

What Should You Expect From Your Broker-Dealer?

You and your practice are unique. You offer experience, a niche and clients, and you have needs and goals to succeed in business. When it comes to the health and well-being of your practice, few decisions have a greater impact on your business than choosing your independent broker-dealer.

Each broker-dealer is different, offering various service levels, technology, product offerings, costs, and payout and compensation packages. With hundreds of broker-dealers to choose from, how do you choose the right one?

The independent broker-dealer (IBD) community has, since its inception, been an important and active part of the American financial culture. Having your own independent practice can be very rewarding. However, as a business owner, you have responsibilities, including day-to-day office management and compliance. Having a clear understanding of the capabilities of the firm you select – how the organization will support you and your business, and how it compares to other firms – is critical in choosing the right broker-dealer for your business.

According to *Registered Rep.'s 2012 Independent Broker/Dealer Report Card*, “Despite a tough market environment and a squeeze on profit margins, plenty of IBDs large and small are doing an excellent job of keeping their financial advisors happy.”

But analysts and executives predict the broker-dealer landscape may change dramatically in the next few years as the buying and selling of firms accelerates. And because of this, analysts say financial advisors will need to rethink their career strategies, examine their career aspirations and prepare for a potentially turbulent future.

As with any industry, there’s always consolidation. 2011 was a busy year for deal-making and offered a taste of what *could* come. A number of major independent broker-dealers merged, which meant a lot of stress and upheaval for financial advisors.

In addition, IBDs have had to respond regularly to changes, including a complex and challenging tax, legal and regulatory environment, a highly competitive service environment and demographic shifts – such as the projected doubling of the senior population by 2030, with one in five U.S. residents age 65 or older – driving new client needs.

In response, independent broker-dealer firms have invested millions of dollars in advances and enhancements to technology, operations and compliance. Improvements to the training and education of home office staff and affiliated financial advisors have also enhanced the overall effectiveness of IBDs’ operational efficiencies.

But is that enough to retain financial advisors? According to *Investment News*, each year, approximately 9,500 investment professionals leave their broker-dealer relationship for another. Although financial advisors typically spend a significant amount of time exploring what a new firm can do for them, they seldom spend sufficient time exploring the dedicated resources that the potential new firm has for moving their business efficiently, or asking themselves a very important question: “How vested will this broker-dealer be in my success?”

With thousands of broker-dealer firms available, it can be difficult to find a firm that checks off all the boxes of what's important to you. Yet, making your way through the many available options, evaluating benefits, weighing potential downsides and determining what life will really be like with a new broker-dealer is critical.

For example, how well does the broker-dealer service its advisors? How well capitalized is the broker-dealer? Will the broker-dealer work with you to grow your practice? Does the broker-dealer provide upfront money? These are just a sampling of the important factors you need to consider when choosing the best broker-dealer for you.

The IBD industry offers financial advisors choices on service models, organizational preferences and compensation structures. And with most independent broker-dealers offering the same financial products, the real differentiator becomes service and culture. While many independent firms refer to their financial advisors as their "partners," is this really the case?

Large firms may appear to have greater resources and better technology than smaller firms, but oftentimes an advisor is more likely to get lost in the crowd. Contrary to what many advisors think, smaller broker-dealers offer the same technology bells and whistles as the larger firms. This technology is usually outsourced and not private labeled like many of the larger firms. Plus for many advisors a smaller firm offers advantages and a cultural element that doesn't exist anywhere else. There's also a better chance of being heard and more often than not, advisors will have direct access to decision makers and will receive more personalized service.

One example of a firm with a unique and powerful culture is Summit Brokerage Services. The organization differentiates itself by recognizing that servicing clients is the most important benefit their financial advisors provide, while servicing the financial advisor is the most important benefit it provides. Founded in 1983 by former financial advisors, the company was named the "#1 Independent Boutique Broker-Dealer" two years in a row and has also been recognized as one of the "Top 50 Independent Broker-Dealers" by leading trade publications. With a network of more than 330 financial advisors operating from more than 225 offices throughout the United States, the Company maintains a boutique firm of high-quality, high-producing financial advisors. Its philosophy remains as it has from the start: to treat its financial advisors as its clients.

In the search for the ideal broker-dealer partner, you should carefully consider what type of affiliation will provide the best fit not only for where your business is now, but more importantly, where you want your business to go. Does the potential broker-dealer currently have the programs and personnel in place to provide the type of support you need? Will it in the future? Can the potential firm help you provide a better client experience? How will the potential broker-dealer make doing business easier or better?

Like larger broker-dealer firms, Summit offers a full complement of investment products and services, including traditional brokerage services, fee-based products, annuities and other insurance-related products, mutual funds and alternative investments. And it offers competitive pay-outs and provides

business planning support, marketing programs, state-of-the-art technology, and easy (and encouraged) access to senior management.

Another significant cultural difference can be found on the compliance front. Honestly ask yourself if your firm takes a consultative approach to addressing compliance matters, or does it “shoot first and ask questions later?” Summit believes in the consultative approach – that is, working with its financial advisors to develop highly compliant solutions to particular needs. Evidence of this commitment to compliance can be seen in Summit Brokerage’s maintenance of one of the highest ratios of compliance personnel to financial advisors in the industry, assuring that all matters are addressed timely and appropriately.

Summit also vests itself in the success of its financial advisors by providing Summit Solutions, a comprehensive platform for its financial advisors to grow and develop their practices. Incorporating some of the industry’s best-of-breed technology, most widely respected coaches, and best available training and continuing education, Summit Brokerage financial advisors are presented with unlimited opportunities to grow their practices. Additionally, for those financial advisors interested in adding additional financial advisors to their office, Summit Brokerage will work to identify and transition financial advisors into that office. Under certain circumstance, Summit Brokerage will even provide upfront financial support to incentivize a financial advisor to join the office.

Balancing the pros and cons of both larger and smaller broker-dealers involves doing your homework and asking the right questions. Shane Westhoelter, AEP, CLU, LUTCF, of Dublin, CA, has compiled a comprehensive checklist that can help you evaluate your options.

1. Culture and character. What is the character after you are contracted or things are not going well? Ask for a home office due diligence meeting, so that you can observe the internal culture and try to judge their true character the best that you can. Asking for references from others who are already with the firm is also wise, but keep in mind they most likely will not give you a unhappy representative as a reference. The best way to judge is to research the growth and lost rate of producers over the past several years. If more advisors are joining and few are leaving, then it may be one to consider.

2. Integrated Technology platforms. What can they support and provide?

- Is consolidated statement reporting available?
- What does the website and representative access to information look like?
- What systems are in place for trade placement, research, illustration generation, client service and communication with the home office staff?
- Do they offer discounted software programs that you may want for your business?
- Is it an open platform, or are you limited to using only their selected vendors and programs?

3. Compliance oversight. This is an area that you need to make sure you like. The better the compliance, the better protected you and your clients will be. The compliance department should be your ally – your team of professionals that help keep you out of litigation and protect your clients from making the wrong investment or product decision. Know what they expect, what they permit and how their system works. What is the ad approval rate, turn-around timeframe, product approval rate, and do they offer support to help you edit, craft or get it through the system?

Also, you may want to know how often they audit your office, and who will be doing the audits – local staff, home office staff or a third-party consulting firm? Do they provide guidance and file structure, or is it up to you to find out as needed?

4. Business development, coaching, mentoring and marketing support. Succession planning, business planning and marketing are key items to consider. It is not always about the money, as the right business development support can increase your bottom line more than a commission contract increase.

- Do they have ongoing training, webinars, local and/or regional meetings to help you learn about products, running your business as a business or new technology platforms?
- Do they have a marketing department that can assist you in ad design, marketing materials and/or any form of local or regional marketing support?
- Will they help you evaluate your business if you decide to retire or sell your business?
- Will they help finance a transaction to buy a practice or if you want to sell your practice?

5. Contact management systems. It is important for not only transition purposes but also ease of doing business to know if the contact management system that you currently use will integrate with the broker-dealer's system. Will the data electronically transfer? Can you use your own contact program or only one provided by the broker-dealer? Do they have a paperless capability system or will data need to be inputted manually and stored as paper files? Is the data backed up and can it be accessed remotely?

6. Products and services. One of the main functions of a broker-dealer is to act as the conduit to allow you to gain access to the products and services that you want for your clients.

- What vendors do they have selling agreements with?
- What third-party money management firms do they allow on their platforms?
- How many conference meetings do they provide?
- What about product training meetings or business development meetings?
- What is the home office employee support ratio to number of representatives in the firm?
- What is the average production of the current representatives?

In addition to asking what the firm can do for you, it's also important that you understand the financial condition of the firm you are considering. With a tough economic landscape, in the last few years more than 30 independent firms have closed. In almost every case, these firms were forced to close because they lacked the financial strength to continue in business and meet their outstanding obligations. Many of these obligations arose from adverse arbitration awards related to the sale of alternative investments that failed to perform, such as Provident, DBSI and MedCap Funding. As any financial advisor affiliated with one of those firms can tell you, the impact on the advisor's business of having to transition clients through such a proceeding can be incredibly stressful.

Because no financial advisor wants to be in the position of having to explain to their clients why the firm they chose to associate with is no longer in business, Summit Brokerage believes there are four very important questions you should ask your existing firm or any prospective firm: What is the firm's net capital and excess net capital? What type of errors and omissions insurance does the firm carry, including what types of claims are covered and the types of limits? Does the firm make markets and carry its own inventory, and if so, in what types of securities? What proprietary products does the firm offer, and if they do, will you be pushed to sell them?

Net capital and excess net capital represent some of the principal measures of a firm's financial strength. Simply put, a firm's net capital is equal to the owner's equity section of its balance sheet, reduced by certain items as required under *SEA Rule 15c3-1*. Excess net capital relates to the amount by which the firm's net capital exceeds the statutorily required amount as determined by FINRA.

Excess net capital is important because it signifies a firm's ability to withstand potential adverse awards in excess of insured losses, market downturns, negative operating results and significant losses in the firm's proprietary trading accounts. This is exactly what happened to several broker dealers that sold significant amounts of the aforementioned alternative investments. A lack of financial strength can also be signified by a broker-dealer that tends to underpay its employees and advisors amounts that they are owed, as well as the vendors with whom it does business.

Changing broker-dealers may be one of the most important decisions you make in your career. Conduct your due diligence, ensure that the prospective broker-dealer is financially stable and has a track record of providing the services you want and need now and in the future. With the right broker-dealer you will be able to take care of your clients, achieve your financial goals, leverage your skills and grow your business.

Investment News got it right: The broker-dealer of the future will be an organization that listens and responds to the needs of its investment professionals and helps them address a changing investor market. It will be an organization that values and develops talent in the home office as well as in the field. The advisory business will fuel the growth, but efficiency and productivity will translate the growth into profitability.

Summit Brokerage Services is that firm. For more information, visit www.joinsummit.com or call 800.354.5528.