

Street Level



Paying to Play?

Now that word has gotten out that the SEC is investigating potential conflicts of interest surrounding institutional consultants and their business dealings with asset managers, retail financial consultants might do well to examine their own relationships with asset managers.

At issue with institutional consultants—the pros who advise pensions, endowments and other institutional investors on selecting asset managers—is their business dealings with the very money managers they are theoretically recommending on an objective basis. The problem, according to the SEC and money managers I know, is that consultants often have cozy relationships with asset managers; that is to say, some consultants accept money from managers—tens of thousands of dollars—to participate in "educational" gatherings or in fact have other business dealings, with the managers paying the consultants.

This isn't exactly applicable to the retail advisor set. Or is it? Many of the best brokers today position themselves as high-end institutional-like consultants, what with their intense due diligence and screening of all kinds of managers in various asset classes. And many advisors claim to perform the tasks that pension consultants employ, including creating investment policy statements and setting asset allocation strategies.

Meanwhile, many of these same advisors accept the sort of compromising gifts and gratuities that have placed institutional consultants under the microscope. For instance, how many of you accept money from mutual fund or separate account managers for client dinners, investment seminars or even client fishing trips? Yes, if it's for education, it's OK. And meals aren't, strictly speaking, considered gifts either. But remember: The NYSE and NASD have rules that stipulate that no gift can be over \$100. Those Knicks or Yankees tickets you receive from your mutual fund wholesaler, the ones he gives you because you are such a good client? Well, most likely those are worth more than a hundie, and, quite possibly, your client might not be impressed at such largesse.

"Its going on a lot;" says **Richard Roth**, a securities attorney with **The Roth Law Firm** in New York and an occasional columnist for this magazine. 'A lot of these brokers could be crossing the line. And Spitzer and the SEC, they know no boundaries. They would love to get a hold of the expense accounts of some of these firms.'

Best refamiliarize yourself with NYSE Rule 350 or visit the NASD Manual Online, Rule 3060. Remember: If it appears that an asset manager is paying for your business, he might actually be.

A handwritten signature in black ink, appearing to read 'David A. Geraciotti'.

David A. Geraciotti

Editor