

## Services for High Net Worth Investors and Family Offices: Case Study B Longstanding Brokerage Links



### Situation

- A family office came to Manager Analysis via a referral from a Family Office that we assist. The family leader had managed wealth carefully, and he benefited from the stock market's long-term performance. However, because he had kept portfolio management considerations away from his children, and because the entire family wanted to plan for an orderly transition of responsibilities, the family asked Manager Analysis to review the family's portfolios and identify any material threats to the assets.
- The next generation was generally pleased with their current holdings, comprised primarily of liquid, larger cap equities, and muni bonds, and they did not want to alter the strategy. They also valued their operationally conservative profile and comparably simple legal structures. Virtually all of the assets were held directly and so the family was in a good position to control the timing of transactions to avoid unnecessary capital gains taxes.

### Findings

- The broker was attempting to gain discretionary control of the family's portfolio through sleight of hand.
  - Buried within a simple "principal transactions agreement" was a commitment for the family to a second agreement, granting the broker full discretion. The family did not sign the form because of our strongly delivered advice.
- While portfolio turnover was low, the broker was charging commissions of 1% to 2% on large stock trades. He was seeking the opportunity to liquidate the entire estate's liquid holdings to receive a \$1 million commission. Comparable commissions would be about \$125,000.
- We also conducted reputational reference checks on the broker and found that he had been placing clients into the highest commission investment products permitted by his brokerage firm.

### Resolution

- We assisted the family in establishing accounts at other brokerage firms, who charge zero or near-zero commissions on equity trades, and we are currently in the process of moving their holdings.

**Want to learn more? Please contact Chris Cutler, Tom Donahoe or Safia Mehta at 917 287 9551.**