kind of almost a constant. As volumes went up, we eroded CPT. So the growth potential of our model was never hinged on what happened with commissions. It drove from all the other factors in our business. I think the results were show -- the plan we're showing today and the results of this quarter really show that quite clearly.

**Michael Cyprys**

Great. And just a quick follow-up on the rate environment, which continues to come in worse than I guess many would have thought a year ago. So I guess the question is just if rates go to zero, how should we think about the impact to NIM. And I see in your disclosure, you have the 25 basis point cut is worth 6 basis points. So I just simply multiply that across and it looks like the NIM maybe comes down to like 280 area or so. But we need take to into account the portfolio rolling over. So I was just hoping you can help us flush out kind of what's reasonable lower bound. If I look back, say, 2014 looked like it bottomed around 230. Is that a reasonable level for a 0 rate environment? Or should it be a little bit lower or higher? How should we be thinking about that?

**Michael Pizzi**

Look, it really depends -- it not just totally depends on whether the funds rate goes to 0 again. It also depends on what term rates do. We've been getting a lot of questions around kind of more scenarios where we would see unprecedented lows in 10-year rates or things like that. It really depends. And so that's why we've given you essentially 9 scenarios of twists and shape changes. For reasonable extensions or small movement increases, those are somewhat linear, but they can become nonlinear as you kind of move either lower and lower or higher and higher in rates. So I think that's why we provide that detail so that you can make those estimates.

**Operator**

There are no further questions. I'll turn the call back to you.

**Michael Pizzi**

All right. Thanks, everyone, for joining us and look forward to speaking to you again next quarter. Thank you.

**Operator**

That does conclude your conference call for today. We thank you for participating, and you may now disconnect.