

8 FACTORS TO EVALUATE WHEN CHOOSING A BROKER-DEALER

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Choosing a broker-dealer is one of the most important decisions you will make as a financial advisor. Here are 8 factors to consider when exploring the right partner for you:

- 1 Ownership** – who owns the broker-dealer? While many firms have great advertising and promotional materials that make statements about their alignment with advisors, understanding the ownership structure is perhaps the most substantive way of knowing whether the broker-dealer will be a good fit for you. Long term, the ownership model will likely impact your business as a financial advisor more than any other factor about the broker-dealer. Key questions you should ask about the firm's ownership include is it public or privately owned? If privately held, is it majority owned by a private equity fund or family, employees, or advisors that work in the business day-to-day? How long has the current ownership been in place? Is this the owner's primary business or just one of many ventures they hold? Are you able to meet the owners personally? Are they easily accessible and do they provide an ongoing relationship and resource to you as a business owner?
- 2 Independence** – does the broker-dealer distribute financial products and services independently or for a company that manufactures its own financial solutions such as a bank, investment company, Wall Street firm, or life insurance carrier? While each business model has its pros and cons, it's important as a financial advisor to know whether the broker-dealer you affiliate with is likely to exert some level of influence or incentive over the products and services you wish to offer clients. Some firms have proprietary products that financial advisors find over time they might feel pushed to sell. Another key question when it comes to independence is who owns the clients? Some firms view the clients as their own, making for a potentially hostile environment if an advisor ever chooses to leave the firm. Other firms view the client relationships as belonging to the advisors, and thus are willing to agree upfront that if an advisor leaves, they can take their clients with them.
- 3 Offering & Services** – what products and services does the broker-dealer offer? Most broker-dealers marketing services to financial advisers will define themselves as full-service. It's important to unpack this label and get specific about the tools and resources you will have access to as a financial advisor. Questions you can ask include will the firm give you access to both commission (broker-dealer) and fee (registered investment advisor) solutions? Will the firm give you access to comprehensive financial planning resources? Does the firm provide you with robust risk management solutions such as insurance and annuities? Does the firm offer a variety of service levels

allowing you to choose to do the back-office work yourself or outsource it all to the firm so you can focus primarily on meeting with clients? Is the service model one where the broker-dealer leaves you to operate independently, or does it provide you with resources and staff that act as an extension of your firm?

4 Economics – what are the financial terms of the relationship? What are the payout rates? What production levels, account sizes, and product mixes are needed to achieve certain payout levels? Is there upfront money offered to join the firm? What are the fees charged (monthly, quarterly, and annually)? Do all products pay out the same rate or do certain products and services have different payout schedules? What services will the firm provide in exchange for these payouts/fees? These are examples of the kind of questions you should be asking the broker-dealer. Whatever questions concerning economics you choose to ask the firm; the most important thing is to get the answers in writing. Request copies of the actual documents you will be asked to sign ahead of time. Many advisors make the mistake of taking verbal promises of recruiters or an initial non-binding term sheet at face value. Only after they are way down the road on their transition and see the actual terms do they realize what they will receive is far less than what was originally promised. Get it in writing!

5 Technology – what technology will you have access to? This is increasingly becoming a central question when deciding which broker-dealer to join. The technology platform impacts both the way you run your business as well as the way you provide services to your clients. Examples of technology questions to ask include does the firm require me to use their system or can I maintain my own (website hosting, CRM system, financial planning software, etc.)? What is the process for getting new technology reviewed and approved? What technology is used to submit new business? How do I manage business once it's submitted or service client accounts ongoing? What kind of metrics are provided for me to run my business (accounts, households, segmentation, workflows, cycle times, pending lists, opportunities, etc.)? Does the commission system integrate with my bookkeeping software so I can maintain good financial statements? What web interface will my clients have to view their account holdings, performance reports, and request service? How is the firm continuously keeping me apprised and providing me access to new technologies that can benefit my business?

6 Compliance – what is the firm's approach to compliance, supervision and oversight? Some firms can be so focused on their attempts to manage risk that they make it difficult for advisors to do business. Getting marketing materials approved, websites updated, or sales programs developed can be difficult and time consuming. Other firms have a reputation for being business-friendly to advisors, but they can be lax when it comes to managing compliance risk. As a result, these firms are often in the news for violating rules, harming clients, and being hit with large legal and/or regulatory financial settlements. Affiliating with these firms can present a major reputational risk for you as a financial advisor. Practical steps you can take to better understand a firm's approach to compliance include requesting a copy of its written supervisory procedures, checking FINRA's broker check website for a history of complaints, or simply searching the firm on the internet for regulatory and/or legal actions. Another practical step you can take is asking the firm to provide you with a survey or rating of its compliance department by the financial advisors it serves.

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Business Growth – will this firm help you grow your business? A major factor in determining which broker-dealer is right for you is understanding how the resources and services they provide will help you take your business to the next level. Do they have a track record of helping financial advisors grow? Can you talk to other advisors who are registered with the firm and hear firsthand how they have grown their business at the firm? What new tools and technologies will you have access to by joining the firm? How will your existing clients benefit by joining this firm? How will you be able to attract new clients in specialized target markets with the expanded capabilities you will have at the new firm? How will the firm not only help you grow your top-line but also your bottom line as a business owner? Are there services you can outsource to the firm that can reduce your operating expenses and increase your profitability? Choosing the right broker-dealer partner is not just about the business you have today, it's about the business you are creating for tomorrow.

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Culture – what is the overall reputation and culture of the firm? This might be the most important question to ask as a financial advisor. Do your values align with the values of the firm? When you meet other financial advisors affiliated with the firm (either directly or indirectly via third party knowledge or online research), do they share your approach and philosophy to serving clients? Is the firm known for doing the right thing for clients or are they often in the news for violating rules or causing client harm? How will the firm help you do what is in your clients' best interest? Will the firm help you become a better financial advisor by providing you the opportunity to collaborate with other financial professionals, so steel can sharpen steel? Does the training and education of the firm offer both you and your staff a robust opportunity to grow your professional acumen in financial services? Will you be proud to affiliate with this firm? Will your family be proud? Will your clients benefit?

Selecting the right broker-dealer is crucial for the success and growth of your practice. By thoroughly evaluating these 8 factors, you can help ensure that your chosen partner aligns with your values, supports your business objectives, and ultimately helps you provide the best possible service to your clients.