July 20, 2015

RE: Conflicts of Interest- RIN 1210-AB32

Dear Secretary Perez,

While my opinion may be contradictory to that of my colleagues, after reading some of the post online and receiving varying instructive emails as to how to "the Firm" would like us respond, I felt it was necessary to do my own research. Having been an "advisor" for 8 years since 2008, I have often questioned some of the subtle suggestions in the industry and some "advisors" best practices, "recommendations" or business models that are presented and filtered throughout firms.

With the deadline for comments fast approaching I would have liked to have read more of the posted comments and read in more depth the proposed rule changes. I feel there needs to be some changes made to the industry practices that are promoted and the compensation models that firms employ, as well as certain additional educational requirements before an individual can hold themselves out to the public and meet with individuals to provide advice.

I do believe that imposing fiduciary standards is important in the process. However I feel the short term consequences of such a broad definition may simply sustain a few years of frivolous lawsuits on the side of consumers who will undoubtedly misconstrue small conversations as market advice. I imagine an additional and immediate effect will be the general public being "cutoff" from firms and advisors, which I can only presume the consumer will declare as "mis-advice" in the event of "no advice" and hit the courts with additional lawsuits. This will just be wasted time and inaccurately scarred U-4 records on FINRA's Broker-Dealer reports for many good and honest Financial Professionals. Additionally, I would argue that the short term effect may be your low and middle income Americans making immediate irrational moves with this lack of advice. This will most likely trigger a selling of investment in many forms creating some degree of panic as the un-savvy and irrational consumers will not understand a larger market cycle at work. This liquidation of investments will undoubtedly create a larger setback for those individuals who perhaps need the guidance the most.

One of the posts I read was an online comment by Kevin Rupert and Market Inefficiencies due to poor advice. I would support his declaration. The vast majority of consumers simply do not understand enough about a macro economy or their own current and future cash flow needs and risks to make proper investment decisions. Thus I think these inefficiencies in the market are presented by the unprepared "advisor" or "FSR" but the decision is left in the hands of the consumer when they pick up the pen to sign. There is also the point that must be noted that when good and honest "advisors" presents good and honest solutions or recommend additional products to protect the consumer and the client does not follow through. There is the occurrence when the "advisor" calls the consumer to discuss accounts and is ignored, or has contact information is outdated because the consumer failed to notify the company of a new address or changed numbers. So it cannot be ignored that some of the responsibility must be on the part of the consumer. With requirements to enter into in to a written agreement and pay for advice, both the consumer and the advisor are protected. But with this will undoubtedly come along with it neglect to the middle and low income individuals, for whom this proposal is meant to assist. The problem is compounded when the compensation models produced by the firms creating and packaging new products pay advisors with incentives for moving Assets as opposed to knowledge about the markets and varying financial strategies.

Knowledge Vs Networking

I have come to notice the practice more, which is that "Advisor" entrance into firms has less to do with Industry Knowledge more to do with the networks that an individual can bring to the firm by becoming an "advisor" or at minimum an "FSR" and share in the firm profits for a few years, generally to be disregarded when the new "advisors" network leads run dry or turn cold. Then you are left will ill informed "advisors" who have learned a few tricks on how to make a quick buck and turn it in to a business model. It is tough to provide long standing advice to clients when the general turnover rate of new advisors in firms tops 50% within 2 years. The compensation models used by firms entice these models even more.

Compensation models are designed in most cases surrounding a transaction, or movement of money. When this happens, commission generated, advisors paid. I have seen advisors recommend moving funds from an old annuity from the early 1990's into new (2014,2015) annuity with fixed rider payouts, because the advisor doesn't fully understand the product or income payouts from the old or new contract nor does the client. All that the "advisor" knows is "unless I move this money I do not get paid on the 'advice.'" If there is no compensation available then unless the firm is somehow responsible for picking up the costs associated with meeting with clients at a location, and providing services beyond the Knowledge, then cost lies on the advisor simply due to the compensation models. Here there lies a big incentive to the advisor to move funds by changing accounts as opposed to reallocating inside the current investment, or looking for a way to utilize the current mix of investments to formulate a new financial trajectory; utilizing Account transfer only as a last resort. Overtime Pay is an additional topic up form proposed changes within the DOL. Financial Advisors are not compensated for any of their time unless a transaction is completed. Whether this transaction is completed in one meeting or four, seven, etc; the only way for overtime would be to skim through "advice" faster and complete more or larger transactions under the current compensation models and lack of paid hourly/ salaried position.

By simply labeling "advisors" and "FSR" with a fiduciary label is not enough. Unless the core issue of compensation is addressed, the short term result will rapid loss of investment related conversations with Individuals in low and middle income households. This will certainly create for many more a catastrophic mid and long term effect due to the disruption in their current strategies when they cannot find the advice from their former Good and Honest advisers who will not subject themselves to financial litigation and potential reputational harm for small accounts where consumers cannot afford to pay for the cost of advice.

The overarching theme here is that compensation models employed by firms are the root of the problems of poor advice. Until advisor compensation is based on the time and complexity of a plan and not a transaction the model for financial advice will skew towards those with larger balances and neglect those that need the most help. There should be additional education requirements on the behalf of the advisor before they can give paid advice. Additionally, there should be more direct responsibility on the part of the consumer to carry "Financial Advice Protection" or understand that their money, assets, risks and future is their own responsibility to cover and plan for in accordance with their own ideas and vehicles.

I would propose system similar to an HMO type platform, where an individual would be required to pay an annual fee within a defined scope of cost and for this have a primary advisor. This primary advisor would be required to run a certain minimum degree of a "financial health screening" which would include basic financial concepts like Budgeting, taxes, cash flow, credit and liability analysis and Varying risk analysis, etc. If a consumer were to require more advanced planning specific to particular area then additional tests or appointments with a Financial Specialist could be recommended by the Primary Advisor with additional cost. For example an individual could only choose to purchase a basic Financial Advice Insurance for a year through a firm averaging monthly costs of $45- $125 (based on some degree of Age and Total Assets). Preliminary Screening and Monitoring of Assets would be completed. If the individual wanted to make a financial change or was presented with a financial emergency, then the consumer may need to pay an additional fee such as $189 (to cut back on small, unnecessary or ill-perceived emergency), but could count on an appointment and solution with concrete advice because the advisor would have access to the information needed to come up with a solution as well as be compensated for their time through the Firms collection of Advice Premiums. If an individual was looking for goal oriented (i.e. consumer is intent to have $100,000 saved for College)advice they may need work with a specialist which could be coordinated through the primary Advisor. Specialist may be compensated differently perhaps under similar models as current rules, but would need to be coordinated through the Primary Advisor. Additionally, Primary Advisor and Specialists roles must be clearly distinguished and not overlap. Additionally Compensation between specialists and Advisors should be declared and heavily monitored for gifts, events, meals, entertainment , cash to avoid bias in Advisor specialist selection. The level of advice between specialist and Advisor would be distinguished results. A Primary advisor might recommend using 529 plan to save for college and the consumer would decide, whereas a specialists would plot the course more precisely using varying tax laws, accounts, and specific dollar funding amounts, timing etc.

I would like the industry standards to be raised and the term fiduciary applied to more Financial Professionals. I would also point out the need more importantly to change the compensation models allowed by firms to Advisor. Lastly, the need for higher levels of education and knowledge requirements before an individual can labeled an advisor providing fiduciary services.

I appreciate you taking my experience and views into consideration.

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