



## Nexus Notes

February 2015

Friends,

Independence can be a scary thing. It offers freedom and fear. Freedom to do what you want; fear that what you do will lead to unintended consequences.

Independent, yet not alone. Being independent, however, does not mean one cannot have support. I have chosen to work with an organization that allows me to be independent insofar as I can run my business in a way that I feel will be the most beneficial to my clients. However, the organization also provides support so that I have the guidance I need to operate within the myriad of rules and regulations that different regulatory agencies impose. Cambridge Investment Research, Inc. is an independent, privately controlled broker-dealer with over \$65 billion assets under management. Cambridge has been honored as 'Broker Dealer of the Year' for 2014, 2013, 2012, 2010, 2008, 2007, and 2003 by Investment Advisor magazine\*. Cambridge does not manufacture its own investment products nor does it offer incentives to its representatives to meet revenue goals based on types of business.

No strings attached. You may remember that when we first met and discussed what I do, I probably described it by saying something like, "I'm an independent advisor." As an independent, I am free to research and provide what I feel are the best products and services for my clients. Cambridge provides support in this area by doing due diligence on those products and services to make sure they are thoroughly vetted and sound.

Why am I bringing up independence now? I read an article recently regarding the complexity of compensation plans in the four biggest retail brokerages.<sup>1</sup> A former advisor and branch manager with Merrill Lynch, Brad Stratton, had this to say, "The way firms structure broker incentives reflects their priorities and outlook." "It's reasonable to see (Merrill Lynch's) most recent compensation tweaks – especially those encouraging more bank-product cross-selling—as signs Bank of America, its corporate parent, wants to make the most of (its ownership of Merrill Lynch)."

I'm sure that representatives of Merrill Lynch can still run their businesses as they see fit. However, if they are being "encouraged" toward certain behaviors, are they truly independent? Erik Strid, a former broker with Wells Fargo and Merrill Lynch, says these incentives don't work for all advisors. "They work best on those who are focused on every nuance of the compensation system—and there are a lot of them out there.' However, more client-centric advisors are frequently oblivious to their employers' compensation plans. 'They're too busy serving their clients to follow every twist and turn of the payout.'"

I hope that you had a wonderful holiday season. 2015 is upon us and the markets started out in a bad mood. As I write, they had turned around and are hovering at record high territories. We have had an extraordinary run over the last 5 or so years. Economies around the world are still in recovery mode which means we will likely continue to see fits and starts in the markets. Just remember to keep your eye on the long term horizon.

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<sup>1</sup> Thomas Coyle, "Wirehouse Comp Plans are Complex for a Reason," Financial Advisor IQ, January 5, 2015

\*Investment Advisor magazine, 2014, 2013, 2012, 2010, 2008, 2007, Division IV; 2003, Division III. A broker-dealer becomes eligible for this honor only after a minimum of 10% of its producing rep-advisors cast valid ballots. The ballots rate the broker-dealer in 15 different categories defined by Investment Advisor as relevant challenges and concerns. Broker-dealers receiving the highest marks in each of four are declared Broker-Dealer of the Year. Results are based on experiences and perceptions of participants surveyed in June of each of the years listed. Experience may vary. Visit [advisorone.com](http://advisorone.com).

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