

TEN FACTORS OFTEN OVERLOOKED IN SELECTING A BROKER-DEALER – A DUE DILIGENCE THOUGHT PAPER

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Choosing a broker-dealer can seem as unsettling as walking a tightrope – maybe even without a net. But the decision process is much easier if you use a thorough due diligence checklist and let your values guide your decision.

Due diligence is key to selecting the broker-dealer and/or RIA that will best meet your needs, now and into the future. A quality firm will want to ensure that you choose the firm that is right for you, even if it means that you choose a competitor. They will recognize that running a business is a challenge, even with the best relationships, and a mismatch is a mistake for everyone involved.

At Cambridge, we pride ourselves in offering a consultative approach to helping advisors who are considering a new broker-dealer – because it's their business and their decision. We have kept notes along the way, and following are some thoughts on the 10 factors we believe you should include in your due diligence checklist:

1. Financial Stability versus Financial Strength:

Size does not necessarily translate into stability – the idea that some firms were “too big to fail” is now recognized as a myth revealed during the market collapse of 2008-2009.

Cambridge is proud of our financial statements and will provide you with a copy at your request. You can compare ours to other broker-dealers you are considering, and we urge you to look carefully and consider whether their operating profit and cash flow

are healthy in this time of market recovery. If their financials are weak now, can they weather future market corrections without cutting service, quality, or payout?

2. Size: Like Goldilocks, you need to find the broker-dealer that is right for you... not too big, not too small.

Cambridge continues to grow, and its family includes more than 3,000 independent financial professionals. We enjoy healthy operating profit and increasing revenues – allowing us to give back to advisors in ways that allow for mutual success. For example, our advisor-focused approach to technology, social networking, practice management, and marketing literature rate among the best in the industry.

3. Quality of Management: In reality, stability is most often driven by quality of management and the level of expertise of those at the helm. Firms focused on minimal debt, long-term planning, and investing in meaningful value for advisors are the hallmark of a well-run broker-dealer. And, demonstrated bench strength is equally important to long-term success.

4. Fee/Hybrid Model Leadership: If you desire flexibility in how you serve your clients, including a commission-based, fee-based, or hybrid approach, make sure your broker-dealer can support your choice of business model. Many firms may purport to support fee business, but they may be very limited in what they can really offer. Ask the broker-dealer how they allow you to manage fee accounts and the impact on your business.

Cambridge is recognized as the pioneer of the hybrid model and the expert on fees. We can help you better understand the full spectrum of fee arrangements. We offer a “your RIA or ours” approach, and allow you to charge for financial planning while giving you the ability to use a variety of platforms and asset-based fee methodologies. We also offer block trading and other tools to help you efficiently manage your discretionary accounts.

5. Regulatory Compliance: You can easily check on a broker-dealer’s compliance track record through FINRA’s website. A quality firm will have minimal regulatory, arbitration, and bond disclosures. Go to <http://brokercheck.finra.org>.

We pride ourselves on offering “common sense compliance” support to our advisors for their independent businesses. How do we do it? We invite quality advisors who share our values to join our firm. Are you interested in taking a look at Cambridge according to FINRA? Go to <http://finra.org/investors/toolscalculators/brokercheck>.

6. Product Due Diligence: Recent media headlines have frequently called out the sales of “problem programs”, especially private placement offerings no longer covered by most E&O insurers. Ask the broker-dealer if they have any exposure to issues in the headlines and ask them about the process they have in place regarding product due diligence.

Cambridge has a thorough due diligence process that, thus far, has allowed us to avoid virtually all of the issues cited in media headlines while offering a broad and robust product footprint. We invite you to ask questions and carefully examine our due diligence process.

7. High Payouts with Hidden Fees or Haircuts: Some firms will offer high payouts and transition packages to get your attention, only to take much of it away from you through affiliation fees, mark-ups, or platform fees that you may not think to ask about. Some firms may also finance high payouts and transition packages with proprietary products, sales of riskier products with higher commissions, or by aggressively recruiting marginal producers.

At Cambridge, we have found the best way to create a compensation program is to customize it according to the advisor. This allows us to introduce total flexibility in all we provide, including payout, platform costs, ticket

charges, and ancillary fees – and all are negotiable in our customized approach. Of course, this also includes transition packages which are always fully negotiable. We believe our customized approach is appealing to many advisors and offers us a competitive edge.

8. Clearing Firm: Changing broker-dealers is tough enough without the additional burden of changing clearing firms. There are additional costs involved, and it takes substantially more time to transition to a new clearing firm as your staff will spend many hours learning a new system and likely cleaning up errors that could impact your clients. If you select a broker-dealer that uses the same clearing firm as you currently use, headaches will be minimized for you, your staff, and your clients. The challenge is finding the right broker-dealer who also uses your choice of clearing firm.

In keeping with its commitment to offering choice to advisors, Cambridge clears through NFS, Pershing, and others. We believe the choice of clearing firms is yours, not ours.

9. Flexible Technology: Some broker-dealers dictate technology for use in your business, and changing a CRM or financial planning tools can place a heavy burden on your business, in terms of learning curve and transition of process and information.

At Cambridge, we believe allowing you to choose to keep technology you like is important to you, and ultimately, your clients. We actively support a variety of CRM, financial planning, and research tools – and we think it is highly likely you can join us and be able to use what you use today. Of course, if you’re not happy with what you are using, we have the expertise and resources to help you consider and choose alternatives.

10. Recruiting: Various broker-dealers may seem to focus too much on recruiting new advisors and too little on keeping promises to recruits and existing advisors. In addition, if you are an OSJ supervisor or branch builder, you may be looking for a broker-dealer that will also support your recruiting strategy.

At Cambridge, we believe it is both a privilege and an obligation to serve our family of advisors. We work for you – you do not work for us. We continually assess feedback as to how we are doing, including an annual satisfaction survey.

If you are a recruiting branch, you will not find a better broker-dealer than Cambridge. We have extended the recruiting success we enjoy as a firm to offer focused support and resources to help you be successful in your recruiting effort. We encourage you to ask us about our branch building program, or better yet, we invite you to join us at one of our Branch Builder Recruiting Forums and hear directly from our existing Cambridge branch builders as to how we partner with them in their recruiting efforts. You'll be glad you did.

Most Importantly, Culture: You need to find the broker-dealer that is right for you and helps you serve the needs of your clients. You need to understand your broker-dealer, and more importantly, they need to understand you. In addition, as an independent financial professional, you may be most interested in a broker-dealer that supports your independence.

As the Cambridge family continues to grow to include over 3,000 independent financial professionals, we remain committed and focused on personal service with integrity, commitment, flexibility, and kindness as our cornerstone values. Just as your clients have the opportunity to choose you as their financial professional, you in turn have a choice in independent broker-dealers.

Selecting the right broker-dealer is as important a decision as choosing a life mate. The right partner will add to the quality of your life and help you accomplish more on your path to success.

At Cambridge, we truly believe you control the journey. Call us – we are ready and willing to be tested by your due diligence process. And, we think we both will be pleased with the result.



About Kyle Selberg | Executive Vice President and Chief Business Development Officer, Member, Board of Directors and Executive Council

Kyle Selberg brings more than 30 years of financial industry experience to his executive leadership role. In addition to his oversight of the recruiting and transition services at Cambridge, Selberg also leads recruiting guidance and support for Cambridge's independent branch managers across the country. He also contributes in a collaborative executive capacity to the company's overall strategy for revenue growth, service, and profitability. Selberg's industry background includes tenure as a marketing vice president with Principal Financial Group. He also served as vice chairman of LIMRA's Financial Services Committee. He earned an MBA with a focus in marketing from the University of Northern Iowa. Selberg is a CFP® professional and holds FINRA Series 6, 7, and 24 licenses, as well as the ChFC® and CLU® designations.

About Cambridge

Cambridge Investment Group, Inc. is a privately-controlled financial solutions firm focused on serving independent financial advisors and their investing clients. Cambridge offers a broad range of choices regarding advisor-focused financial solutions: advice solutions, technology solutions, platform choice and business structure solutions, consulting solutions, and outsourcing solutions. Cambridge's national reach includes: Cambridge Investment Research Advisors, Inc. – a large corporate RIA; and Cambridge Investment Research, Inc. – an independent broker-dealer, member FINRA/SIPC, that is among the largest privately-controlled independent broker-dealers in the country.

Selective advisors choose Cambridge.
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