

# Rating Brokerage Firms by Their Complaint Histories Rather Than by Their Brokers' Histories

By Craig McCann, Chuan Qin and Mike Yan <sup>1</sup>

## A. Introduction

In our previous research, we ranked brokerage firms based on the proportion of their brokers on December 31, 2015 who had been associated with at least one resolved customer complaint<sup>2</sup>. That approach assigns a higher ranking to a firm if a larger proportion of its current brokers have one or more resolved customer complaint in their career, regardless whether the complaints occurred at their current employer or at a prior employer.<sup>3</sup>

Our new research ranks brokerage firms based on the frequency of customer complaints over conduct at each firm, including both resolved and pending. That is, we rank firms based on their history rather than on their current brokers' histories.

This alternative ranking does not penalize a firm for complaints lodged against its brokers over conduct which occurred at a prior firm but does include in a firm's risk score complaints over conduct that occurred at the firm even if the broker has since moved to another firm or left the industry.

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<sup>2</sup> See Table 22 of "How Widespread and Predictable is Stock Broker Misconduct?"

<http://slcg.com/pdf/workingpapers/McCann%20Qin%20and%20Yan%20on%20BrokerCheck%20Final.pdf>

Egan, Matvos and Seru likewise rank firms based on the quality of their brokers' lifetime of work, not just on complaints while with their current employer. See "The Market for Financial Advisor Misconduct":

<https://www.chicagobooth.edu/~media/b76c81efe39b4edb9a4b4d8b34d0b0f7.pdf>. A resolved customer complaint is defined as a FINRA arbitration settlement with a dollar amount above certain thresholds or an award in favor of the customer. FINRA's BrokerCheck website also lists the pending customer complaints. It might take years for a pending case to be dismissed, settled, or finalized.

<sup>3</sup> We use FINRA's BrokerCheck data which is incomplete because not all firms report all complaints and arbitration filings and because denied and expunged claims are removed from the public-facing BrokerCheck reports.

Comparing the results of the two ranking methodologies provides insight into whether firms' *hiring practices* or their *compliance and supervision culture* explain their relative incidence of customer complaints. For example, a brokerage firm that is rated as high-risk based on their current brokers' complaint histories may be ranked lower-risk based on complaints over the firms' history because the firm hires brokers with extensive customer complaints but supervises them closely and quickly terminates brokers who continue to elicit complaints. In this case, while the firm has hired brokers with checkered histories it nonetheless has managed to keep these brokers from causing additional complaints, perhaps by exercising strict supervision or adopting a low-risk business model.

On the other hand, a firm rated low-risk based on its brokers' entire registration histories might be rated high-risk based on the complaints over conduct at the firm. Such a firm might have hired brokers with a few or even zero complaints but placed them in a high-risk business model, supervised them laxly or tolerated productive brokers as complaints piled up.

In the remainder of this report, we first update our previous rankings based on updated BrokerCheck data. Then we present two firm rankings derived by explicitly assigning customer complaints to the brokerage firm rather than to the broker. Finally, we analyze the types of the financial products and investments involved in the recent customer complaints filed against the worst brokerage firms.

## **B. Ranking Firms Based on Firms' Current Brokers' Histories**

The worst 30 firms based on their current brokers' histories with more than 200 brokers are listed in Table 1, using BrokerCheck data as of July 17, 2017.<sup>4</sup> These bad firms are familiar. In our previous publication, we reported rankings of firms with 300 or more brokers so Newbridge (#2), Financial West Investment (#6), Cantella (#16), Maxim Group (#17), Fortune Financial Services (# 19), The Investment Center (# 26), and Hilltop Securities (# 28) with between 200 and 300 brokers are new. The firms listed in Table 1 are well known for employing recidivist brokers and/or for operating a risky (for investors) business model.

The worst of these firms are truly extraordinary. Only 2.6% of the brokers at firms with more than 200 brokers have customer complaints. Aegis Capital and Newbridge employ bad brokers at nearly ten times that rate. The worst 12 firms down through Berthel Fisher employ bad brokers at more than five times the 2.6% average rate.

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<sup>4</sup> There were 307 firms with more than 200 registered brokers, based on BrokerCheck data as of July 17, 2017.

**Table 1: Worst Firms by Firms' Current Brokers' Histories of Resolved Customer Complaints**

Rank	Firm Name	Firm CRD	Current Brokers	Brokers w Complaints	% Brokers w Complaints
1	AEGIS CAPITAL CORP	15007	437	107	24.49%
2	NEWBRIDGE SECURITIES CORP	104065	206	50	24.27%
3	WESTERN INTERNATIONAL SECUR	39262	345	67	19.42%
4	NATIONAL SECURITIES CORP	7569	654	124	18.96%
5	SUMMIT BROKERAGE SERVICES	34643	788	133	16.88%
6	FINANCIAL WEST INVESTMENT	16668	213	32	15.02%
7	INDEPENDENT FINANCIAL GROUP	7717	619	91	14.70%
8	CALTON & ASSOCIATES, INC.	20999	309	45	14.56%
9	CENTAURUS FINANCIAL, INC.	30833	611	86	14.08%
10	WUNDERLICH SECURITIES, INC.	2543	328	45	13.72%
11	KOVACK SECURITIES INC.	44848	417	55	13.19%
12	BERTHEL, FISHER & COMPANY	13609	344	45	13.08%
13	OPPENHEIMER & CO. INC.	249	1934	229	11.84%
14	WEDBUSH SECURITIES INC.	877	555	64	11.53%
15	CROWN CAPITAL SECURITIES	6312	344	39	11.34%
16	CANTELLA & CO., INC.	13905	205	23	11.22%
17	MAXIM GROUP LLC	120708	241	25	10.37%
18	UBS FINANCIAL SERVICES INC.	8174	12237	1264	10.33%
19	FORTUNE FINANCIAL SERVICES	42150	207	21	10.14%
20	AMERICAN PORTFOLIOS FINANC	18487	811	79	9.74%
21	NEXT FINANCIAL GROUP, INC.	46214	661	58	8.77%
22	STERNE AGEE FINANCIAL SERV	18456	446	38	8.52%
23	STIFEL, NICOLAUS & COMPANY	793	4434	373	8.41%
24	SIGMA FINANCIAL CORP	14303	633	53	8.37%
25	FIRST ALLIED SECURITIES, INC.	32444	1063	89	8.37%
26	THE INVESTMENT CENTER, INC.	17839	255	21	8.24%
27	J.W. COLE FINANCIAL, INC.	124583	413	34	8.23%
28	HILLTOP SECURITIES INDEPEND	17587	256	21	8.20%
29	GENEOS WEALTH MANAGEMENT	120894	356	29	8.15%
30	WELLS FARGO ADVISORS FINANC	11025	1989	162	8.14%

### C. Ranking Firms Based on Firms' Histories' Brokers – Resolved Complaints

In Table 2, we report the worst 30 firms currently employing 200 or more brokers based on a ratio of brokerage firm harmfulness over the past decade. We compute the number of unique resolved customer complaints attributable to a firm that were filed between July 1, 2007 and June 30, 2016 divided by the average number of brokers employed by the firm at the end of each year over a 10-year period of 2007-2016. We use entry labeled “Employing firm when activities occurred which led to the complaint” in BrokerCheck reports to attribute investor harm-related customer complaints to the firm where the conduct occurred. Table 2 is ranked by the resulting ratio, referred to hereafter as the “Event Ratio”.

**Table 2: 30 Worst Firms by Firms’ Histories of Resolved Customer Complaints**

Rank	Name	CRD	Average # of Brokers	Event Ratio	Broker Ratio
1	NEWBRIDGE SECURITIES CORP	104065	247.9	35.09%	28.24%
2	BERTHEL, FISHER & COMPANY	13609	393.3	33.05%	14.24%
3	SIGMA FINANCIAL CORPOR	14303	665	26.32%	8.27%
4	SANTANDER SECURITIES LLC	41791	438.1	25.79%	12.55%
5	NATIONAL SECURITIES CORP	7569	617.7	23.47%	17.16%
6	INDEPENDENT FINANCIAL GRP	7717	457.8	22.72%	10.05%
7	AEGIS CAPITAL CORP.	15007	254.7	21.20%	18.45%
8	UBS FINANCIAL SERVICES INC.	8174	12384	20.20%	12.83%
9	GENEOS WEALTH MANAGEMENT	120894	345.7	18.51%	9.55%
10	QUESTAR CAPITAL CORP	43100	751.1	17.84%	9.05%
11	SECURITIES AMERICA, INC.	10205	2385.9	17.73%	8.38%
12	MAXIM GROUP LLC	120708	266.3	17.27%	13.14%
13	CENTAURUS FINANCIAL, INC.	30833	590	16.27%	10.00%
14	MORGAN STANLEY & CO. LLC	8209	6179.4	16.05%	10.81%
15	COMERICA SECURITIES, INC.	17079	303.1	14.85%	7.92%
16	FIRST ALLIED SECURITIES, INC.	32444	1101.8	12.52%	6.53%
17	WEDBUSH SECURITIES INC.	877	630.4	11.90%	7.61%
18	NEXT FINANCIAL GROUP, INC.	46214	947.3	11.61%	8.02%
19	KOVACK SECURITIES INC.	44848	297.7	11.42%	7.39%
20	OPPENHEIMER & CO. INC.	249	2335.5	11.18%	7.92%
21	VOYA FINANCIAL ADVISORS	2882	2791.4	9.17%	4.37%
22	THE INVESTMENT CENTER, INC.	17839	278.7	8.97%	5.74%
23	WESTERN INTERNATIONAL SECURITIES	39262	270.3	8.88%	5.92%
24	CROWN CAPITAL SECURITIES	6312	299.9	8.67%	6.67%
25	CITIGROUP GLOBAL MARKETS	7059	12528.2	8.59%	7.52%
26	SUMMIT BROKERAGE SERVICES	34643	415.4	8.43%	7.46%
27	CALTON & ASSOCIATES, INC.	20999	228.3	7.88%	4.82%
28	JANNEY MONTGOMERY SCOTT	463	1357.2	7.37%	5.31%
29	H. BECK, INC.	1763	833.4	7.32%	5.28%
30	CUSO FINANCIAL SERVICES, L.P.	42132	542.8	7.18%	2.21%

The “Broker Ratio” in the last column of Table 2 is the ratio of the total number of the firm’s previous or current brokers associated with resolved customer complaints divided by the average number of brokers employed by the firm. The Event Ratio and Broker Ratio over all 307 firms average 2.90% and 2.05%, respectively.

The rankings in Table 1 and Table 2 overlap to a large extent. Some firms at the top of Table 1 move slightly lower in Table 2, such as Aegis Capital (from 1 to 7) and Centaurus Financial (from 9 to 13), although they still remain in the worst 5% of all firms. In contrast, some firms move up dramatically in the Table 2 rankings; Berthel, Fisher & Company moves from 12 up to 1 and Sigma Financial moves from 24 up to 3, suggesting that these firms have very lax

supervision and/or high-risk business models. Other firms such as Newbridge Securities (2 and 1) and National Securities (4 and 5) have similarly bad rankings in both tables, suggesting these firms play the trifecta of loose hiring, lax supervision, and a high-risk business model.

We also use the Event Ratio to identify the worst firms over the last decade. Table 3 presents the 15 firms with the highest Event Ratios among the 298 firms of average 300 or more brokers over 2007-2016. One third of these 15 firms went out of business, while the proportion of firms going out of business across all the 298 firms is about one fifth.

**Table 3:** Event Ratio Rank of Top 10 Firms with Average 300 or More Brokers in 2007-2016

Rank	Name	CRD	Average Brokers	Current Brokers	Event Ratio	Broker Ratio
1	VSR FINANCIAL SERVICES, INC.	14503	451.9	0	35.41%	13.06%
2	BERTHEL, FISHER & COMPANY	13609	393.3	344	33.05%	14.24%
3	INVESTORS CAPITAL CORP	30613	623.8	0	32.54%	16.51%
4	J.P. TURNER & COMPANY	43177	452.3	0	31.18%	23.00%
5	SIGMA FINANCIAL CORP	14303	665.0	633	26.32%	8.27%
6	SANTANDER SECURITIES LLC	41791	438.1	617	25.79%	12.55%
7	NATIONAL SECURITIES CORP	7569	617.7	654	23.47%	17.16%
8	INDEPENDENT FINANCIAL GRP	7717	457.8	619	22.72%	10.05%
9	MORGAN KEEGAN & COMPANY	4161	2648.3	0	21.86%	11.44%
10	UBS FINANCIAL SERVICES INC.	8174	12384.0	12237	20.20%	12.83%
11	GENEOS WEALTH MANAGEMENT	120894	345.7	356	18.51%	9.55%
12	GUNNALLEN FINANCIAL, INC	17609	683.3	0	17.85%	10.24%
13	QUESTAR CAPITAL CORP	43100	751.1	798	17.84%	9.05%
14	SECURITIES AMERICA, INC.	10205	2385.9	2768	17.73%	8.38%
15	CENTAURUS FINANCIAL, INC.	30833	590.0	611	16.27%	10.00%

VSR Financial and Investors Capital were closed in November 2016, and J.P. Turner in February 2016. All three companies were under the Cetera Financial Group umbrella. Although Cetera claimed it closed these firms for consolidating and branding, each had an extraordinarily tarnished record of customer complaints and compliance issues.<sup>5</sup> Morgan Keegan was acquired by Raymond James in April 2012. It had 85 regulatory actions and at least 206 arbitrations. GunnAllen Financial was shut down by FINRA in March 2010 due to capital inadequacy. It had 17 regulatory actions and 13 published arbitrations resulting in customer awards.

<sup>5</sup> VSR Financial had 11 regulatory events and 6 arbitrations; Investors Capital had 21 regulatory events and 14 arbitrations; and J.P. Turner had 29 regulatory events and 12 arbitrations.

#### D. Ranking Firms Based on Firms' Histories' Brokers – Pending Complaints

The rankings in Tables 1-3 are based on *resolved* complaints reflecting aged conduct. We can rank firms based on *pending* customer complaints which may be a more accurate measure of potentially harmful conduct currently occurring at brokerage firms. We calculate the ratio of the number of pending customer complaints filed against a firm divided by the number of brokers currently employed by the firm. The average Pending Ratio across firms with more than 200 brokers is 0.59%. Table 4 presents the worst 30 firms.

**Table 4:** Worst Firms Ranked by **Pending** Customer Complaints

Rank	Firm Name	Firm CRD	Current Brokers	Pending Complaints	Pending Ratio
1	SANTANDER SECURITIES LLC	41791	617	147	23.82%
2	NEWBRIDGE SECURITIES CORP	104065	206	21	10.19%
3	BERTHEL, FISHER & COMPANY	13609	344	33	9.59%
4	UBS FINANCIAL SERVICES INC.	8174	12237	837	6.84%
5	NATIONAL SECURITIES CORP	7569	654	42	6.42%
6	AEGIS CAPITAL CORP.	15007	437	24	5.49%
7	NEXT FINANCIAL GROUP, INC.	46214	661	30	4.54%
8	MID ATLANTIC CAPITAL CORP	10674	212	9	4.25%
9	DAVID LERNER ASSOCIATES, INC.	5397	216	9	4.17%
10	GENEOS WEALTH MANAGEMENT	120894	356	13	3.65%
11	INDEPENDENT FINANCIAL GRP	7717	619	22	3.55%
12	WESTERN INTERNATIONAL SECUR	39262	345	12	3.48%
13	SUMMIT BROKERAGE SERVICES	34643	788	21	2.66%
14	MORGAN STANLEY & CO. LLC	8209	3477	91	2.62%
15	CENTAURUS FINANCIAL, INC.	30833	611	15	2.45%
16	OPPENHEIMER & CO. INC.	249	1934	46	2.38%
17	HARBOUR INVESTMENTS, INC.	19258	253	6	2.37%
18	CETERA ADVISORS LLC	10299	1741	35	2.01%
19	H. BECK, INC.	1763	736	14	1.90%
20	WUNDERLICH SECURITIES, INC.	2543	328	6	1.83%
21	WEDBUSH SECURITIES INC.	877	555	10	1.80%
22	STERNE AGEE FINANCIAL SERV	18456	446	8	1.79%
23	SIGMA FINANCIAL CORP	14303	633	11	1.74%
24	AUSDAL FINANCIAL PARTNERS	7995	248	4	1.61%
25	QUESTAR CAPITAL CORP	43100	798	12	1.50%
26	CADARET, GRANT & CO., INC.	10641	830	12	1.45%
27	KOVACK SECURITIES INC.	44848	417	6	1.44%
28	CFD INVESTMENTS, INC.	25427	210	3	1.43%
29	FINANCIAL WEST INVESTMENT	16668	213	3	1.41%
30	PROEQUITIES INC.	15708	1092	15	1.37%

There is a significant overlap in the worst firms listed in Table 4 (based on *pending* customer complaints) with the worst firms listed in Table 2 (ratio on *resolved* customer

complaints). For example, Newbridge Securities, Berthel, Fisher & Company and National Securities are ranked in the worst five in both tables; Aegis Capital, Independent Financial Group and Centaurus Financial are placed in the worst 15 in both tables. This means that the worst firms over the past 10 years which are still in business remain amongst the worst firms. These firms appear to have adhered to a high-risk business model, resulting in high continuing investor harm. In the following section, we investigate whether those worst firms specialize in problematic products as well as specializing in problematic brokers.

### **E. Product Type and Firm Harmfulness**

Investors suffer billions of dollars of losses every year when their brokers, encouraged by the lure of high commissions inappropriately recommended the purchase of risky, illiquid, or unsuitable investments. BrokerCheck reports identify the type of financial products involved in most complaints in the “Product Type” field. To reveal the relation between products and customer complaints, we study the composition of the financial products or investments leading to resolved customer complaints filed against those worst firms in our rankings, focusing on a group of highly commissioned, illiquid investments including non-traded real estate investment trusts (“REITs”), oil and gas products, equipment leasing, direct participation programs (“DPP”), variable and indexed annuities, tenants in common (TIC), and other private placements.

We calculate the percentage of resolved customer complaints related to illiquid products for each firm with 200 or more brokers on July 17, 2017. The results are reported in the fifth column of Table 5. For example, 108 or 83.08% of the 130 resolved customer complaints attributable to Berthel, Fisher and Company are linked to at least one of the illiquid products mentioned above. Customer complaints at the worst firms do not exclusively involve illiquid investments. In addition to illiquid products, we analyze two additional sets of products: (1) equity, which includes all listed and over-the-counter (“OTC”) equity securities, and (2) municipal bonds and closed-end bond funds (“CEF”). These two product types are chosen due to their frequency in the BrokerCheck data.

30% of complaints related to DPPs like non-traded REITs, non-traded BDCs, oil and gas partnerships and private placements and only 27% related to equities despite DPPs collectively being less than 0.1% of the market capitalization of US equities. The worst firms in the industry have concentrated their customers’ accounts in a tiny sliver of available investments. Defining “Illiquid Ratio” as the ratio of the number of resolved complaints related to illiquid products divided by the average number of brokers over 2007-2016, the average Illiquid Ratio for the worst 30 firms ranked by Event Ratio (Table 5) is 6.46%; and the average illiquid ratio for all the 312 firms with more than 200 employees on February 9, 2017 is 1.16%. The worst firms are more than 5 times as likely to have customer complaints over illiquid investments as all firms.

**Table 5: Breakdown of Resolved Complaints by Product Type (Supplementing Table 2)**

Rank	Firm Name	Firm CRD	Resolved Complaints	% Illiquid	% Equity	% CEF
1	NEWBRIDGE SECURITIES CORP	104065	87	14.94%	65.52%	2.30%
2	BERTHEL, FISHER & COMPANY	13609	130	83.08%	5.38%	0.00%
3	SIGMA FINANCIAL CORP	14303	175	94.29%	5.14%	0.00%
4	SANTANDER SECURITIES LLC	41791	113	7.08%	7.08%	53.10%
5	NATIONAL SECURITIES CORP	7569	145	25.52%	64.83%	0.69%
6	INDEPENDENT FINANCIAL GRP	7717	104	90.38%	2.88%	0.00%
7	AEGIS CAPITAL CORP.	15007	54	7.41%	57.41%	0.00%
8	UBS FINANCIAL SERVICES INC.	8174	2501	2.72%	10.72%	32.47%
9	GENEOS WEALTH MANAGE	120894	64	85.94%	6.25%	0.00%
10	QUESTAR CAPITAL CORPOR	43100	134	68.66%	16.42%	0.00%
11	SECURITIES AMERICA, INC.	10205	423	88.89%	3.07%	0.24%
12	MAXIM GROUP LLC	120708	46	0.00%	91.30%	0.00%
13	CENTAURUS FINANCIAL, INC.	30833	96	78.13%	0.00%	0.00%
14	MORGAN STANLEY & CO. LLC	8209	992	4.64%	26.41%	10.89%
15	COMERICA SECURITIES, INC.	17079	45	4.44%	0.00%	0.00%
16	FIRST ALLIED SECURITIES, INC.	32444	138	66.67%	21.74%	0.72%
17	WEDBUSH SECURITIES INC.	877	75	28.00%	41.33%	5.33%
18	NEXT FINANCIAL GROUP, INC.	46214	110	68.18%	20.00%	2.73%
19	KOVACK SECURITIES INC.	44848	34	32.35%	38.24%	0.00%
20	OPPENHEIMER & CO. INC.	249	261	8.05%	45.21%	9.58%
21	VOYA FINANCIAL ADVISORS	2882	256	43.36%	17.19%	0.39%
22	THE INVESTMENT CENTER, INC.	17839	25	32.00%	44.00%	4.00%
23	WESTERN INTERNATIONAL	39262	24	4.17%	37.50%	0.00%
24	CROWN CAPITAL SECURITIES.	6312	26	69.23%	7.69%	0.00%
25	CITIGROUP GLOBAL MARKETS	7059	1076	10.22%	37.36%	5.39%
26	SUMMIT BROKERAGE SERVICES	34643	35	48.57%	34.29%	0.00%
27	CALTON & ASSOCIATES, INC.	20999	18	33.33%	33.33%	0.00%
28	JANNEY MONTGOMERY SCOTT	463	100	14.00%	48.00%	7.00%
29	H. BECK, INC.	1763	61	59.02%	8.20%	0.00%
30	CUSO FINANCIAL SERVICES	42132	39	25.64%	2.56%	0.00%

The last three columns in Table 6 present the proportion of pending complaints related to each of the three product types for each firm in Table 5. Again, the three product types together underlie a significant portion of pending complaints filed against most of the 30 firms in Table 5. Three of the ten worst firms in Table 6 have more than 60% of their pending complaints associated with illiquid products and the other three have over 45% of their pending cases linked to equity. Five of these six firms - Aegis Capital, Berthel, Fisher & Company, Geneos Wealth Management, Newbridge Securities, and National Securities - are ranked in top 10 based on resolved complaints (Table 2) and pending complaints (Table 4).



**Table 6:** Breakdown of **Pending** Complaints by Product Type (Supplementing Table 4)

Rank	Firm Name	Firm CRD	Pending Complaints	% - Illiquid	% - Equity	% - CEF
1	SANTANDER SECURITIES LLC	41791	147	0.68%	0.68%	94.56%
2	NEWBRIDGE SECURITIES CORP	104065	21	33.33%	76.19%	4.76%
3	BERTHEL, FISHER & COMPANY	13609	33	96.97%	12.12%	0.00%
4	UBS FINANCIAL SERVICES INC.	8174	837	1.43%	4.78%	86.50%
5	NATIONAL SECURITIES CORP	7569	42	2.38%	92.86%	0.00%
6	AEGIS CAPITAL CORP.	15007	24	8.33%	45.83%	0.00%
7	NEXT FINANCIAL GROUP, INC.	46214	30	36.67%	0.00%	0.00%
8	MID ATLANTIC CAPITAL CORP	10674	9	66.67%	0.00%	0.00%
9	DAVID LERNER ASSOCIATES, INC.	5397	9	44.44%	0.00%	22.22%
10	GENEOS WEALTH MANAGEMENT	120894	13	92.31%	15.38%	0.00%
11	INDEPENDENT FINANCIAL GRP	7717	22	95.45%	13.64%	0.00%
12	WESTERN INTERNATIONAL SECURITIES	39262	12	8.33%	25.00%	0.00%
13	SUMMIT BROKERAGE SERVICES	34643	21	47.62%	33.33%	0.00%
14	MORGAN STANLEY & CO. LLC	8209	91	7.69%	50.55%	6.59%
15	CENTAURUS FINANCIAL, INC.	30833	15	73.33%	6.67%	0.00%
16	OPPENHEIMER & CO. INC.	249	46	23.91%	47.83%	10.87%
17	HARBOUR INVESTMENTS, INC.	19258	6	100.00%	0.00%	0.00%
18	CETERA ADVISORS LLC	10299	35	45.71%	60.00%	0.00%
19	H. BECK, INC.	1763	14	71.43%	0.00%	0.00%
20	WUNDERLICH SECURITIES, INC.	2543	6	50.00%	100.00%	0.00%
21	WEDBUSH SECURITIES INC.	877	10	20.00%	30.00%	10.00%
22	STERNE AGEE FINANCIAL SERVICES	18456	8	50.00%	37.50%	0.00%
23	SIGMA FINANCIAL CORP	14303	11	72.73%	9.09%	0.00%
24	AUSDAL FINANCIAL PARTNERS	7995	4	75.00%	25.00%	25.00%
25	QUESTAR CAPITAL CORP	43100	12	75.00%	0.00%	0.00%
26	CADARET, GRANT & CO., INC.	10641	12	66.67%	0.00%	0.00%
27	KOVACK SECURITIES INC.	44848	6	33.33%	50.00%	16.67%
28	CFD INVESTMENTS, INC.	25427	3	66.67%	0.00%	0.00%
29	FINANCIAL WEST INVESTMENT	16668	3	66.67%	33.33%	0.00%
30	PROEQUITIES INC	15708	15	80.00%	0.00%	0.00%

Some firms clearly specialize in high-cost, illiquid products. We list the worst 10 firms ranked by the ratio of the number of resolved complaints related to illiquid products divided by the average number of brokers over 2007-2016 in Table 7. All 10 firms ranked by focus on illiquid investments are also ranked in the worst 25 ranked by resolved customer complaints per broker ratio (Table 2), and five are ranked in the worst 10.

**Table 7: Worst 10 Firms Ranked by Illiquid Product-Related Resolved Customer Complaints**

Rank	Firm Name	Firm CRD	Customer Complaints	Ratio	% Complaints-Illiquid
1	BERTHEL, FISHER & COMPANY	13609	130	27.46%	83.08%
2	SIGMA FINANCIAL CORP	14303	175	24.81%	94.29%
3	INDEPENDENT FINANCIAL GROUP	7717	104	20.53%	90.38%
4	GENEOS WEALTH MANAGEMENT	120894	64	15.91%	85.94%
5	SECURITIES AMERICA, INC.	10205	52	15.76%	88.89%
6	CENTAURUS FINANCIAL, INC.	30833	96	12.71%	78.13%
7	QUESTAR CAPITAL CORP	43100	134	12.25%	68.66%
8	FIRST ALLIED SECURITIES, INC.	32444	138	8.35%	66.67%
9	NEXT FINANCIAL GROUP, INC.	46214	110	7.92%	68.18%
10	CROWN CAPITAL SECURITIES, L.P.	6312	26	6.00%	69.23%

The differing legal causes of action in cases involving illiquid products and equities can be inferred from the BrokerCheck data. We calculate the proportion of resolved customer complaints that mention each of the five misconduct types in the “Allegation” field of the BrokerCheck report: Breach of Fiduciary Duty, Misrepresentation, Fraud, Churning, and Unauthorized Trading. For the 30 firms with the highest Event Ratio (Table 5), the correlation coefficients between the proportion of illiquid product-related complaints and each cause of action are reported in Table 8. The significantly positive correlation between proportion of illiquid products and each of the first three misconduct types suggests that the higher the concentration of a firm’s complaints on illiquid products, the more likely the firm’s clients have suffered from breach of fiduciary duty, misrepresentations or fraud. The significantly positive correlation between proportion of equities and each of the last two misconduct types indicates that the more heavily a firm’s customer complaints are concentrated in equity products, the more likely the firm’s misconduct involves excessive or unauthorized trading in clients’ account.

**Table 8: Correlation Between Product Concentration and Alleged Misconduct**

	Breach of Fiduciary Duty	Misrepresentation	Fraud	Churning	Unauthorized Trading
% IH - Illiquid	0.43	0.63	0.50	-0.48	-0.59
% IH - Equity	-0.14	-0.39	-0.35	0.87	0.70

## **F. Conclusion**

Ideally, we would assess the incidence of investor harm at brokerage firms by tallying how many times they have been sued by customers, perhaps standardized on some measure of the size of the brokerage firms. Our previous analysis, and the analysis performed by Egan, Matvos and Seru, used the complaint history of currently employed brokers to rank firms to develop a second-best measure on which to rank firms. This Herculean effort was necessary because FINRA requires that settled and pending customer complaints are reported on individual brokers' BrokerCheck reports but excluded from brokerage firms' BrokerCheck reports despite the claims typically being filed against the firm, not the brokers' BrokerCheck reports.

In this paper, we move significantly closer to a first-best ranking by using information on BrokerCheck reports which identifies the employing firm where the complained about conduct occurred. While a significant enhancement to our previous rankings, our current measure still misses cases which have been expunged. Panels have wiped these cases off brokers' CRDs and BrokerCheck reports because they found the broker was not responsible. The clear implication is that the firms were solely (not just primarily) responsible for these cases yet they vanish from the public record.

We find that the worst firms sorted by bad conduct they engaged in or supervised are pretty much the same as the worst firms sorted by the complaint history of their current brokers with a few noteworthy exceptions. For examples, Berthel Fisher and Sigma Financial are rated as much more high-risk sorted by their entire history rather than the history of their current brokers. These firms, in particular, seem to operate a high-risk (for investors) business model with a lax compliance and supervision environment. We also find that the worst firms in the industry specialize in illiquid niche investments which pay high commissions.