NATIONAL POST

FINANCIAL POST

JULY 26, 2012

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What to do if your broker quits

Important questions to ask

Sports stars and financial advisors have something in common - many will change teams during their careers. However, when your advisor changes teams, by going to another firm, the impact is personal. You must decide whether to move with the advisor or to part ways, and it is not a decision to be taken lightly.

It is a time to step back and examine all pros and cons. You should first evaluate your portfolio performance and the service you've been receiving. Then, even with a positive assessment, you will have questions. The first pertains to the advisor's business model.

Often, when advisors change firms, they are encouraged to align themselves with the new firm's way of conducting business. If the company caters primarily to high-net-worth individuals, and you're a smaller client, you may not receive the same level of service. Also, the new firm may have a suite of proprietary products that are strongly promoted to their advisors. If your advisor plans on using them, you want to know the quality of those products; how they will affect your portfolio; and whether benefits will accrue mostly to you or to the new company.

Consider the fees and whether your advisor's fee structure will be changing. Some firms no longer provide a choice, between either the traditional commission-based structure or a fee-based structure, instead offering only fee-based investing. While this style of fee structure is beneficial for many clients, it is not for everyone. If it is the only option available, you want to be sure it's the best fit for your needs.

You should inquire if there will be unexpected costs, such as account closing and transfer fees, and ask other questions about the transfer process. If you are currently invested in products that cannot be held at the new firm you will be forced to liquidate holdings, possibly triggering capital gains taxes. You may also be selling investments that are down due to market volatility, thereby crystallizing losses.

The strength of the new firm and the quality of its support departments, such as research, are important considerations. Check with securities commissions to be sure the company is financially sound and without regulatory issues. It should provide all the services you require such as financial, estate, and tax planning. If it doesn't offer everything you need, think twice about leaving your existing firm.

Most importantly, a move must be in your best interests. Advisors typically receive large financial incentives to move, in the range of 1% to 3% of their book size. For an advisor with a $100 million book, that incentive can be as high as $3 million. You want to know if your advisor is changing firms solely for the monetary gain, or

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whether it's because the new firm offers their clients better products and services.

Have your advisor outline in detail how a move will benefit you. Your advisor should welcome any questions and provide answers specific to your situation. Simply put, there must be a clearly discernable net benefit to you.

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