

How to Get More Complete Information From Your Client

Communication is a two-way street.

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There is a symbiotic relationship between broker-dealer, advisor and client. They all rely on each other to manage a relationship that can be effective only if each party is honest and provides complete information.

A broker-dealer relies on its compliance team to ensure that both the firm and its advisors adhere and operate in accordance to industry rules and regulations. Investment advisors on their part depend on their compliance and operations departments to stay informed about company policy and regulatory updates. Without their guidance, advisors would not be able to service their clients within industry regulations and parameters.

Advisors, in turn, rely on their clients to obtain accurate information to make suitable investment recommendations. Traditionally, an advisor gathers a suitability profile from the information provided by the client in the new account form. This document, completed by the client at the inception of the relationship, is of paramount importance in laying the foundation for a solid client/advisor relationship.

Unfortunately, an advisor is likely to start off a new relationship with an immediate disadvantage in the event the client is not forthcoming on the account form about their true financial picture. Reasons for a client to be reticent may vary from difficulty in understanding questions—such as the definition of “liquidity needs”—to privacy—not wanting the advisor or the firm to know his/her true “net worth.”

Regardless of the reason, failing to provide accurate information can cause the advisor to make an investment recommendation inconsistent or unsuitable for the client. Some examples of issues that can arise, due to lack of full disclosure by the client, include:

1. **Risk tolerance**--Without complete information the advisor may recommend securities that are either overly conservative or too risky for the investor.
2. **Over exposure to a particular security or sector**—Not knowing what assets the client holds at another firm(s) could lead to overexposure to a particular security or sector.

3. ***Tax-exempt versus taxable investments***--It is not feasible for an advisor to recommend a tax-exempt or taxable strategy without knowing the client's true tax status.
4. ***Cash balance in the investment account***--Advisor and client must agree on this topic before any funds are invested. While the client assets are likely invested in highly liquid instruments, liquidating the latter even soon after the purchase is made may be costly.

How can an advisor ensure that their client is providing them with a true financial picture? A simple analysis of the new account form can be quite revealing. Here are four helpful tips:

1. **Accurate annual income information:** A client reporting a yearly income ranging between \$100,000 and \$250,000 should raise a flag. Not too many professions, aside from sales, can generate such an income disparity year over year. A wide range of income reported on the new account form begs clarification.
2. **Tax bracket and annual income alignment:** Are the tax bracket and annual income figure provided by the client aligned? A client reporting a \$25,000 income from all sources and stating she is in a 26-30% tax bracket, definitively requires additional inquiries—either she doesn't know her tax bracket or is not being fully transparent about her income.
3. **Realistic time horizon:** Often, the client doesn't have a specific date in mind when they might need to access their funds. If in filling out the form the client left this field blank or provided a vague response, it pays to inquire further.
4. **Additional Investments section:** Most new account forms contain a section where the client can disclose assets held at other brokerage firms. Because it is not uncommon for a new client to omit this information, as they don't want to disclose other investment relationships, further investigation is highly recommended.

Establishing from the onset a sound relationship with a new client is of utmost importance. To achieve this goal, an advisor should leverage the expertise and assistance of his compliance team to assist in both collecting and deciphering client information. The compliance department can help take a deeper dive into the new account form and look for “holes” and inconsistencies in the data provided by the client. Both clients and advisors should recognize the importance of communicating complete and honest information. Ultimately, communication is a two way street.

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