

22 QUESTIONS

TO ASK A PROSPECTIVE NEW BROKER/DEALER

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You've made the decision it's time to leave. *Now what?*

We talk to reps considering a B/D change on a daily basis. They all have one thing in common: They are unhappy with their current firm for some reason but they are not sure what they *are* looking for. It's like making a decision to get a divorce, except you have to identify *and marry* a new partner within a matter of weeks. You better be asking some very good questions. By asking the right questions, you can find out as much as possible about your new partner before saying "I do."

Here are some suggestions...

1. What is your position on fixed indexed annuities (FIAs)?

If you are selling FIAs, this alone could be a deal breaker. Index annuities are becoming a significant tool with progressive broker/dealers. Newer designs and main-stream carriers are making huge inroads in this marketplace. Top advisors are using them as a bond alternative or a safe way to add a guaranteed, lifetime income stream for the "boomers" transition from accumulation to distribution. Some B/Ds treat them as an approved outside business activity (OBA) with commissions being paid directly to you. Others process FIA business like any other securities trade with commissions passing through the "grid." There are pros and cons to each of these methods and based on your practice, one might be better than the other.

You should also beware of "approved" vendors for these products. Since FIAs are fixed products, the distribution channel is very different than securities products. If you have been working with an independent marketing organization (IMO) that you like, be sure to not only ask about your favorite products but also your favorite IMO.

2. May I see a list of your approved products?

While most B/Ds have selling agreements with most "traditional" vendors, FIAs are not distributed in that manner.

As previously mentioned, most of these products are distributed by independent or company-owned wholesalers. Keep in mind, not every product or every wholesaler is approved at every B/D.

Another reason to look at the actual list is to see which products and which carriers are represented. A recruiter may say, "Oh yes, we have *Company X*" but fails to tell you they only have *one* product approved with *Company X* – the one nobody sells.

3. Does the sale of fixed or FIA products count towards my total GDC (Gross Dealer Concession) calculation, and if so, will this production tend to drive up my overall payout percentage?

Since there are so many different compensation arrangements, be sure you know how each B/D prospect counts production.

Consider the fact that if you are selling fixed products, your production in this area may ebb and flow based on fluctuations in the market. When the market is doing well, you may sell more equities. In poor market conditions, your fixed business may peak. If all production runs through the B/D, your overall B/D sales won't be subject to periodic ebbs and flows.

4. Is the commission percentage you quoted me the same for all lines of business?

Often, different lines of business carry different payout percentages. For example, variable annuities may have an 80% payout while general securities pay 75%.

5. Since moving brokerage accounts held in street name may incur termination fees, will you help defray that cost?

Termination fees on brokerage accounts can range from nothing to over \$100 per account. Be sure you understand the fee structure of the firm you are leaving and what help, if any, you can expect from your new firm.

6. What about Errors and Omissions (E & O) coverage?

Most firms today require you carry *their* group coverage. Since these plans are billed to the B/D on an annual basis, be sure you understand your obligations to your old firm upon termination and the requirements of your new firm. Also, be sure to examine and compare the coverages. Be sure you not only understand the cost to you but also the benefits provided. For example, your deductible for most product sales may be \$5,000 but if you sell alternative investments like REITs, your deductible may jump to \$100,000.

7. Do you have any monthly maintenance or affiliation fees?

Affiliation fees are a way for a B/D to balance out their profitability for marginally productive reps. They can also hide the cost of other “free” benefits.

8. What types of software support do you offer? Are there fees associated? How about technical support?

Software can make your job easy or a nightmare. Be sure the tools are available to run an efficient practice and the support is available for when things go wrong. You should also beware of proprietary software tools. While these may be very attractive during the courting process, they can also act as anchors if and when you make a decision to leave.

9. Who owns the B/D?

Look for potential conflicts of interest. For example, insurance company B/Ds are a great choice if you are a career agent for them and only sell their products. They can be hard to work with if you are truly independent. On the other hand, a family owned firm may be looking for a way to “cash out.”

Beware of firms that have recently announced a change in ownership. Management will always put the best spin on the sale but everything can and will most likely always change.

10. What is your transition strategy?

You don't want to change B/Ds every time there is a change in ownership. If you see a lot of gray hair and no firm transition plan, be cautious. Also be cautious if there is a conversation about an impending firm sale or acquisition. Changes in management or ownership mean changes everywhere.

11. In what ways will you help me build my business?

Look for *specific* programs or strategies – not nebulous “support” doublespeak.

12. Who will be my immediate supervisor or OSJ?

Although you are interviewing B/Ds, the Office of Supervisory Supervision (OSJ) is the where you will most likely have the most contact. If there is a conflict here, everything else falls apart.

13. What are your requirements regarding continuing education (CE)?

Online firm element CE is convenient while group training can offer other benefits. Be sure you understand the requirements and costs involved with each.

14. How many reps do you currently support? What is their average, annual GDC production? What is their product mix?

The answer will tell you whether your future colleagues are at, above or below your production level. Good information for the competitive type. It also tells you what type of reps have chosen the firm previously. Product mix can tell you how closely *your* business matches *theirs*.

15. Can I get a few references for local reps?

Although they most likely won't give you a list of unhappy reps, these reps can give you an accurate taste of how day to day operations flow. Ask them questions like: How did your transition go? What do you like best about the new B/D? What could they do better? Were there any "surprises"?

16. What is your commission pay cycle?

It's nice to know when you can expect your paycheck (or EFT).

17. What is the firm's Excess Net Capital?

Rarely do reps ask this all-important question. All firms are required to maintain a certain amount of net capital (excess cash) at all times. The larger the firm, the larger the net capital requirement. They must calculate this balance daily and immediately report any shortfall to FINRA. If for example, a firm loses an arbitration and, after E & O, their liability significantly exceeds their excess net capital, they are immediately insolvent. Additionally, you are immediately out of business. Kiss any pending commissions goodbye and prepare to move all your clients – without the benefit of cash flow. As you can see, excess net capital is a big deal and often overlooked in an initial conversation.

18. Tell me about the firm's compliance history.

It would be a good idea to visit www.finra.org and go to the broker check area. Here you can find information on registered reps (check out yourself) and broker/dealers. Ask for clarification on any final actions but keep in mind it's almost impossible for a firm to maintain a spotless history. Look for trends in the reports. If they had a problem, did they fix it?

19. Do you have a written suitability policy?

Who makes suitability decisions?

Obviously, the primary suitability responsibility falls on the rep. But, all broker/dealers have one or more additional suitability checkpoints. Typically these would be the supervising Principal or OSJ and the home office compliance department. Understanding *who* has final say is important. Would you rather have the final say with somebody who has 20 years of field experience working directly with clients or a home office compliance officer who has never been in the field and uses an arbitrary "checklist"?

20. Do you offer any transition assistance?

This question can cover a lot of ground. Transition assistance can be anything from assistance in document preparation to outright cash. If you don't ask, you'll never know. To be clear, this question refers to assistance – not up-front recruiting bonuses.

Up-front cash deals are very attractive and typically structured as a forgivable note. A recruiting firm may offer you an up-front cash deal of 25% of your trailing twelve GDC. If you hit certain production goals, they will forgive the note over the next three to five years. Beware of the strings attached. Since they write the check, they write the rules. If products or regulations change, you may have a difficult time hitting their goals. If your business is heavily weighted in AUM fees, what if we have a market correction?

Also, be sure you understand the tax consequences of a forgivable note. Since the initial payment from the firm to you is a loan, there is no 1099 generated. If you hit your production goals over the next several years, the annual loan forgiveness *will* generate a 1099. Phantom income, when you are not prepared for it, can be devastating.

21. Do you offer company paid incentive trips for top producers?

These can add significant value to an overall compensation package. Be sure you understand the qualifications. Also ask if they prorate requirements in your initial partial year.

22. Does the firm have a formal process for reps to buy other practices or sell theirs?

As the average age in our industry grows, transition planning becomes as important for your practice as it does for the broker/dealer. Will they help you identify potential buyers and sellers and do they offer expert consulting services? At the same time, be sure you have a written transition plan – approved by your B/D. In the event of your premature death, your commission flow stops – period. They cannot flow to your spouse unless he/she is appropriately licensed.

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Use these questions as a guide when you interview potential B/Ds. The most important consideration is, "Is there true business alignment?" This alignment should be cultural, philosophical, and ethical.

When you are done, call us and ask the same questions.