

The Client – Broker Relationship: How to Tell If Yours Is Good

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Numerous articles have been written about how to avoid becoming the victim of an unscrupulous broker. The SEC states on the home page of their website, "The primary mission of the U.S. Securities and Exchange Commission (SEC) is to protect investors and maintain the integrity of the securities markets." Yet, every day, a small number of brokers and their broker dealers violate that mission statement by breaching the fiduciary duty they owe their clients. Why? Because the potential for getting large amounts of money in ostensibly legitimate commissions and fees is there and because they get away with it. There are certainly many more honest brokers in the industry that truly put the interests of their clients first. Unfortunately, still too many rogues out there do not care. This article discusses some pitfalls of the client-broker relationship that the average investor encounters, and attempts to demonstrate what the really good brokers do when faced with problems.

Probably the biggest mistake investors make is in the time it takes to trust a broker. Clients move too quickly before they have a chance to know who will handle their money. Unless someone wins the lottery, chances are, it has taken many years to accumulate sufficient wealth to invest. It is difficult to resist the lure of having financial matters settled but it is better to earn small but safe bank deposit interest than to regret an investment that fails to perform or worse, a broken brokerage relationship that ends in arbitration. The good broker will advise his client to go carefully into the relationship and the investment process so that everyone has a chance to develop a clear understanding of what to expect. Gradually getting to know one another and making investment decisions are two roads to long-term success.

Another common investor pitfall is failing to act at the first sign of a problem. If, for example, a broker fails to return a phone call within 48 hours, the client should contact the branch manager to find out the reason. Is it too soon to be alarmed? Will the client feel foolish if it was a mistake of communication by the message taker? The good manager will welcome an opportunity to provide an extra measure of client service. The good broker will be happy to know his manager cares and that his clients are receiving extra attention. Rule 405, the "Know Your Customer" rule, applies to broker and manager alike. For this reason, the manager, by law must be an integral part of the healthy broker-client relationship.

There are also broker-client misunderstandings that occur when the client receives a complicated investment recommendation. This is where the duty of a fiduciary is vital. It is incumbent on a fiduciary to act only in the best interests of his client. The duty of a fiduciary is the highest level of trust one can hold. It may mean foregoing a significant commission until the broker is certain his client is comfortable with a recommendation and that the recommendation is right. The securities industry never lacks good opportunities, and the opportunity to put your client first, is the most rewarding. Incidents of "buyer's remorse" are numerous and resulting happy outcomes are few.

Finally, there are times when a client proposes a transaction that is entirely unsuitable, based on the information provided when the account was opened. Perhaps

the client's neighbor bought a stock which has become a "must have". This is another situation where the good broker will back away from a transaction and use the chance to update objectives and goals to help the client understand why this is an inappropriate position. If this strategy is ignored, then preparing a letter of non-solicitation is in order. Often times a written communication will bring the client back to reality and prudence will prevail. If not, the good broker has taken the necessary measures to protect his client and his own reputation.

Once damaged, a good reputation is difficult to repair. The good brokers continuously strive to provide personal attention, take time getting to know their clients, make the manager part of the broker-client relationship, and always put the good of their clients ahead of all else.

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