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Opinion: Finra's Bonus Disclosure Push May Backfire

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The sheriff on Wall Street is strutting his stuff again, apparently trying to scare financial advisors who want to change jobs for a big payday. The Financial Industry Regulatory Authority (Finra) is trying to push a rule change that would force financial advisors to reveal to clients the size of their recruitment packages.

As everyone knows, clients are picketing wirehouses in outrage over this issue. Wait. They're not?

In fact, I suspect if Finra gets its way one of two things will happen. Advisors will gain celebrity status in the eyes of clients – "Well, my broker got $2 million to join a new firm. How much did yours get?" Or, more importantly, if Finra squashes the intense competition to attract top talent, Wall Street will look more like the insurance industry, where stasis rules. Advisors staying put won't necessarily serve wealth management customers well.

The financial advisory world has many problems to tackle. The second-biggest problem is probably a combination of cultural change away from traditional advisors and toward Web 2.0, with the rise of interactivity and content sharing via social networking sites, blogs, wikis, video sharing sites, hosted services, and web applications.

In some cases, this may lead to the depersonalization and marginalization of the client-advisor relationship. In a world dominated by mobile and social media, many investors are turning to non-traditional sources of investment information.

The biggest problem? Not enough elite talent. Finra is turning the campaign to win the best advisors into something underhanded – "buying talent." Buying talent is indeed what it is all about. But Finra doesn't recognize another critical aspect of buying talent that benefits clients: Wall Street keeps innovating like mad to attract top performers.

These stratospheric recruiting packages reflect the serious commitment of major firms to attract high-end advisors who have built solid wealth management practices. Those firms that have invested resources in building cutting-edge platforms and technology to support their advisors and to better service investors will be handsomely rewarded for their efforts. Advisors from companies with less robust client offerings or with organizational issues will flock to join them.

Major wirehouses, regional broker-dealer firms and independents alike are constantly monitoring the competition and seeking to offer clients a superior experience with the best advisors and resources. Each wants to be sure they stack up. Are the investment choices competitive? Are products and services cutting edge? What about technology? Is it up to snuff? Ask Morgan Stanley whether technology infrastructure matters.

Making wealth management platforms different from other financial services sectors – including insurance brokerages – is the nearly seamless portability of products. The superstars will not tolerate products that are inferior or don't transport well. If one firm rolls out a new wrinkle in, say, its unified managed account (UMA) or alternatives platform, other firms do their best to scramble to catch up.

Those firms that excel in providing the suite of products and services that advisors and their clients require will thrive. Firms that are laggards in these areas will lose many of their best advisors. This is as it should be.

The fierce competition for advisors ensures that platforms to service investors will be continually improved. Clients are the big winners of this race to the top.

The media likes to portray advisors jumping from firm to firm – and collecting sign-on bonuses – like grasshoppers. But that's ridiculous. Moving a business isn't something anyone does lightly. The risk of losing clients and assets is too great.

Furthermore, those recruiting packages are tied to performance. The due-diligence process has lengthened notably over the last decade as wealth management platforms have grown exponentially more sophisticated.

Advisors can't afford to disappoint clients. They carefully scrutinize a prospective firm's products and technology to make sure that they can continue to properly service clients there. Even those advisors who are moving simply to cash in on a great recruiting deal are loath to join firms at which they can't properly service clients.

Insurance companies can't even begin to compete with Wall Street in the wealth management arena. Their broker-dealers are much more limited in scope. The reason is simple: much of their sales force is loaded up with non-transferable proprietary insurance products.

Even if an insurance advisor is unhappy with the limitations of his firm's platform, it's pretty tough for him to move elsewhere unless he's willing to leave part of his client holdings behind and forgo trailing commissions. As a result, there's less broker movement and more stability in the insurance model.

Let’s go ask Finra how this benefits clients. The short answer: It doesn’t.

Since this is America, investors are free to choose whichever investment format and whichever advisor they prefer. And they are already doing that without the help of hyped-up regulators. If they don’t like that their advisor is moving mainly for money, then they don’t have to stay with them.

In my view, a regulator’s role is to ensure a competitive marketplace that serves clients well. In any event, Finra’s Occupy Wall Street-esque moment is likely to backfire. Either advisors will turn into Page Six stars or Wall Street will pull back on innovation. File that under “unintended consequences.”