

Investors unclear about job of broker

Many clients view broker as financial adviser even though they're not regulated like one

By **Andrea Coombes**
CBS MarketWatch

SAN FRANCISCO: Is your stockbroker a salesman or a financial adviser?

More than half of investors in a survey released Wednesday said brokers primarily offer financial advice, or that brokers' advice is as important as their help with sales transactions.

But brokers are not regulated the way other advisers are - they're not held to have a fiduciary responsibility to clients as registered investment advisers are - though brokers are increasingly billing themselves as "advisers," according to the Consumer Federation of America and the Zero Alpha Group, a network of advisory firms, which commissioned the survey.

"The brokers have pretty much said 'OK, we can act like an investment adviser now,' even though they're not regulated like one," said Brent Brodeski, managing director of Savant Capital Management. "What used to be a fairly clear distinction between a broker and an adviser is fuzzy and getting fuzzier by the day."

The question of what, exactly, brokers do and how those actions are regulated is at the crux of a sizzling debate between the CFA and the financial-planning community on one side, and brokers, in the form of the Securities Industry Association, on the other.

For its part, the Securities Industry Association says the rules governing brokers are different but equally strict, and that brokers in brokerage firms are vet-

ted more often than independent financial advisers who often work in small shops.

In the middle of the argument is the Securities and Exchange Commission, which, after being sued by the Financial Planning Association earlier this year, agreed to decide on a proposed rule by the end of the year.

The rule, proposed by the SEC in 1999 and never finalized, regards brokers' advisory capacity, and essentially states they aren't covered by the stringent Investment Advisers Act that governs other financial advisers as long as the advice offered clients is "solely incidental" to the brokerage services offered.

That's too vague a term for the Consumer Federation of America.

"The fact that investors don't understand that brokers are salespeople is a direct result of two decades' worth of decisions by the SEC that have allowed

brokers to remake themselves in the image of advisers without requiring them to comply with the investor protection rules that govern advisers," said Barbara Roper, director of investor protection at CFA.

Twenty-eight percent of investors surveyed said brokers' primary service is offering advice, and another 25 percent said advice was as important as offering sales-transaction help, according to the survey of about 1,000 investors conducted for the Consumer Federation of America. The survey has a margin of error of plus or minus 3 percentage points.

Investors with higher incomes had a similar perspective: Among those in households earning \$75,000 or more, 29 percent said brokers' advice was their key service and 27 percent said brokers' advice and sales-transaction help were equally important services.

When asked, "If a stockbro-

ker and a financial planner provide the same kind of investment advice services, do you think they both should have to follow the same investor protection rules," 91 percent of respondents said yes.

Of concern to investment advisers is that more brokerage firms appear to be promising financial advice and wealth management, but are not governed by laws requiring them to put their clients' interest first.

"We believe the SEC had imagined (brokers offering) very minimal advice, if any," said Brodeski, of Savant Capital Management.

Investment advisers are, by law, fiduciaries for their clients, while brokers are held to what some argue is a lower standard of responsibility to clients.

"The relationship between a broker and their customer is one where they sell a product . . . it's a buyer-beware relationship," Brodeski said.