

EMPLOYEE GUIDANCE

VETTING BROKERS & INDEPENDENT INVESTMENT ADVISORS

(email saulnir@aol.com if you need help. No charge)

You have 3 choices when opening a brokerage account:

A `full service' broker

Choosing a full service broker means that you want that particular person to assist you in the management of your account or to be your primary source of information and advice.

You will be charged commissions and markups/markdowns and/or an annual fee based on the value of your portfolio.

An `Independent Investment Advisor'

Choosing an independent financial advisor means you want this person to manage your account and make all the buying and selling decisions. (You will sign papers permitting this.)

You will be charged an annual fee based on the value of your portfolio. In most cases the Advisor uses a discount house to execute your transactions and you will be charged with those commissions plus markups/markdowns. (Given the Madoff Ponzi scheme your assets should be housed at a large brokerage house, not with the Advisor's firm.)

A `discount' broker

Choosing a discount broker means that you are going to manage your account, make all buying/selling decisions and do not want any advice. A discount broker just executes your buy and sell instructions.

You will be charged commissions which are very low compared to full service brokers and markups/markdowns.

Full Service brokers and Investment Advisors must be vetted.

Discount brokers do not have to be vetted.

Before vetting anyone, you must determine your objectives for the money you are investing. Start by asking yourself "How much risk am I able and willing to take?" Not "How much money would I like to make?" (See [`IDENTIFYING YOUR 401k INVESTMENT OBJECTIVE'](#) and [`BUILDING YOUR PORTFOLIO'](#).)

PortfolioStrategy

Given the current economic and market situation, where we have all lost a substantial part of our investments, it is vital that you vet your full service broker or independent advisor to be sure you are as well positioned as possible to recover when the securities markets improve. All stocks, regardless of their future value, are down and you have to do everything you can to be sure you are in the right ones now. This may mean some shifting and reallocating.

A Short History of Risks and Rewards

The Standard & Poor 500 Index tracks the results of 500 companies and represents one of the best stock market guides. Almost every large mutual fund compares their results to this Index and beating it by just a few percentage points is often the basis for a highly successful fund. Keep the below figures in mind when you are determining how your money should be invested.

STANDARD & POOR 500 INDEX

The last 10 Years

1/1/1999 to 12/31/2008:

6 up years, 4 down years

Best year +26.39% Worst year -38.24%

Average Annual Return 10 years -3.04%

The last 20 Years

1/1/1989 to 12/31/2008:

14 up years, 6 down years.

Best Year +34.11% Worst Year -38.24%

Average Annual Return 20 years +6.08%

And it is most unlikely that the ups and downs of the stock market are going to be much different in the future than they have been.

Vetting a Full Service Broker

Part 1.

Go to: www.FINRA.org.

Go to Broker Check.

Enter the broker's name. This will show his/her employment history and complaints filed.

Regardless of the reasons/rationale I suggest avoiding people who have:

- Worked as a broker for less than 10 years
- Worked primarily for small brokerage firms
- Held too many jobs
- Have had more than two complaints filed against them. (The reason for allowing 2 complaints is that inappropriate complaints are often filed. But read the complaints and see what was claimed and how they were resolved.)

Part 2.

If the broker has passed the above test and you are comfortable with him/her, continue the vetting.

Arrange a meeting, when the market is closed, and get the following information:

Clients currently being worked with; general description, their goals, results in last 3-5 years versus the S&P 500 Index. (Ask for documentation of any results mentioned.)

It is best to have a broker who is working with people who have investment goals similar to yours. If the answers to the above are OK, continue the vetting.

Describe your complete financial situation including how much money you earn, your age, your risk tolerance, the money you want to invest, your other assets, your investment goals and ask how he/she thinks your investments should be allocated and what kind of results you should expect, both on the upside and downside, for five and ten year periods as well as the worst and best in any one year. If those results are realistic and acceptable, Continue.

Part 3.

What will you be charged? Full Service Brokers generally have a great deal of flexibility in setting up their charges. Brokerage Houses allow their brokers to determine their charges for each client. They have a lot of discretion. So your insistence on lower rates is often effective.

PortfolioStrategy

Compare the cost to the rates that Discount Houses are offering. A Full Service Broker can contribute a great deal to your success and should be paid accordingly, certainly much more than a discount broker. You should know how much you are paying for the advice.

Commissions and annual fees (if any) are always disclosed on confirmations and monthly statements. Markups/markdowns are often never disclosed, though they should be. Make sure you discuss and understand these fees and that markups/downs will be always shown on confirmations.

You will be asked to sign a 'New Accounts Form'. Read it carefully, especially those parts that refer to your investment goals and risk tolerance. File your copy for future reference.

Vetting an Independent Financial Advisor

It is very possible that the person you are dealing with is not a Registered Broker and will not be in the FINRA data file. The larger Independent Advisors have employees who only deal with their clients; they have nothing to do with the actual management of the portfolio and do not make investment decisions. They are like sales reps. If this is the case and they are not in the FINRA file, you cannot check on their history. That is OK.

Arrange a meeting, when the market is closed, and get the following information:

Clients currently being worked with; general description, their goals, results in last 3-5 years versus the S&P 500 Index or whatever Index they use as their benchmark. (Ask for documentation of any results mentioned.)

It is best to have an advisor who is working with people who have investment goals similar to yours. If the answers are OK and you are comfortable, continue the vetting.

Describe your complete financial situation including how much money you earn, your age, your risk tolerance, the money you want to invest, your other assets, your investment goals and ask how he/she thinks your investments should be allocated and what kind of results you should expect, both on the upside and downside, for five and ten year periods as well as the worst and best in any one year. If those results are realistic and acceptable, Continue.

Independent Financial Advisory firms are required to file many reports with the SEC documenting their investment management styles and the specific results they have achieved over the years. You should see these. If they support what you have been told and are aligned with your needs and objectives, you can consider employing that firm.

Financial Advisors take over the complete management of your account and will ask you to sign papers giving them your permission to do this. They will outline for you in writing the strategy you have agreed to. This should be very detailed, including the allocation of your assets. Your money will be managed accordingly.

Find out the specific costs for the management of your account. They usually charge an annual fee between 1% and 2.5% based on your assets and you pay commissions and markups/markdowns to the discount firm they use to execute the buys and sells in your account.

Given the Madoff Ponzi scheme, your portfolio should be housed with a reputable brokerage house, not with the advisor's firm.