Q&A with ADISA President Mike Bendix

Mike Bendix, president of ADISA and chief executive officer of independent broker-dealer DFPG Investments, recently sat down with The DI Wire to share his insights on the upcoming regulatory changes facing the industry and ADISA's role in the discussion.

Can you share a bit about your background and history within the direct investment space?

My career began in the real estate industry and, at one time, I actually owned both a real estate and a mortgage company located in Southern California. Over time, my business evolved to include real estate syndications, which pointed me in the direction of alternative investments, securities, and the financial services industry.

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After spending many years working as a producing rep with my own book of business, my current business partners and I saw the opportunity to launch our own broker-dealer at a time when many broker-dealers were withdrawing from FINRA membership. We felt like this was a great time to create a full-service independent broker-dealer who understood the compliance and due diligence complexities of alternative investments and, in particular, real estate securities. In addition, we liked the idea of using our experience as producers to design a broker-dealer that would reflect the solutions and culture that reps value and desire.

For those that may not know, what is ADISA, and how does ADISA seek to help financial professionals and industry partners?

ADISA is the Alternative & Direct Investment Association, which was formerly known as REISA. Our mission is to be the leading trade association for the alternative and direct investment industry by providing our approximately 4,000 members three meaningful services.

First, we provide value through our advocacy efforts. The association interfaces with regulators and legislators and has become an important voice in Washington on behalf of our members. More specifically, ADISA's legislative and regulatory committee works to influence decision makers on important topics, such as the DOL's fiduciary proposal and its associated best interest contract exemption, FINRA regulatory notice 15-02, implementation of the various JOBS Act provisions, preservation of IRS Section 1031, and proposed changes to the accredited investor definition.

Secondly, we provide value through the education offered to ADISA members which, in my opinion, is the best available in the alternative and direct investment industry. Whether it is through one of our three yearly conferences, our sponsored webinars, or our publications, ADISA members benefit from the access that we provide to the expertise and know-how of many of the industry's top professionals.

Finally, we offer a valuable networking platform. ADISA is one of the few alternative investment organizations who seeks to put constituents from the various membership categories into the same room. With influence over 30,000 industry professionals, including sponsors, broker-dealers, advisors, attorneys, and due diligence firms, ADISA encourages interaction and facilitates the exchange of ideas. This provides a strong base for many of the relationships that help drive the various business activities associated with our industry.

What do you hope to accomplish during your time serving as president of ADISA?

It is probably not a surprise that a top priority of mine has been to focus our efforts on expanding ADISA's presence with industry regulators and legislators in Washington. During my time as president, I would like to leverage ADISA's position within the financial services industry as the leading voice for those working in alternative and direct investments, and to fully represent the interest of our growing community. Thanks to the work of my predecessors and many talented colleagues, ADISA is large enough to warrant the attention of regulators and legislators. We have to keep up the momentum.

Why do you feel it is important to promote greater awareness and education regarding alternative and direct investments?

We strongly believe that there are many benefits associated with offering more information and education related to alternative investments. For instance, broker-dealers and their registered representatives need to continually improve their understanding not only of the offering structures, but also the underlying assets that make up the products that they are selling. On the other hand, we believe that it is critical that issuers are aware of the regulations that affect the sales process of RIAs and BDs, particularly in light of regulatory changes that are just around the corner. Most importantly, we believe that alternative products can be a significant, and sometimes neglected, component of an investor's diversified portfolio.

The truth is, many of these alternative products are complex and require an extra level of education, due diligence, and oversight. At ADISA, we are proud to play an important role in promoting the dialogue surrounding these types of products and in offering educational tools and resources to industry professionals.

2016 is likely to be a transformative year for the industry. How has ADISA participated in the dialogue surrounding the regulatory proposals currently under consideration?

There are many examples of how ADISA has taken an active role in the regulatory discussions associated with these important proposals. For example, in January, I was one of four ADISA board members who met with FINRA and the SEC in Washington. I am happy to report that representatives of both regulatory bodies were very familiar with ADISA and appeared genuinely interested in our perspective.

Additionally, John Grady, who chairs our Legislative and Regulatory Committee, appeared before the DOL on behalf of ADISA to express our concerns about their proposal. ADISA's Executive Director, John Harrison, has also helped carry our message by participating in the SIFMA-led DOL coalition and the Real Estate Roundtable's 1031 initiative, both of which ADISA helped finance. John and John are also scheduled to meet with representatives of the U.S. Office of Management and Budget (OBM) to discuss the harmful effects of the DOL initiative as the OMB's staff is currently analyzing the proposed rule.

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ADISA recognizes our vital role in representing the voice of so many industry professionals at such an important time. I am proud of the work we have done and I have plans to help continue the effort.

You have a unique perspective: you are the CEO of an independent broker-dealer, a producing representative with your own branch office, and president of a national association. With the ongoing speculation surrounding the regulatory environment, can you describe how you are approaching these issues from these three different vantage points?

I feel very fortunate to have exposure to these three different perspectives within our industry. My hope is that these opportunities have allowed me to improve as a professional and to have a greater awareness of what is happening at different levels in our industry.

At the broker-dealer level, there is no doubt that the years I have spent in front of investors gives me perspective for what DFPG's advisors need for their clients. In addition, my time at ADISA have given me a better understanding of the challenges broker-dealers face in today's regulatory climate and how DFPG can better position itself.

The current regulatory environment raises many questions and will require greater flexibility for those working in our industry. I appreciate the opportunities to work in several different positions within the industry and the advantages they afford me in all three of my current roles.

We have heard compelling arguments both for and against the fiduciary rule and 15-02 – how you think these new regulations will impact the industry?

From the standpoint of a broker-dealer's responsibility to its clients, very little changes with 15-02. I believe that registered representatives who are properly educating their investors should have been explaining the offering loads all along. We have already seen adjustments in commission structures with the advent of T-shares, and I expect that trend to continue.

The DOL fiduciary proposal is a different story. Based on what is currently being considered, it seems that many products that may be appropriate for some investors will no longer be allowed inside qualified accounts. Unfortunately, this means that, in some cases, the very people who this initiative is designed to protect may be adversely affected. Taken a step further, I believe that there are elements of the DOL proposal that may actually discourage advisors from working with smaller investors who likely need their service most. Frankly, and despite the many sound bites, this just does not make much sense to me.

I do anticipate a reduction in alternative investment equity raising as a result of both of these regulations, but I think it will be temporary. Advisors will adjust to the new commission structures, clients will get used to the changes to their account statements, and velocity will pick up again. These products are too important to be kept out of a client's portfolio for very long, and I have confidence that the demand created by advisors who truly consider the investors' needs first will shape our industry's product supply.

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