

STRATEGIES

Should you follow your broker?

Successful financial advisers at major Wall Street firms are being paid unprecedented amounts of money to move from one wirehouse to another.

In some cases, a bonus can reach more than 200 percent of a broker's commission revenue generated in the past year, which can reach millions of dollars. According to the New

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York Stock Exchange, a broker changing firms may get a substantial payment as an inducement to change firms. There is nothing wrong with a bonus of that type.

However, the NYSE goes on to warn that these transitions can create significant conflicts of interest for investors — do they stay with the firm or

follow the broker to their new firm?

In fact, the movement of financial advisers from Wall Street firm to Wall Street firm has become so pervasive, the NYSE has published a brochure titled, "If Your Broker Changes

Firms, What Do You Do?" (available at www.nyse.com).

The brochure says a good relationship with a broker who understands your objectives and investment experience is extremely valuable. However, it also warns investors to "protect your interests and be sure you are making a well-informed choice when your broker asks you to follow him or her to a new firm.

"You should especially be aware of any potential conflicts of interest, including those that may be related to the broker's compensation arrangements at the new firm."

To protect yourself from the inherent conflicts of interest, investors should have a meaningful discussion with their adviser. Hopefully, your adviser has well-thought-out and positive answers to the following questions.

- Why is the broker changing firms?

Dig deep. Don't settle for answers such as a "bad branch manager" or "direction of the firm," as this happens periodically at every firm. Keep asking probing questions.

- How will the change affect your account?

Which products that you have purchased in the past or might consider purchasing will be unavailable at the new firm? Are there any

new product offerings that weren't available at the old firm, such as a higher-yielding bank deposit program, 1031 exchange program or Registered Investment Advisory Services?

- Can your existing investments be transferred to the new firm? Are there any tax consequences? Does it make more sense to leave some assets at the old firm if you decide to follow your broker to the new firm?

- How are fees different at the new firm? Will you have to pay any fees to the old or new firm to make the change?

- Are there elements of the broker's transition package that relate to the commissions or asset bonus that may create a conflict of interest?

Following your adviser is a financial decision that demands careful consideration. The right move can mean a significant uptick to the investor. Be sure your broker isn't the only person being enriched in the transaction. Making an informed decision takes just a little extra effort, information and motivation.

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