NYSE Informed Investor

If Your Broker Changes Firms, What Do You Do?

It is not uncommon for brokers in the financial-services industry to change firms. When that happens, investors are presented with the dilemma of whether to move to the new firm with the broker who is changing jobs. Although a good relationship with a broker who understands your objectives and your investment experience is extremely valuable, you should protect your interests and be sure you are making a well-informed choice when your broker asks you to follow him or her to a new firm. You should especially be aware of any potential conflicts of interest, including those that may be related to the broker's compensation arrangements at the new firm.

As a general matter, you should ask, among other questions of interest to you, the following questions, which are discussed in more detail below:

- Why is the broker changing firms?
- How will the change affect your account?
- Will certain products or services that you like be available at the next firm?
- Can your existing investments be transferred to the new firm?
- How are fees different at the new firm?
- Will you have to pay any fees to the old or new firm to make the change?
- Are there any tax consequences if you are asked to sell any of your existing products?
- Are there elements of the broker's transition package that relate to the commissions, fees or costs associated with your account?

Fees and Charges

Will you have to pay any fees to make the change? For example, fee-in-lieu-of-commission accounts may have termination fees if you leave before an anniversary of the account opening.

You should also ask if there are other factors that will directly bear upon your account. While commissions are negotiable, you should have a good understanding of the new commission schedule before moving. Fees for the maintenance of accounts differ from firm to firm and can add up if you have several different accounts, such as one or more IRAs, joint, individual, or custodial accounts. In addition, if your investment strategy employs margin, you should ask what the margin rates are at the new firm.

Conflicts of Interest

If you are asked to move your account to a new firm, you should know whether your broker is being offered any inducement that might affect his or her recommendations as to the type or amount of products and services being offered to you. A broker changing firms may be receiving a substantial payment as an inducement to change firms. There is nothing wrong with a bonus of that type.

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However, it could lead to situations in which the broker seeks to do more business in your account to justify the upfront payment, particularly if the bonus is based upon a percentage of newly generated commissions. Bear your broker's response in mind when deciding on future securities activities.

Portability

Certain mutual funds and annuities may not be transferable or portable to a new firm. If you liquidate the product, it could lead to increased fees or tax consequences. Therefore, it may be in your best interest to have those types of securities remain at the existing firm if you decide to move with your broker. Inquire about the fees you may incur by your existing brokerage firm for maintaining this account.

In addition, investment vehicles such as negotiable certificates of deposit, market-linked certificates of deposit, some non-traded limited partnerships, certain mutual funds and other products may also not be transferable.

It is important to understand that you are not obligated to sell such securities when your broker moves to a new firm. You can open up a new account at the firm to which your broker is moving and choose which securities you wish to move. It is not an "all or nothing" scenario. You should question your broker if he or she has suggested that you liquidate non-portable securities when the broker moves to a new firm or anytime immediately prior to such a move. Make sure that the liquidation is in your best interests.

Yields and Rates of Return

You should ask what investment vehicles, if any, are available for cash in your accounts. Also ask whether the new firm will automatically sweep your cash into money market funds or bank accounts, and if to bank accounts, is the bank affiliated or unaffiliated. If investments are made available for your cash, you should ask what the interest rates are. If you keep significant assets in cash, differing rates may significantly impact your returns. You also may wish to ascertain the availability of tax exempt money market funds if you are in a high tax bracket.

Products and Services

What new products will be available, or conversely, what products that you have purchased in the past or might consider purchasing will be unavailable at the new firm? Naturally, different brokerage firms may offer different products. If there is a family of mutual funds that you have found useful in the past, you may wish to see if those funds are available at the new firm. If you invest in municipal bonds, you may wish to know whether the new firm is an underwriter or an active market maker in them. Where research on investment opportunities is important to you, you may wish to know the coverage and reputation of the new firm in this area. Whether the new firm conducts an investment banking business can be important if you seek access to initial public offerings. That fact is also important in weighing potential conflicts of interest.

As an educated customer, you can make an informed decision and better determine the mix of advantages when you know the questions to ask and ask them. After all, it's your money.

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