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SEGMENT
WEALTH MANAGEMENT, LLC

July 17, 2017

Mr. Jay Clayton
SEC Commissioner
100 F Street, NE
Washington, DC 20549

Dear Mr. Clayton,

A Wall Street Journal article recently said you are seeking public input on the fiduciary standard issue. As a former top producer for Smith Barney and UBS, a former branch manager, former FINRA arbitrator, and current CEO of a large fiduciary-only RIA firm, I bring a full spectrum of experiences to bear on the topic with my 33-year career.

While an industry-wide fiduciary standard is an admirable goal, the current proposal offers impractical deployment with likely unintended consequences, and seems destined to create more problems for consumers and the industry than it will solve. The riskier standard of care, and costly compliance oversight will drive consumer costs higher than current norms and leave many clients with fewer choices. The firms will simply pass along the costs. This will drive a sharp contraction of services at the low end. The simple fact is that many clients benefit in some ways from wide and disparate pricing of services. Not all client business is better delivered with a non-commission model. Additionally, while IRA's are an important part of a client's retirement plan, singling those accounts out for increased care or scrutiny is foolhardy and an incomplete step. Far more money is invested in non-IRA accounts and these accounts should enjoy those same protections if at all. With a fiduciary standard, small investors will become a pariah, generating more risks than fees. It is also true that an investor left to their own devices is worse off than one who paid too much in fees, so be careful what you wish for.

The problems in the brokerage business are many: Kickbacks, 12b-1 fees, pay to play, quid pro quo, incomplete mutual fund cost reporting, soft money deals, managed account research and trade swapping, manager "evaluation" fees, etc. all create a Petri dish of conflict of interest. When a brokerage directs client business to an outside money manager who also runs a mutual fund, the brokerages have 18 ways they can monetize that relationship. That will not end with a fiduciary overlay, it will simply manifest in other ways. The currently proposed fiduciary standard would still allow numerous questionable practices to continue, or be morphed into others by stacking old conflicts squarely on non-IRA accounts.

Cleaning up the industry will require a greater legislative dive to specifically prohibit the conflicted underlying activities that would likely survive. This would be a monumental

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undertaking, and would result in a vigorous backlash and resistance from one of the best funded, heavily lobby represented, and politically generous groups in America. I'm sure you are prepared for your most effective solutions to be met with evermore apoplectic responses.

I suggest you start small and put the industry on notice about practices that FINRA and the SEC find problematic. Start with the list above. Europe has already begun the process of cleaning up their version of this mess with MiFID 2. Then simply require the brokerages to bifurcate advisory and brokerage guidance. One way to do that would be to require separate and mutually exclusive licensing. Handling both types of business simultaneously in client counseling is at the core of client confusion about what fiduciary actually means and how it affects them. By allowing advisory and brokerage to coexist, the result will be that brokers will adapt by masterfully weaving "fiduciary" into the conversation just before they swap to their broker hat, leaving clients more bewildered than ever.

Surely you recognize the problem requiring solution is not the lack of fiduciary choices, because they are abundant. It lies in the intermixing of a trusting relationship with fiduciary advisory and conflicted brokerage practices seamlessly, whereby the customer cannot tell which hat the advisor is wearing. A clearer delineation would go a long way toward allowing clients a clearer choice in how they handle their business. With a proper framework, even neophyte investors will be able to sort out their most economic path, and choose the services they wish to pay for, and at what price.

Best Regards,

Gil Baumgarten
President
Segment Wealth Management, LLC