The 10th Annual

For the past 10 years, *Investment Advisor* has published their list of "the 25 most influential people in and around the advisor universe." Selections are made by the editorial staff of the Investment Advisor Group, which includes the magazines *Investment Advisor,* and *Research* as well as AdvisorOne.com.

The IA 25 for 2012

Elliot Weissbluth, CEO
HighTower

Amy Webber, President and COO
Cambridge Investment Research

Charles Biderman, President and CEO
TrimTabs

Chip Roame, Managing Partner
Tiburon Strategic Advisors

Dale Brown, President and CEO
Financial Services Institute

Mohamed El-Erian, CEO
PIMCO

Eric Clarke, President
Orion Advisor Services

John Bogle, Founder
Vanguard

John Peluso, President
Wells Fargo Advisors Financial Network

Jon Henschen, President
Henschen & Associates

Mary Schapiro, Chairman
Securities and Exchange Commission

Michael Kitces, Partner and
Director of Research
Pinnacle Advisory Group

Richard Lampen, President and CEO
Ladenburg Thalmann

Robert Pozen, Chairman Emeritus
MFS Investment Management

Tom Nally, President
TD Ameritrade Institutional

Allen Stanford and **Jon Corzine**

Phyllis Borzi, Assistant Secretary,
Department of Labor
Employee Benefits Security
Administration

Joshua Brown, Vice President,
Investments
Fusion Analytics

Jud Bergman, Founder and CEO
Envestnet

Julie Littlechild, Founder and President
Advisor Impact

Mario Draghi, President
European Central Bank

Mark Tibergien, CEO
Pershing Advisor Solutions

Xi Jinping, Vice President
People's Republic of China

Dr. Kent Smetters, Founder
Veritat Advisors

Larry Roth, CEO
AIG Advisor Group

Jon Henschen: The 2012 IA 25 Extended Profile

By Danielle Andrus
Invesment Advisor, May 2012

President of Henschen & Associates, a broker-dealer recruiting firm, Jon Henschen likens the torrent of regulatory changes the industry has seen recently to "having a cut on your finger, and they're cutting your arm off to repair it."

Henschen has more than 20 years in the industry, and his insights into the independent broker-dealer channel have been published by no less an authority than *Bloomberg, The Wall Street Journal* and (full disclosure) *Investment Advisor.*

While the Dodd-Frank Act's effect was largely felt by wirehouses and big banks, the independent channel hasn't escaped increased bureaucracy that, Henschen says, is "grinding down the business." For example, "the 'know your customer' rule allows broker-dealers to take a risk-based approach to implementing new suitability factors, but it's doubtful that broker-dealers and regulators will see eye to eye on how the changes are to be implemented or documented, how firms endeavor to educate their advisors," he says.

> **"Regulatory changes are like 'cutting your arm off' to heal a cut on your finger."**

Henschen anticipates an increase in "frivolous lawsuits" as a result of regulatory changes. "I had one chief compliance officer that characterized the new changes as 'unreasonable, unrealistic and virtually unenforceable,'" he recalls. "Of most concern to the CCO was the added liability the new requirements presented to registered reps and BDs, like when, for example, a customer files a false complaint in an attempt to recoup market losses. This rule will be a boon to claimants' lawyers and will simplify their jobs tenfold."

Prior to FINRA, Henschen said, audit exam teams tended to be staffed with individuals who had worked for many years in the industry. "Today, we see exam teams staffed by twenty-somethings who have never seen a back office until their first assignment. They're hostile, they're paranoid and they seem eager to take their first industry scalp," he says.

This new breed, Henschen says, actually seems disappointed if they don't find the violations they're expecting. Henschen related a broker-dealer's experience with an auditor who had no prior securities business experience and had only two weeks' training before conducting the audit. "The quality of preparation and training given to people conducting broker-dealer audits has fallen off a cliff. It's a world of difference, and we hear this repeatedly," he says.

Broker-dealers are afraid to speak up, Henschen says, because if they do "they get their head lopped off, and they become the enemy." Now, FINRA is being a dictator and threatening. "The firms are supervised in regions; there are six different regions and each region seems to have their own pet peeve," Henschen says. "I can talk to a few broker-dealers in one region and they're under the wire for not hiring reps with credit and bankruptcy problems, and if they do they're basically threatened by FINRA that they're going to make their life difficult and they're going to be under the microscope."

It's been a change for the worse at many levels, Henschen admits, but he's quick to point to firms like the Financial Services Institute which are "out there fighting the fight. They're basically doing now what the wirehouses have been doing for many years, which is spending a lot of money to influence Washington," Henschen says. "On a macro view, what that really is, is crony capitalism. Instead of the free markets dictating who the winners and losers will be in the industry, those who spend the most money will. The independent channel is joining that team. Without spending, they're at the mercy of regulators."

Being with a broker-dealer that'll dodge the continuing problems with alternative investments will be a challenge advisors have to contend with in the near term. "We continue to see things coming out," Henschen says, referring to problems with various types of alternative investments. "Decaying REITs and other problematic alternative investments could come out of the woodwork. That's been a problem for the past couple of years and apparently isn't going to stop."

Another difficulty advisors can expect to face is adapting to new regulations and how fiduciary rules affect them. Henschen believes the fiduciary issue will affect wirehouses more than the independent channel, but altogether, it's about surviving regulators. "One of the worst damages of increased regulations is they're driving smaller firms out of business," he says. "The emphasis more and more is on compliance supervision. Big firms can afford to do that. Smaller firms can't afford it as much, especially firms under 100 reps. They hurt the little guy."

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