

I am concerned that automating a process that is inherently specific to a client's specific and personal preferences and wishes will effectively result in limiting registered representatives to providing clients with generic and impersonal advice and recommendations.

Whether or not FINRA is intentionally making it more difficult, less profitable and creating contentiousness between a broker and his compliance department, that is what is happening.

For example: It is my preference to guide clients toward the use of A Share mutual funds. I believe my clientele and most retail clients should only invest money they can apply a long term perspective on. Given the basis of long term investing, a client is generally best served to purchase quality investments at the lowest possible expense. I suggest that A Share mutual funds, with the achievement of breakpoint discounts offers most clients the best long term value. And with no commission mutual fund exchanges within the same fund family, an investment in A Share mutual funds within a fund family that offers a variety of quality funds the client has the ability to adjust their long term strategy to changing market conditions without incurring additional fees or commissions.

In my own practice I have historically recommended a combination of American Funds and Hartford Funds to clients. We would consider the total amount of money available for investment with a given client and divide that investment money in such a way as to achieve the best breakpoint discount for the client. This has been my practice since I started in the business in 2001.

Recently the Hartford Company reneged on promises made with their annuity product and is in the process of selling their mutual fund business. These and other circumstance made me uncomfortable with Hartford and I have been sharing these concerns with my clients. As a result many of my clients have chosen to sell out of their Hartford investments and reinvest the proceeds with American Funds.

Because my broker/dealer uses an automated system that 'red flags' mutual fund switches I have had what I believe to be a relentless onslaught of documentation requests and threats from the automated compliance system that I am in fear of continuing with my business model. My current compliance supervisor has listened to and understands what I am doing and why, but I continue to get automated notices and threats of fines, etc.

The result is that my typical client might have had 40% of their assets at Hartford and 60% at American. In selling the Hartford Funds and reinvesting the proceeds with American Funds my typical client paid a load of 2% on the 40% they are switching. Also consider that the average holding period for these Hartford Funds was about 7 years. If I choose to convert these clients to a fee based account I would typically charge 1% annually and there would be no paperwork required, no compliance involvement, and no threats of fines, and much less time and expenses associated with paperwork. And the client would pay 1% annually on 100% of their portfolio. Over a 10 year period, which is consistent with long term investing, the client would have incurred 1% per year time 10 years or 10% in total charges. With A Shares, and given this switch from one fund family to another, the client might have paid 3.5% initial up front load and then another 2% load on 40% of their portfolio. Over the same 10 year period the A share client pays 4.05% in fees/commissions versus 10% in the advisory/fee based client.

So these automated compliance systems will and do cause the advisors of retail clients to influence clients towards fee based accounts and away from commission based accounts even when the client would be best served to use an A Share brokerage account with up front commissions.

An automated system will not be able to consider the best interest of the client and the retail client will be damaged by having to unnecessarily pay 250% more for professional advice than they would otherwise need to pay.

Thank you for considering my opinion.

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