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Financial advisers bristle at SEC's pitch to redefine 'accredited investor'

Most think the net-worth limits should be raised, not lowered, when it comes to private and exotic products

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By **Jeff Benjamin**

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(Bloomberg)

Financial advisers rejected a recommendation Friday from the acting chairman of the SEC to increase investor access to private and exotic investment strategies that are usually reserved for rich people.

"I think this is an awful idea, as awful as ideas come," said Scot Stark, owner of Stark Strategic Capital Management.

Reacting to comments made on Friday by acting Securities and Exchange Commissioner Michael Piowar, which recommended **allowing more retail-class investors access** to investments currently restricted to people with a net worth of at least \$1 million, a lot of advisers didn't see the logic.

"Any guidelines that help to protect the investor consumer is a positive," said Mark Germain, chief executive of Beacon Wealth Management.



"As an adviser, it is easy to see that many clients do not understand the investments that some may offer to them," he added. "The accredited investor rule puts an onus on the adviser to be sure the investor understands the risk and is willing to take the risk."

During his **speech Friday**, Mr. Piwowar referenced the "forgotten investor" and said the **current accreditation rules** limit access to types of investments that could increase portfolio performance and diversification.

"I question the notion that non-accredited investors are truly protected by regulations that prevent them from investing in high-risk, high-return securities available only to the Davos jet-set," he said.

But most financial advisers are questioning the logic of increasing access to products and strategies that typically come with higher fees, less liquidity, and less regulatory oversight.

"I don't think it's a good idea," said Rose Swanger, president of Advise Finance.

"The rule is there for a reason, as a safeguard to manage folks' emotions and prevent one's momentary euphoria at a dinner seminar in a fancy steakhouse," she added. "The industry's newly proposed fiduciary rule is about to put clients' interests first, how will this help or improve that goal when scrapping off the accredited investor rules?"

While Mr. Piwowar has tried to revisit the debate by challenging the logic of **equating income and net-worth with investor sophistication**, some financial advisers would actually support even less access to exotic investment strategies.

"Adjusted for inflation, the net-worth limit should be at \$3 million today if it is going to do what it was intended to do," said David Demming, owner of Demming Financial Services.

"The premise was that a sophisticated investor needed both the knowledge and the asset base in order to understand and absorb the risk," he added. "Watering down that standard makes no common sense."

Kashif Ahmed, president of American Private Wealth, agreed.

"I think the rule is already pretty lax," he said. "There are plenty of advisers who can't even understand all of the moving parts of these sophisticated products, let alone retail investors. It should be harder to get into these investments."

If such investments were more difficult to access, advisers like Tim Holsworth, president of AHP Financial Services, might not be dealing with a \$3 million allocation to a long-short hedge fund that he isn't happy with.

"Just because something is sophisticated doesn't mean it works," Mr. Holsworth said of the allocation that has generated 3% annualized returns and remains in the portfolio of one of his foundation clients because of a lock-up period.

"In my experience, the more sophisticated the hedge fund, the worse the experience has been," he added.



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