JGHELLER PrivateWealthAdvisors

Sophisticated Advice/Concierge Service/Total Transparency

Regarding FINRA Regulatory Notice 13-02: "Recruitment Compensation Packages"

As a former wirehouse branch manager (1987-2009), I strongly support full disclosure of recruiting incentives paid to financial advisors who change firms. What is common knowledge (large recruiting incentives that commonly reach well into seven figures) within this very large industry, has been heretofore hidden from the investor's view.

My experience and that of countless other branch managers suggests that a meaningful percentage of advisors (at the large brokerage firms a.k.a. "wirehouses") who switch firms do it for one reason only....the extraordinary compensation. Unfortunately for the public, this motivation is rarely, if ever disclosed. Instead, financial advisors, at best, have routinely told clients that the move was motivated by superior (fill in the blanks): financial position, products, research, senior management, local management, account security, ethics, local support, freedom of security or product selection, etc. At worst, clients have been told that the Financial Advisor's prior firm was bad, troubled, failing, sinking, unethical, technologically backwards, product focused, etc. While firm management has almost always instructed the financial advisor not to disparage the previous firm and to focus on the positives of the move, it has been very common for financial advisors to have said whatever they needed to in order to convince a client to transfer. Certainly, at times, some of these claims about the new firm or prior firm have been true. However, I have witnessed the most ethical of financial advisors shop the street for the best deal after they became disenchanted with their prior firm.

When I started recruiting in 1987, the maximum recruiting incentive on the street was about 35% of trailing 12 months production. Recruiting packages were usually amortized over a 3-4 years period. Over the years, these deals slowly climbed. Then, in the late 1990's, they surged along with the markets. In the mid 2000's deals surged again and in some cases approached 300%. Not surprisingly, financial advisor movement also surged. This is not a zero sum game. This is a game where all firms, over time, lose. Financial Advisor movement creates no value. An advisor producing $1MM leaves firm "A" and is paid $2MM to go to firm "B". In the process of moving, he leaves some clients/business behind and one year later may be producing $750k. So firm "B" may have paid close to 300% of the revenue they ended up with. This amount, amortized over 9 years, adds 33% per year to the compensation cost of

the advisor. When combined with current compensation, the cost to firm "B" may exceed 83% of revenues for almost a decade. Of course, firm A, who has lost business, will now try to recruit an advisor from firm B,C or D to try to replace the lost production.

The large brokerage firms, in attempts to slow this revolving door process, began in the 1990's to add significant deferred compensation. When that didn't work, they then started paying "retention deals" or "stay bonuses" to keep financial advisors in their seats. By the end of the 2000's, a significant percentage of all financial advisors employed at a wirehouse were subject to either a recruiting or a retention deal.

Who has benefited from these billions spent on recruiting and retention? Only the financial advisors. I challenge anyone to demonstrate any benefit to the firms or the clients.

Finally, to further clarify my views, let's examine what happens when an advisor switches firms. The advisor arrives at the new firm and devotes nearly 100% of his time to the transfer process. This is logical because his or her future livelihood is at stake. The process of moving hundreds of accounts, many with online bill pay, EFTs, etc. is arduous and time consuming. This process can consume much of the advisors time and may go on for many weeks. The advisor, of course, is not at all familiar with the new firm's computers, products, research, statements, etc. Months may go by before the advisor once again has his or her full attention focused on the needs and goals of the clients. In the event that clients receive "full disclosure" regarding compensation associated with an advisor's decision to change firms, they might be wise to ask: "what is in it for me?"

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