Brokers back regulator's tough stance on suitability

Knowing what is suitable is not always black and white, but brokers agree a crackdown will elevate the industry

May 15, 2015 @ 10:10 am
By **Mark Schoeff Jr.**

Brokers endorsed a move by their regulator, The Financial Industry Regulatory Authority ("FINRA"), **revising its Sanctions Guidelines**, which included raising its suggested suspensions to two years from one for brokers making unsuitable recommendations.

It also strongly advises possible barring of brokers and expulsion of firms for fraudulent activity.

Cracking down on suitability violations will help clients, said Jeremy Gottlieb, owner of Gottlieb Wealth Management. In reviewing investments of clients transferring to his firm, he often sees evidence that their portfolios were built on the basis of product sales rather than what is in their best interest.

Philip Swotkewicz, a senior vice president at **Merrill Lynch**, said Finra should get even tougher on brokers who put their clients in unsuitable investments. He likened the situation to finding out that a doctor was engaging in malpractice. "I would never want to go to that doctor again," Mr. Swotkewicz said. "It was a good move. I think they should go farther."

INVESTMENT PROFILE

The rule says that recommendations to buy or hold securities must be aligned with a customer's investment profile and take into consideration the client's age, financial situation, investment objectives, tax status, investment experience, time horizon, liquidity and risk tolerance.

The regulator has targeted complex and risky products, such as variable annuities, alternative mutual funds, nontraded real estate investment trusts and structured notes.

"Putting an annuity inside an IRA is not suitable, yet we see it all the time," said John Nowicki, present of LCM **Capital Management**.