

10 Issues to Consider When Selecting an Independent B/D

Today's financial planning professionals use their in-depth understanding of a client's financial situation to recommend a broad array of investment products and services. It's important to have the same in-depth understanding of the broker/dealer you choose to be your partner.

Many advisors periodically evaluate their service providers — and today they have an increasing number of options. This column will provide you with issues to consider when looking for the right broker/dealer for you.

First, take a sheet of paper and make a T-chart. On the left side make a list of all the things you like about your current B/D; on the right side make a list of all the things you need from your current firm. Do this at a time when you can devote an uninterrupted 20 minutes or more to the task. Next, look at each of the things you need from the right side of the sheet and ask yourself how much each one will increase your business. It is great to want sophisticated investment reports for clients, but how will that translate into dollars? Then rank your needs in order of most important to least important.

When you have completed your chart, contact your broker/dealer and discuss your needs with them. Go through this exercise even if you think you already know their answers. The timeline for implementing new services and the tone of their response will be a great baseline for comparison with other firms you will be considering.

Asking lots of questions will help you determine the best fit for your needs.

You now have a guideline structured for your individual needs to assist you in interviewing firms. If you haven't already included them, make sure you consider the following issues.

1. What is the corporate culture of the firm? Look at the type of producers with the firm. Are they primarily insurance professionals, or stockbrokers, or financial planners or CPAs — or is it a mix? How will you feel interacting with these professionals? If access to top management is important to you, what is their attitude about taking calls? What type of networking opportunities exist? What is the firm's preferred method of communication? How do all these things fit with your style?

2. What size is the firm? Each type of firm will tell you it offers special advantages. Larger firms tend to have the dollars to be very high tech. Smaller firms talk about being high touch with more personalized ser-

vice. From my perspective, this is an oversimplification. The truth is that some large B/Ds have great service and some small B/Ds have cutting edge technology. Don't evaluate a firm on size alone. Perhaps, the real issue here is how the firm uses its size to leverage the relationship with its representatives.

3. What is the ownership structure of the firm? Both independent and financial services affiliated firms offer advantages and disadvantages. Questions on this issue should include: How is successor management chosen and developed? How is cash added or withdrawn from the firm? And finally, what is the firm's attitude about proprietary product and competing product? How much pressure exists to sell proprietary or affiliated product? The same question applies if the firm makes a market in any security.

4. How financially stable is the firm? This is as important with B/Ds as it is with insurance companies. Unfortunately, there are no rating agencies for broker/dealers. Instead, the industry talks about net capital. However, this number can often be misleading because it is a complicated calculation and even large amounts can evaporate quickly in a down market. The better question to ask is what contingency plans does the firm have to deal with a year or more of a down market? How would it handle six straight months of operating losses? Does it inventory any products? If so, what percent of its excess net capital does this represent?

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Broker / Dealing

5. What products and services does the firm offer? To do the best work possible for your clients, you need a wide enough selection of products and services to meet a variety of their needs. In addition to finding out what products are currently available, find out what the due diligence process is to have a new one added. What timeframe is generally involved? Because of the explosion of new products and the cost of signing new companies, a number of firms limit new agreements. Who does the firm clear through? What brokerage services does the clearing firm offer and what do they charge for them? What downloads and electronic communication do they provide?

6. How service-oriented is the broker/dealer? Everyone likes to say they provide outstanding service, but it is important to ask questions that get deeper into this issue, even if you think your office can handle most situations. Perhaps your prospective B/D can free up your staff's time to offer additional services to your clients.

Questions to ask include: How responsive is the home office staff to field producers? How are commission questions dealt with? How does the firm resolve trade errors? What assistance is available for transitioning your business? How is the firm using technology to improve service? How is this technology made available to the producers? What hardware and software do they expect their producers to have? What enhancements are planned for the next 12 months? How are policy changes communicated to the field? Do they pay commissions to retired or disabled advisors? To their beneficiaries if they die? Do they help them transition their business at the end of their career?

7. What is the payout like? Payout is an item on every producer's mind when changing firms. Of course you should ask the question, but don't stop with the great percentage you hear. Ask about the fees, minimum production requirements, and trading costs. Most important remember the old adage, "there is no such thing as a free lunch." When you have all the numbers ask yourself why the firm is

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willing to offer you this deal. How do they benefit? Can they afford to provide you with the tools you truly need to grow your business and service your clients?

8. How does the firm help you meet your educational needs? Ongoing education is not only required by the NASD, it is also mandatory for staying current with the changing needs of clients. Often continuing education credits are offered at company meetings. Asking to see actual programs from these meetings is always a good idea. Check to see how the topics relate to your practice, what outside speakers are involved, and how much "play" time is allocated. How often are meetings held? What are the requirements to attend? What other educational opportunities exist besides meetings? What systems are used in training and how are they delivered?

9. What is the firm's approach to compliance? In the highly regulated financial services industry, thorough compliance can be critical to your happiness and in some cases to your career. Find out the firm's procedures for approving advertising and reviewing correspondence. What is the turnaround time? What are the audit procedures? In many respects the attitudes of the people answering the questions are as important as the actual answers. Do the compliance people view you as a client, potential problem, or a number?

10. Marketing and research support, while last on this list, is not the least important. Develop a list of all the marketing and research services a prospective firm has to offer. Then look at your current and prospective client base and see how these services can assist you in working with them. Ask how the firm responds to individual requests. Then pose a situation you have encountered and see how they would respond to your request for assistance.

When you have gathered all this information, compare it to the T-chart you constructed on your current B/D. Is the new firm a significantly better fit for you? Will they provide what you and your clients need? If the answer is yes, make sure that you interview several current representatives who have a planning background similar to yours and ask them to share their experiences with the firm. Ask them how the firm helped them grow their practice and service their clients better.

Remember: A change of Broker/Dealer can have a significant influence on your career. It should never be done hastily or in anger. Exercise the same level of due diligence you would use in selecting investments for your loved ones.