Study Slams Finra's BrokerCheck as 'Worthless' in Protecting Investors, Names 30 'Worst' Firms

By ***Jed Horowitz*** *-*

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A new study on stockbroker misconduct blasts BrokerCheck as unusable and names six broker-dealers that the authors say should be labeled as poisonous.

In a stinging critique of the Financial Industry Regulatory Authority and the independent brokerage industry, economists at a private consulting firm released a study denigrating Finra's BrokerCheck database as "worthless in its current hobbled form" for investors seeking to isolate themselves from bad advisors.

The securities industry-financed regulator could easily tweak BrokerCheck to allow investors and analysts to identify firms with higher-than-average numbers of miscreant brokers, according to Securities Litigation & Consulting Group, a Fairfax, Va.-based firm that offers expert-witness testimony on behalf of investors.

In a 41-page paper released on its website this week. SLCG went a step further than anacademic working paper earlier this year which concluded that 7.8% of all registered brokers have "financial misconduct disclosures" that are strong predictors of future problems.

That paper restricted itself to larger firms with 1,000 or more brokers registered since 2005 and listed Oppenheimer & Co., Wells Fargo and UBS as among the worst U.S. broker-dealers measured by advisors with BrokerCheck events.

Company Name	# Brokers	% w Disclosure Events*	% Fired by a Firm**
Aegis Capital Corp.	444	24.10%	4.73%
Summit Brokerage Services	676	19.08%	9.62%
National Securities Corp.	760	18.83%	5.53%
Centaurus Financial, Inc.	682	16.20%	6.40%
Independent Financial Group	638	14.11%	7.84%
Kovack Securities Inc.	434	13.36%	13.13%
Oppenheimer & Co. Inc.	2217	12.48%	4.33%
Wedbush Securities Inc.	634	12.15%	5.05%
Investors Capital Corp.	641	11.23%	6.08%
Wunderlich Securities, Inc.	459	11.11%	4.58%

By extending its scope to firms with 400 or more registered brokers and to advisers registered since 2000, SLCG's draft study identified six brokerage firms with worse records, all of which are independent. (See accompanying table.)

"A lot of attention has been applied to Oppenheimer, but we shouldn't allow the firms like Aegis Capital and National Securities to skate," SLCG founder Craig McCann, a former economist at the Securities and Exchange Commission, said in an interview.

The paper, titled "How Widespread and Predictable Is Stock Broker Misconduct," puts it more colorfully. "The BrokerCheck reports for most of the brokers at these six firms should prominently display a skull-and-crossbones warning," write McCann and his associates Chuan Qin and Mike Yan.

Officials at five of the six firms did not reply to requests for comment on the paper.

"McCann is a highly-paid, hired gun who has spent the vast majority of his career testifying for people suing broker/dealers," Centaurus Financial Inc. Chief Administrative Office Jerry Duhovic wrote in an email. "It appears to many that this study was authored in an attempt to further his own business."

He said SLCG, which ranks Centaurus as the fourth-worst firm measured by brokers with disclosure events, was not given the opportunity to test or confirm the data used by the consulting firm.

While the SLCG paper calls out specific firms, it directs most of its statistical venom toward a working paper released last August by Finra's Office of the Chief Economist.

That study, "Do Investors Have Valuable Information About Brokers," concluded that Finra's database of disciplinary records, financial disclosures and employment histories has "significant power to predict investor harm" and allows "investors to discriminate between brokers with a high propensity for investor harm from other brokers."

SLCG responds that even professional analysts find BrokerCheck difficult to mine.

"Finra does not meaningfully make publicly available the BrokerCheck data it is required to make publicly available," the paper says. "We find that BrokerCheck is worthless in its current hobbled form, but that it could easily be modified so that market forces might substantially reduce broker misconduct."

In an interview, McCann said the paper's principal objective is to shame Finra into making its reams of data on brokers and their firms more accessible for investors and analysts alike so that they could easily contrast and compare industry players.

"With access to the data, you could rank hundreds of brokerage firms," he said. "FINRA has a pinprick hole that they allow the data to come through. They need to open the floodgates."

FINRA officials say they are studying the critique.

“We are considering internally whether to make this data generally available,” spokesman Ray Pellecchia wrote in an e-mail.

BrokerCheck includes information on more than 1.2 million former and current registered representatives, but does not allow any relational comparisons to be made. McCann said that by adding a single datapoint, such as the percentage of brokers at an employer with ‘investor harm events,’ BrokerCheck could be immensely more useful.

“What really matters is, ‘Am I at a firm like Centaurus, or is it like Goldman Sachs,’” McCann said.

Finra’s own study and the one earlier this year from professors at the University of Chicago and the University of Minnesota concur that bad brokers are contagious. They find that “the risk of misconduct by a broker is significantly increased if he or she works with co-workers who have previously committed misconduct,” the SLCG paper notes.

Centaurus’ Duhovic said that BrokerCheck data is easily misread if taken out of context. The firm offers products and services to a high percentage of “experienced, long-tenured brokers,” he wrote, making them vulnerable at some point in their careers to complaints from one or more disgruntled customers.

Firms with pure retail practices will almost inevitably have a higher percentage of brokers who “suffer a disclosure event” than larger investment banks whose registered institutional salespeople and traders do not attract retail complaints, he wrote.

BrokerCheck lists all complaints from investors, even if they have been withdrawn or dismissed by firms or arbitrators, unless brokers seek to expunge them through arbitrations..

—Hilary Johnson contributed to this story.

30 Firms Most Harmful to Investors*

Rank	Company Name	# Brokers	% w Disclosure Events*	% Fired by a Past Firm**
1	Aegis Capital Corp.	444	24.10%	4.73%

2	Summit Brokerage Services	676	19.08%	9.62%
3	National Securities Corp.	760	18.03%	5.53%
4	Centaurus Financial, Inc.	602	16.28%	6.48%
5	Independent Financial Group	638	14.11%	7.84%
6	Kovack Securities Inc.	434	13.36%	13.13%
7	Oppenheimer & Co. Inc.	2217	12.45%	4.15%
8	Wedbush Securities Inc.	634	12.15%	5.05%
9	Investors Capital Corp.	641	11.23%	6.08%
10	Wunderlich Securities, Inc.	459	11.11%	4.58%
11	UBS Financial Services Inc.	12,555	10.97%	0.75%
12	First Allied Securities, Inc.	1179	10.35%	4.16%
13	Next Financial Group, Inc.	796	9.42%	2.64%
14	VSR Financial Group, Inc.	511	9.39%	1.37%
15	Sterne Agee Finl. Services	580	9.14%	6.03%
16	Wells Fargo FiNet	1993	8.83%	1.51%
17	American Portfolios Finl.	838	8.71%	4.30%
18	Morgan Stanley SB	23,782	8.68%	0.63%
19	Raymond James & Associates	5812	8.40%	1.74%
20	Janney Montgomery Scott	1369	8.33%	2.12%
21	Stifel, Nicoulaus & Co.	4588	8.28%	2.46%
22	Sigma Financial Corp	678	8.11%	2.80%
23	Investacorp, Inc.	500	7.80%	3.40%
24	Wells Fargo Advisors, LLC	26319	7.59%	1.17%
25	Securities America, Inc.	2662	7.18%	2.29%
26	United Planners' Finan Serv	510	6.86%	3.73%
27	Girard Securities, Inc.	477	6.50%	3.98%
28	Cetera Advisors LLC	1,618	6.49%	2.97%

29	National Planning Corp	1,815	6.45%	2.09%
30	Purshe Kaplan Sterling Inves	1,229	6.35%	2.69%

*Ranked by number of disclosure events on Finra’s BrokerCheck database

**Rankings are for firms with 400 or more registered brokers; firing refers to at least one termination after allegations of misconduct

Source: Securities Litigation & Consulting Group