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InvestmentNews®

AUGUST 19-23, 2019

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LPL MOVES INTO A NEW ARENA

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TOPNEWS

ACCURACY / EXCELLENCE / FAIRNESS / IMPARTIALITY / INDEPENDENCE

INSIDE

AUG. 19-23, 2019

Cover: Randy Pollack

Go for the gold
In times of market turbulence, advisers tell clients to put some sparkle in their portfolios.

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ONLINE
7 retirement side gigs to help retirees make up income gap
InvestmentNews.com/sidegigs

Insurers pivot in reaction to interest rate decline

BY GREG IACURCI

INTEREST RATES HAVE done an about-face, and insurers are feeling the pinch.

Less than a year ago, insurance companies, financial advisers and their clients were celebrating the return of higher interest rates. More money flowed into insurers' coffers, which translated into better payouts on annuity and other insurance products.

The picture is much different these days. The Federal Reserve cut interest rates in July for the first time since the financial crisis and 10-year Treasuries are plumbing fresh lows.

Insurers have had to pivot, taking measures that include diluting product features.

"It's been quite a roller-coaster ride if you think about where we were at, where we went to and where we've returned," Dan Houston, chairman, president and CEO of Principal Financial Group Inc., told analysts during the company's second-quarter earnings call July 26.

Lower interest rates mean insurers make less money on the investment portfolios — largely fixed-income holdings — that underpin their insurance products, causing a reduction in profits.

REPLACING BONDS

The 10-year Treasury yield has been cut in half from its recent high of 3.24% in November to 1.59% last Wednesday. As bonds that insurers bought years ago mature, companies are having to replace them with lower-yielding fixed-income securities.

"Virtually all the carriers have said they'll have to make adjustments to pricing," said Scott Stolz, senior vice president of private client group investment products and wealth solutions at Raymond

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WE'LL BE BACK

InvestmentNews won't publish a print edition Aug. 26. Print publication will resume Sept. 2.

Why United Capital sold to Goldman Sachs

On July 16, the sale of United Capital to Goldman Sachs was consummated.

One headline doesn't capture everything it took to reach that finish line: 14 years, 100 acquisitions, four capital raises, more than 700 employees hired and over $100 million spent on innovation, from technology to consumer research, training and product development.

After a targeted funding process in which we invited only firms with which we had cultural alignment, we narrowed the field down to two finalists: the first, a top-tier private-equity firm, and the other, Goldman Sachs.

Both had been selected because they made competitive bids, but also because we felt they valued our mission, the firm we had built and the amazing people in it. One investor would let us keep going down a similar road as an independent firm. The other would buy us entirely, and we'd become part of a Wall Street powerhouse.

GUESTBLOG
JOE DURAN

Since we announced the sale a couple of months ago, I have been asked one question above all others: Why did you decide to sell the firm? The simple answer is it was the right thing to do. But for a slightly more fulsome response, I'd like to share the three major areas that played into the decision.

1. The economics. We have always run the business conservatively in a financial sense. Our firm had very little debt on the balance sheet. We had four institutional investors and none of them had control. They had all enjoyed enough appreciation that their equity carried the same value as all the other investors — a rarity in the acquisition world.

Thanks to our conservative approach, everyone would receive a higher valuation than the most recent one we used for acquisitions we'd just made in April. Everyone would also be paid in cash. The upside would be quite different depending on which path we chose. Ultimately, Goldman tipped the scales in their favor with the creativity they brought into the transaction to make a sale more economically interesting for our advisers, our employees and our clients.

2. The future. As a 22-year CFA charter holder, I consider price as part of the equation, but risk the other vital element. Looking into the future, I am certain that providing a fully integrated financial experience will be vital to thriving if you serve the affluent market. To win in the future, United Capital would need to go beyond building financial plans and managing assets. Advisers may offer banking services, refer clients for tax preparation and deliver it all on an elegant, integrated platform.

As an independent firm, it would take several more years and many millions of dollars to build this offering. We realized that joining Goldman would accelerate that effort overnight. They could provide multiple solutions for our clients that we could never build, from alternative invest-

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Acquisition fuels Cetera's banner year in recruiting

BY BRUCE KELLY

CETERA FINANCIAL Group is having a banner year in attracting new advisers to its platform, with recruits ranging in experience and production from sophisticated wealth managers to those relatively new to the financial advice industry.

Cetera, a network of six broker-dealers, said last Wednesday it has added over 1,000 registered representatives year-to-date and reached a record $19.1 billion in newly recruited assets under administration.

A good portion of those advisers, more than 400, came from Cetera's acquisition earlier this year of certain assets of Foresters Financial's U.S. broker-dealer and advisory business.

"THE SCALE OF THE NETWORK ... IS BECOMING MUCH MORE REAL IN THE MARKETPLACE."

ADAM ANTONIADES
PRESIDENT, CETERA FINANCIAL GROUP

Another chunk is made up of CPA, bank and financial institution reps or apprentice-type wealth managers — groups of advisers who don't carry revenue with them to a new firm, said Adam Antoniades, president of Cetera Financial Group, in an interview.

Mr. Antoniades added that Cetera had recruited about 275 traditional wealth management advisers through July, advis-

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Market swings cause anxiety among clients

BY JEFF BENJAMIN

INCREASED STOCK market volatility has put financial advisers back in the position of defending buy-and-hold investing strategies to nervous clients.

"A big part of our job is convincing people they're on the right path and to stay on that path," said Tim Holsworth, president of AHP Financial Services.

"Nobody has figured out how to successfully move in and out of the market, or if they have, they're keeping it to themselves," Mr. Holsworth said.

Financial markets, which had already been on edge amid ongoing trade wars and tariff threats, reached a new level of anxiety last Wednesday when the spread between the two- and 10-year Treasury note yields turned negative.

Historically, an inverted yield curve is considered an indicator of a looming recession, although most advisers are quick to point out that the indicator lacks the crucial element of timing.

"An inverted yield curve is absolutely a warning sign, but there's no reason to panic right now," said Chris Zaccarelli, chief investment officer at Independent Advisor Alliance.

"Typically, when 2-10 inverts, it will lead to a recession in around 14 months on average," Mr. Zaccarelli said. "But that range has been between seven months and 20 months, so it's more of a yellow light than a red light."

Mr. Zaccarelli said that he isn't recommending "drastic portfolio changes" in response to the inverted yield curve, but that "it is a good time to re-evaluate where you are with your portfolio allocations to trim positions that no longer make sense to hold through a recession."

The stock market seesawed for most of last week as the Dow Jones Industrial Average dropped 800 points last Wednesday, and then rebounded last Thursday and Friday.

Such volatility is part of a normal market cycle that needs to be closely monitored, said Paul Schatz, president of Heritage Capital.

MORE VOLATILITY AHEAD

"I think we've seen most of the price damage, but stocks will go lower in the short term, then scream higher," he said. "On balance, we'll go higher for the rest of

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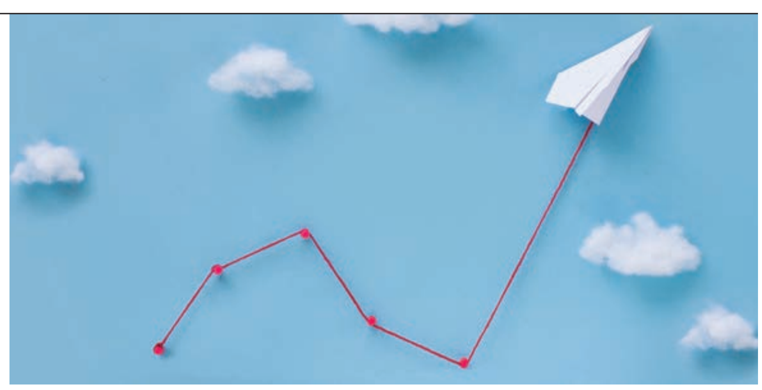
IRS ruling could boost RIA annuities



BY GREG IACURCI

THE INTERNAL Revenue Service has issued a tax ruling that may quickly boost the use of annuities by registered investment advisers with clients, by knocking down what many saw as the primary road block to their uptake.

The IRS furnished private letter rulings to several insurers allowing RIAs to pull clients' advisory fees from the cash value of a nonqualified fee-based annuity without any adverse tax consequences, which runs counter to the existing rules.

Insurers that received the rulings included Allianz Life Insurance Co. of North America, Great American Insurance Group, Jackson National Life Insurance Co., Nationwide, Pacific Life Insurance Co. and Prudential Financial Inc.

"That's a game changer for fee-based annuities," said Sheryl Moore, president and CEO of consulting firm Moore Market Intelligence. "That's been one of the huge issues: People were concerned that if you take a withdrawal from the annuity to pay the adviser's fee you create a taxable event."

The tax rules addressed in the recent IRS rulings had created a conundrum for RIAs that are compensated with an annual asset-based fee rather than a commission. Pulling an adviser's fee from a nonqualified annuity policy, which is sold outside a retirement account such as an IRA, counted as a taxable distribution for the client at ordinary income rates, as reflected on a 1099 tax form. Further, if the client were less than 59½ years old, there was also a 10% penalty on the distribution.

$3.2B
AMOUNT OF FEE-BASED VAs SOLD IN 2018

The rules are different for qualified annuities sold in retirement accounts: The IRS allows advisory fees to be pulled from these annuities without tax consequences for the client.

The rules on nonqualified annuities were not only a nuisance for clients, but also effectively made the adviser's advice more expensive. Advisers had workarounds, such as pulling the annuity fee from other client accounts. That had drawbacks, though, since it may have appeared to the client to dilute the performance of those accounts. And advisers who didn't manage other client assets didn't have this option.

"This is a big win for RIAs and fee-based advisers," Craig Hawley, head of Nationwide Advisory Solutions, said of its private letter ruling, issued Aug. 6.

The rulings come at a time when fee-based (also known as no-load) annuities have become more popular. Insurers sold $3.2 billion of fee-based variable annuities in 2018, up 42% from the year before, according to the Limra Secure Retirement Institute. They now represent around 3% of overall VA market share, double their share in 2016.

MORE FEE-BASED PRODUCTS

Insurers launched a slew of products in 2016 and 2017, around the time the Department of Labor fiduciary rule, now defunct, looked as if it would push more clients into fee-based arrangements. Insurers such as Jackson National Life Insurance Co. have recently made efforts to boost distribution of fee-only products.

There are caveats to the recent private letter rulings. The advisory fee can't exceed 1.5% of the annuity contract's cash value. The fee must be taken only for management of the annuity contract, meaning an adviser managing other client accounts could not pull the fee for managing all those accounts just from the annuity, for example.

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RIAs are fighting over who controls clients, too

The persistent war about who controls clients and their assets is typically fought between wirehouses and their advisers. And that fight can get ugly, with these major brokerage firms taking advisers to court when they leave one firm and join a competitor.

Legal action, in the form of temporary restraining orders, scares advisers, bewilders clients and buttresses the perception that broker-dealers should not be

BRUCE KELLY
ONADVICE

toyed with. Many firms adhere to an industry agreement known as the Protocol for Broker Recruiting, which makes it easier for advisers to change employers and bring along clients. But that industry truce has been weakened as of late, as big firms, namely Morgan Stanley and UBS, exited the agreement.

Turns out, it's not just the wirehouses that are flexing their legal muscles when it comes to taking action against advisers who jump to a new firm. Smaller financial services firms, including registered investment advisers, are throwing elbows in the skirmish to control clients and the lucrative revenue streams that flow from client assets.

LEGAL BATTLES

In a lawsuit filed earlier this month, Mercer Global Advisors Inc. sued an adviser who left the firm for a competitor, Mission Wealth Management. The adviser, Skyler Kraemer, began working at Mercer in 2013, and the firm is claiming he broke his employment agreement when he moved to Mission Wealth.

Mr. Kraemer, who could not be reached for comment, allegedly took confidential information from Mercer, which included addresses, telephone numbers, fax numbers, email addresses and a slew of other personal or demographic information related to clients to his new firm. According to the complaint, he admitted to taking information.

Mercer's business model is built on feeding leads to its advisers, according to the complaint, which was filed Aug. 8 in the New York State Supreme Court.

Client acquisition costs are

CONTINUED ON PAGE 26

IRS takes on cryptocurrency

RYAN W. NEAL

ONTECHNOLOGY

The Internal Revenue Service is going after more than 10,000 cryptocurrency holders who failed to report income and pay taxes, and not a single person should be surprised.

Skirting the law isn't a bug in Bitcoin, Ethereum, Litecoin or any of the other thousands of virtual currencies on the internet, it's a feature.

Shady behavior and criminal activity have been part of the appeal and intrinsic value of cryptocurrencies since their inception. As I reported back in 2013 after Bitcoin's value first surpassed $900 (it now sits above $10,000), researchers established a link between the first Bitcoins mined and Ross William Ulbricht, the creator of the criminal black market website Silk Road. Mr. Ulbricht is now serving a life sentence for money laundering, computer hacking, conspiracy to traffic narcotics over the internet and conspiracy to traffic fraudulent identity documents.

Bitcoin was the only currency allowed on Silk Road, where drugs made up 70% of sales. Copycat black markets on the dark web — where people buy weapons, stolen credit cards and child pornography, and even hire assassins — similarly conduct business with cryptocurrency. And don't forget ransomware attacks, where criminal hackers take control of a computer system and threaten to erase everything unless the victim pays a ransom in, you guessed it, Bitcoin.

Even previous attempts to legitimize cryptocurrencies as a viable investment vehicle have met setbacks. Charlie Shrem, a founding

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Wealth firms waste money on buyouts

The average adviser in the wealth management industry is over 50 years old. A significant percentage of the best performers are over 60. What does this mean for the industry over the next 10 years?

If you talk with the top wirehouse advisers and ask them how they built their practices, the stories they tell you will make you chuckle. Strangers actually answered their home telephones, listened patiently to the callers, and then sent them checks to buy municipal bonds. In suburban offices, prospective clients lined up on the street for hours to buy certificates of deposit paying 15% interest and up. Seminars that promised free lunches and financial wizardry were packed, and accounts were opened on the spot.

DANNY SARCH

ONRECRUITMENT

HARD TRUTH

The cold, hard truth is that without enough new bodies coming into the industry, the total number of advisers in the industry is shrinking. For the wirehouses and other wealth management firms that are steadily shrinking, the only hope of survival is to keep the assets and clients even if there are fewer and fewer advisers in-house to work with them.

Since they have largely given up on recruiting, the four wirehouses have all increased the retirement buyouts to their existing advisers. With strong restrictions on both the seller and the buyer, these programs are designed to ensure that these practices will never leave their legacy firms.

The flaw in their logic (which also applies to the mergers-and-acquisi-

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OPINION

EDITORIAL / LETTERS / OP-ED / GUEST BLOGS

From those who set the standards, much is expected

AS IT STATES ON ITS WEBSITE, "the mission of the Certified Financial Planner Board of Standards Inc. is to benefit the public by granting the CFP certification and upholding it as the recognized standard of excellence for competent and ethical personal financial planning."

That's an ambitious goal, and over the years the CFP Board has worked diligently to educate the public about the value of using certified financial planners and to promote CFP holders as the premier providers of financial planning services.

Last year, the board began an $11.7 million marketing campaign, stressing that CFPs offer personalized, holistic financial planning and act in their clients' best interests. The promotion is a continuation of the CFP Board's initial awareness campaign instituted in 2011. In all, the organization has spent more than $75 million on advertising in recent years to promote the designation.

The organization's rising profile has attracted attention, as evidenced by a recent Wall Street Journal analysis of the CFP Board's consumer-oriented website. The Journal found that more than 6,300 of the 72,000 CFPs listed on the LetsMakeAPlan.org site had Finra regulatory disclosures that were not mentioned on the site.

In a story about its findings, the Journal said that the website does not show actions taken by the Securities and Exchange Commission, the Financial Industry Regulatory Authority Inc., the Department of Justice or state authorities against advisers who hold the CFP designation.

THE CFP BOARD SHOULD BE COMMENDED FOR TAKING ACTION.

The CFP Board acknowledged that the Journal "raises important issues, which we're addressing." It has updated LetsMakeAPlan.org and now suggests that additional information on a planner may be found on the Finra BrokerCheck and SEC Investment Adviser Public Disclosure websites.

In its response to the Journal's story and criticism that it is not doing enough to provide the public with a complete picture of a CFP holder's record, the CFP Board has made the justifiable argument that it is a standards-setting organization, not a regulator.

But it also acknowledged its shortcomings by changing its procedures to include a review of BrokerCheck or IAPD when CFPs renew their certification, and by creating a task force headed by former Texas securities commissioner Denise Voigt Crawford to reform its enforcement practices.

While it should have paid more attention to CFP holders' disciplinary records in the past, the CFP Board should be commended for not digging in its heels in the face of criticism, and for taking corrective action.

Undoubtedly, the recent episode has taught the board an important lesson: If you are going to hold out those whom you oversee as the "standard of excellence," you'd better be prepared to be held to that standard yourself.

LETTERS

Biases underestimate women

As a woman, and a financial planner for 25-plus years, I disagree with the conclusion [in the cover story "Kept in the Dark" in the July 8 issue] that the majority of women still defer financial decisions to their husbands.

Fifty-four percent is only slightly over half. Considering a reasonable, statistical margin of error, and my professional experience, I believe it's more of a 50/50 split. When I meet with my clients, there is always one that is more interested in the details than the other. It's very important to make an effort to bring in the quiet spouse (man or woman), throughout the meeting.

Financial planning is a male-dominated industry. When I attend seminars, I observe that only 10% of the participants are women. When I attend meetings with independent broker-dealers, I see that 20% of the participants are women. (And yes, I do count them.)

This is a male-dominated field, both among planners and financial reporters. Is it possible there are biases, assuming women do not take the lead when making financial decisions? Are women ignored because the adviser is more comfortable talking with another man, and assumes he is the decision-maker?

We are all biased. The answer is to recognize these biases, and work on communicating with both men and women equally.

In conclusion, planners should not assume a woman is not interested. Maybe she just isn't being heard, due to unrecognized biases.

Ann Novosel
Financial adviser
KMS Financial Services Inc.
Seattle

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Audit Bureau of Circulations

In defense of CFP Board's enforcement program

CFP Board is at the forefront of advancing the financial planning profession with its certified financial planner certification and its enforcement program. However, recent articles from The Wall Street Journal have presented an unfair and incomplete evaluation of CFP Board's enforcement program.

While the publication raised important issues of enforcement in the financial planning profession, it failed to provide critical context. The article downplayed, and in some cases entirely omitted, the significant enforcement work CFP Board has had underway for years.

To understand where CFP Board is headed, we also need to understand the important public service that CFP Board already has fulfilled.

A dozen years ago, CFP Board's Disciplinary and Ethics Commission, the body that metes out discipline for CFP professionals, was completely restructured to separate the roles and responsibilities of commissioners and CFP Board staff. Today the DEC includes members of the public as well as CFP professionals who are committed to ensuring a fair, but tough process. The public members provide an important perspective that supplements the peer review provided by the DEC's CFP professionals.

OP-ED
SUSAN M. JOHN

These important changes created a solid foundation for our modern-day enforcement program, which investigates and adjudicates cases of alleged misconduct by CFP professionals.

Our enforcement program is active and busy. Incidents brought before CFP Board are investigated by staff, with serious matters adjudicated by the DEC.

BACKGROUND CHECKS

In each of the past three years, we conducted an average of 6,900 background checks for candidates for CFP certification, CFP professionals and those seeking to reinstate their certification. Over the last 10 years, CFP Board opened ethics investigations into the conduct of 7,392 individuals. And it has taken more than 1,000 public enforcement actions against CFP professionals in its 30-year-plus history, with each public disciplinary action announced in a press release.

We are proud of this work, especially given that CFP Board has accomplished all this without the support of government funding, the ability to require financial services firms to provide documents or information, or subpoena power.

CFP Board's standards extend beyond ethics. They apply to financial planning competency, as evidenced by our education and experience requirements and the stringent CFP certification examination.

It is both our ethical and competency standards that give meaning to CFP certification, making it a preeminent financial services certification for the public, advisers and their firms. I am not aware of another certification or designation in the financial services industry that requires a higher level of competency, ethics and professionalism or has a stronger enforcement program than CFP Board's CFP certification.

OPPORTUNITIES TO IMPROVE

While CFP Board disagrees with several main points in the Journal articles, we acknowledge opportunities to continue to expand upon our existing enforcement processes. CFP Board has already taken important steps that will add value to the certification, including:

- Providing consumers with access to BrokerCheck and IAPD information on LetsMakeaPlan.org and CFP.net/verify.
- Relying less on self-disclosure by CFP professionals.
- Reviewing data from the Financial Industry Regulatory Authority Inc.'s BrokerCheck and the Securities and Exchange Commission's IAPD each time a CFP professional renews their certification.

As CFP Board's new code and standards take effect on Oct. 1, we will continue to evolve our enforcement efforts to support the standards we're setting for the benefit of the public. We have reached out to other organizations, such as Finra and the National Academy of Elder Law Attorneys, to cooperate on enforcement activity.

INDEPENDENT TASK FORCE

We have also established an independent task force to examine our existing enforcement program and make actionable recommendations for improvement. Chaired by Denise

CFP BOARD HAS ALREADY TAKEN IMPORTANT STEPS THAT WILL ADD VALUE TO THE CERTIFICATION.

Voigt Crawford, a securities consultant and expert who previously served as the Texas Securities Commissioner for 17 years, the task force will have full authority in appointing members and will make its recommendations public.

The new code and standards and this independent task force come at a time when the advisory landscape is evolving to better serve Americans' financial needs. The future of financial advice requires a financial planning profession that is willing to set high competency and ethical standards and uphold them with stronger, ever-improving processes for enforcement.

Make no mistake: CFP Board is committed to continuously improving to give consumers the lasting confidence that comes from receiving competent, ethical financial planning. Our code and standards are one step in the process; our commitment to continuously improving enforcement is the critical next step.

Susan M. John is chair of the board of directors of the Certified Financial Planner Board of Standards Inc. and managing director of F.L.Putnam.

All it takes is a vision you truly believe in

WHEN I ARRIVED in New York City, 23 years ago, little did I know that I would have the privilege of overseeing a brand like *InvestmentNews* for so long.

I started out in sales, working at Crain Communications on Pensions & Investments, *InvestmentNews*' sister publication. Bill Bisson was the publisher then, but he was much more than that. He was also my mentor and *InvestmentNews* was his brainchild.

About a year in, Bill pulled me aside and asked me if I wanted to work on a "startup."

We had no sales material. We had no advertisers. We had no readers.

"We're calling it *InvestmentNews*," he stated. "And it's going to change an industry."

How could I possibly say no?

While there was no traditional plan, we did have one important thing: a common vision. There was also Bill's passion and absolute certainty that *IN* would become the No.1 brand in our industry, just as P&I had in its market.

The entire team he assembled truly believed in this vision and believed that one day we would be No.1.

As a unit and a team, we saw the opportunity and we seized it.

Bill promoted me to sales director, then associate publisher and then publisher in 2006 as *IN* grew from startup to market leader. He stayed on a few more years before retiring and always had faith in me and everyone at *IN*. Importantly, he reinforced that we keep up our commitment to quality news and content and to always put the reader first.

ADVOCACY

We've come a long way in 21 years. Or have we?

Since we launched in 1997, the industry has improved in its efforts around diversity, but still has a long way to go. My hope is that *InvestmentNews* events such as Women to Watch, Diversity & Inclusion, 40 Under 40 and the multi-city Women Adviser Summit will continue to grow and act as motivators for firms to keep doing more in those areas.

InvestmentNews has always felt a responsibility to advocate for important issues and provide a platform to advance discussion. I am proud of what we've done so far and confident that the magazine's achievements will only grow from here.

As I write my last column as CEO and publisher of *IN*, I must reflect on the many people, places, events and initiatives that have left an indelible mark on me as an executive, but more importantly, as a person.

SUZANNE SIRACUSE

I think back to moments that brought me great joy, such as when we held our first Women to Watch Awards almost five years ago. It was a concept that has since created a community, a movement that continues to motivate both men and women and serves as a shining example of this industry at its best.

Reflecting on these past 21 years at *InvestmentNews*, I think of times of hope and inspiration. Of evolution and of innovation. Of persistence and the drive for excellence. These moments are represented by the people in this industry, the thousands of advisers and industry executives I have had the opportunity to meet with, work with and partner with.

And to the many dedicated reporters, editors, sales and marketing executives I have worked with over the years at *IN*: You all are part of something truly special. Keep up your important work; it makes us all better, smarter and stronger.

THE NEXT CHAPTER

It's been a great experience to be part of the changing dynamic within the financial advice industry. After two decades of viewing it through the lens of the media, I now look forward to being right in it, with all of you, as I start my own business.

Another startup? Absolutely. Here we go again!

It has truly been a privilege to be a part of *InvestmentNews* since its inception and on through the highs and lows, the good times and the hard times as well.

I will never forget any of it.

Suzanne Siracuse is CEO and founder of Suzanne Siracuse Consulting and soon-to-be former CEO and publisher of InvestmentNews*. She can be reached at suzsiracuse@gmail.com, on Twitter @suzsiracuse or on LinkedIn.*


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THE UNITED STATES OF AMERICA

LPL FOLLOWS THE MONEY

BY BRUCE KELLY

AS ITS FEE-BASED ADVISORY BUSINESS CONTINUES TO GROW, THE COUNTRY'S BIGGEST IBD WANTS TO KEEP MORE OF ITS RIA ASSETS AT HOME. IT WON'T BE EASY.

Think of custodians and what names come to mind? Schwab, Fidelity, TD Ameritrade.

What about LPL Financial? Sure, it is the country's largest independent broker-dealer, with more than 16,000 advisers, but it's not known as a custodian. And given that its share of the registered investment advisory custodial market is just 2%, chances are it will never have the huge assets of those bigger players.

And yet LPL sees an opportunity, especially among its own affiliates and advisers, to attract more assets. Over the past two years, the independent broker-dealer has made a series of moves to convince its advisers that they should be using LPL's registered investment advisory platform to custody their clients' assets rather than those of the industry's biggest players.

LPL has 430 affiliate firms with 5,000 advisers who custody at least some client assets on its RIA platform. In comparison, Schwab Advisor Services has 7,600 RIA clients and TD Ameritrade Institutional has 6,000, although their services are typically marketed to pure registered investment advisers and not the so-called hybrid advisers (firms that combine both brokerage and RIA services under one roof) that LPL is targeting.

During a presentation to investors in May, LPL executives said they wanted to expand the firm's presence in the RIA marketplace, specifically among advisers who have 75% of their assets in fee-based advisory accounts.

"We think we can have the ability to introduce a new offering in this segment, a premium RIA offering," said Rich Steinmeier, managing director and head of business development. Mr. Steinmeier, one of the LPL executives behind the RIA push, was hired in June 2018 to lead recruiting at the firm.

Mr. Steinmeier went on to explain that to compete in the custody market, LPL would have to assist advisers with a suite of services, including helping them rent office space and set up benefits, payroll and employee services.

Technology is also important, and LPL has pointed out that it is spending $150 million this year on improvements.

At the end of 2018, LPL bought AdvisoryWorld for $28 million. AdvisoryWorld produces a suite of digital tools for investment analytics, portfolio construction and proposal generation. More than 30,000 advisers use AdvisoryWorld's products and services, including as many as 3,000 of LPL's advisers.

"We intend to grow the custody business; it's an important area for us," Mr. Steinmeier said in a later interview.

For their part, LPL advisers seem to be taking a wait-and-see attitude as to whether LPL can compete in the RIA custody arena.

"I think LPL has a great RIA program now and it's better than it has ever been," said one LPL adviser, who did not want to be identified. "But it really comes down to whether the technology works for the type of practice the adviser has."

CUTTING PRICES, BUT IS IT ENOUGH?

Another key area — if not the most important one — where LPL will have to compete is on pricing. After it introduced its premium RIA push in May, LPL said it was cutting prices for certain ETFs on two of its RIA custody platforms from $9.00 per trade to $4.95. But Schwab, Fidelity and TD offer scores of ETFs to RIAs at lower costs and in some cases, at zero cost.

"The LPL custodian is typically more expensive than the big ones," said another LPL adviser, who also asked not to be named. "The pricing is not in line with other custodians, and Schwab, TD and [Fidelity] have a lot more cachet with clients."

One advantage for LPL is its recruiting package for advisers with RIA assets. For more than

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CLEARING FIRMS / LISTED BY REPORTED NUMBER OF BROKER-DEALER CLIENTS

FIRM	PHONE/WEBSITE	# OF CLIENTS	% CHANGE VS. 2018	CONTACT	PHONE/EMAIL
Pershing One Pershing Plaza, Jersey City, NJ 07339	(800) 445-4467 pershing.com	**625**	-4.4%	Michael Row Chief relationship officer	(800) 445-4467
RBC Correspondent Services 60 S. Sixth St., Minneapolis, MN 55402	(612) 371-2711 rbccorrespondentservices.com	**190**	-0.5%	Greg Plifka Director, business development	(888) 524-9800 greg.plifka@rbc.com
Hilltop Securities Inc. 1201 Elm St., Dallas, TX 75270	(800) 678-3792 hilltopsecurities.com	**149**	-2.6%	Lana Calton Senior managing director, head of clearing	(214) 859-9228 lana.calton@hilltopsecurities.com
First Clearing One North Jefferson Ave., St. Louis, MO 63103	(888) 322-2532 firstclearing.com	**68**	-1.4%	Peter C. Sheehan Senior vice president	(410) 329-1459 peter.sheehan@firstclearing.com
Apex Clearing Corp. 350 North Saint Paul St. #1300, Dallas,TX 75201	(214) 765-1010 apexclearing.com	**63**	7.9%	Michael Lanyon Head of digital wealth sales	(214) 765-1066 mlanyon@apexclearing.com
Raymond James & Associates Inc. 880 Carillon Parkway, St. Petersburg, FL 33716	(727) 567-3990 raymondjamesclearing.com	**42**	2.4%	Robb Combs Director, custody and clearing division	(813) 541-0340 robb.combs@raymondjames.com
Axos Clearing 1299 Farnam St., Suite 800, Omaha, NE 68102	(800) 811-3487 axosclearing.com	**N/D**	N/A	Michael Scaplen Senior VP, sales and relationship management	(732) 635-2490 michael.scaplen@corclearing.com
Fidelity Clearing & Custody Solutions 200 Seaport Blvd., Boston, MA 02210	(877) 262-5950 clearingcustody.fidelity.com	**N/D***	N/A	John Phillips EVP, head of broker-dealer and bank sales	(617) 563-2253 john.d.phillips@fmr.com
Merrill Lynch Professional Clearing Corp. 1 Bryant Park, New York, NY 10036	(646) 743-0110 broadcort.com	**N/D**	N/A	Vito Laurenzano Director	(646) 743-1246 vito.laurenzano@baml.com

As of May 31, 2019. N/A = not available. N/D = not disclosed.
*As of June 30, 2019, Fidelity Clearing & Custody had 3,950 total clients and $2.3 trillion in assets. Firm did not break out custody clients from clearing clients.
Source: *InvestmentNews* Research

WHERE THE LARGEST IBDs CLEAR

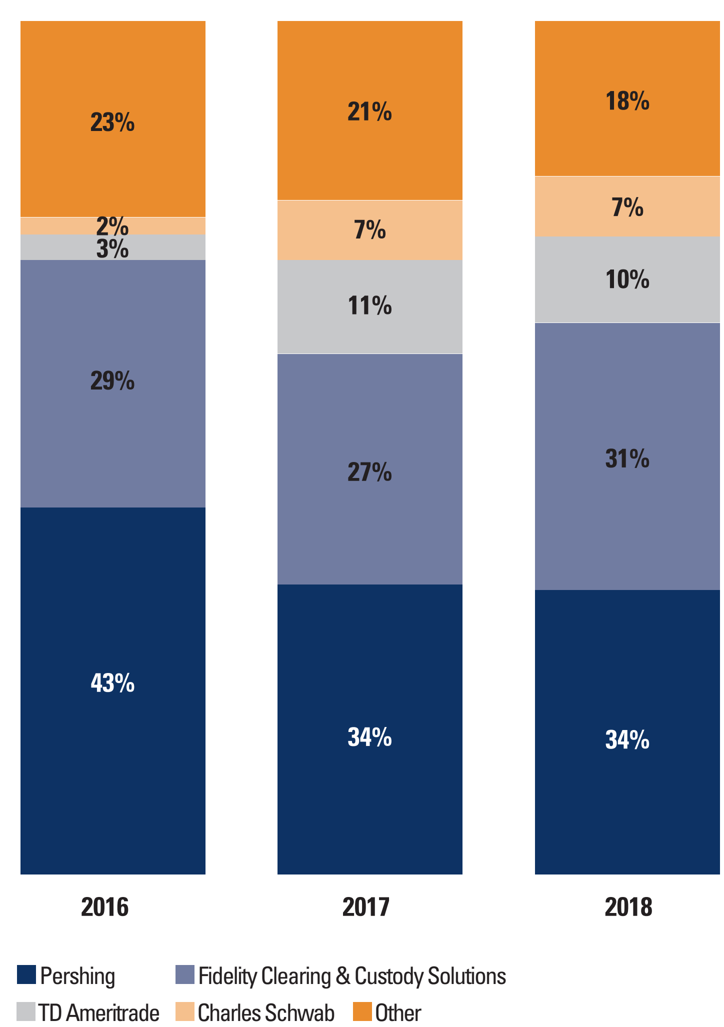
CLEARING FIRMS USED BY THE INDEPENDENT BROKER-DEALERS WITH THE MOST REVENUE

IBDs	2018 TOTAL FIRM(S) USED	2018 TOTAL REVENUE ($M)
1 **LPL Financial**	Self-clearing	$5,188.4
2 **Ameriprise Financial Services Inc.**	Self-clearing	$4,804.0
3 **Raymond James Financial Services Inc.**	Self-clearing	$2,410.0
4 **Commonwealth Equity Services dba Commonwealth Financial Network**	Fidelity Clearing & Custody Solutions, Pershing	$1,425.3
5 **Northwestern Mutual Investment Services**	Pershing	$1,219.5
6 **MML Investors Services**	Fidelity Clearing & Custody Solutions	$1,126.6
7 **AXA Advisors**	LPL Financial	$913.8
8 **Cambridge Investment Research Inc.**	Fidelity Clearing & Custody Solutions, Pershing	$906.7
9 **Securities America Inc.**	Charles Schwab, Fidelity Clearing & Custody Solutions, Pershing, TD Ameritrade	$803.5
10 **Lincoln Financial Network**	Fidelity Clearing & Custody Solutions	$782.4
11 **Cetera Advisor Networks**	N/A	$619.5
12 **Royal Alliance Associates Inc.**	Fidelity Clearing & Custody Solutions, Pershing	$603.9
13 **Kestra Financial Inc**	Fidelity Clearing & Custody Solutions	$549.2
14 **Waddell & Reed Financial Advisors**	Pershing	$522.8
15 **Voya Financial Advisors Inc.**	Pershing	$458.8
16 **SagePoint Financial Inc.**	Fidelity Clearing & Custody Solutions, Pershing	$405.7
17 **Woodbury Financial Services**	Fidelity Clearing & Custody Solutions, Pershing	$373.6
18 **Securian Financial Services Inc.**	Pershing	$368.6
19 **Cetera Advisors**	Pershing	$367.4
20 **Cetera Financial Institutions**	Self-clearing	$340.7

Revenue figures as of firm's year-end. N/A = not available.
Source: *InvestmentNews* Research

MOST POPULAR

CLEARING FIRMS USED BY THE LARGEST INDEPENDENT BROKER-DEALERS IN 2018 AND PREVIOUS YEARS



Percentages based on number of clearing firms specified by independent broker-dealers each year. Source: *InvestmentNews* Research

CONTINUED FROM PAGE 9
a year, LPL has been selectively offering a bonus in the form of a three-year or five-year forgivable loan that pays an adviser 50 basis points on assets transferred to LPL's corporate advisory platform, potentially a far more lucrative structure for the adviser than traditional recruiting deals among independent broker-dealers.

Like other independent broker-dealers, LPL traditionally has offered recruits a recruiting package of 25 basis points based on the prior year's production of fees and commissions. The two types of deals, one based on AUM and the other on the prior year's production, are markedly different. For example, a team with $200 million in assets would get a recruiting bonus of $1 million if all those assets moved to LPL's corporate advisory platform under the deal. The same team would receive a bonus of about $500,000 using the formula based on fees and commissions.

MOVE TOWARD FEE-BASED ACCOUNTS

LPL's push for custodial assets is not surprising considering the trend in the brokerage industry away from commissions toward fee-based advisory accounts. Brokers can charge a client a commission only once, while fee-based accounts are charged annually, usually at a rate of at least 1%.

Like those at most other firms, LPL's advisers are increasing the percentage of assets in advisory accounts. At the end of June, the firm reported a total of $706 billion of brokerage and advisory assets, with 46% sitting in advisory accounts. A year earlier, LPL reported $659.1 billion in total assets, with 44% in advisory accounts. Five years ago, the firm had $475 billion in assets, with just 37% in advisory accounts.

Building traction among elite RIAs could be difficult for LPL, experts said.

"We believe market expansion will be tough. Unlike its core market — the independent broker channel — where LPL is the scale player with superior economics to peers, LPL would face stiff competition from larger, better resourced players," wrote Christian Bolu, an analyst at Autonomous Research who covers capital markets.

"That said, it's unclear how [LPL's] premium RIA model will be able to differentiate from or match the economics advisers get from current market leaders like Schwab, Fidelity and TD Ameritrade," Mr. Bolu noted.

"No one has ever questioned LPL's ability to recruit advisers," said Brian Hamburger, president and CEO of MarketCounsel, which advises breakaway brokers. "What's harder is whether it can compete with the likes of Fidelity, Schwab, TD and Pershing. Does LPL have the depth of offering of services, like specialized trading or collateralized lending, that the large custodians already have so it can compete for larger RIA offices?"

"It's not like LPL's a new player. There is something there and the firm has hundreds of RIAs as clients," Mr. Hamburger added. "The question is, how sophisticated can LPL get?"

COMPETITORS SEE OPPORTUNITIES

LPL is not alone in trying to cash in on the trend toward fee-based advisory assets. Its competitors also see opportunities in the RIA market. For example, Commonwealth Financial Network said last year that it intended to broaden its line of businesses and set up a parallel channel for RIAs.

Wells Fargo Advisors is also building an RIA business, and at the start of this year broadened its platform to allow its reps to work as registered investment advisers.

"Increasingly, broker-dealers are trying to be more competitive, and, as an option, pushing to be known not just as a B-D but a place for advisers who want to be an RIA only or fee-based, advisory only," said Jodie Papike, president of Cross-Search, a recruiting firm.

"But it's going to take time for broker-dealers to get to that place," she said, adding that an RIA's selection and application of technology, from CRM to trading systems, is more complicated than a broker's, since broker-dealers bundle technology together.

"LPL has an integrated offering of services as custodian, broker-dealer and business partner, regardless if the advisers are a fee-only RIA business or also do some brokerage and charge some commissions," said Marc Cohen, head of LPL's RIA custody business.

"We are shifting our view to be a partner that supports the best advisers regardless of how they run their businesses," Mr. Steinmeier added.

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LPL ASSET MIX

OVER THE PAST FIVE YEARS, FEE-BASED ADVISORY ASSETS AT LPL FINANCIAL HAVE INCREASED BOTH IN AMOUNT AND AS A PERCENTAGE OF TOTAL ASSETS

YEAR	ADVISORY ASSETS (BILLIONS)	ADVISORY ASSETS AS A % OF TOTAL ASSETS
2015	$187	39%
2016	212	42
2017	273	44
2018	282	45
2019*	327	46

*As of June 2019

Source: LPL annual reports and SEC filings

CUSTODIANS / LISTED BY REPORTED NUMBER OF RIA CUSTODY CLIENTS

FIRM	PHONE/WEBSITE	HEAD OF RIA CUSTODY BUSINESS	# OF CLIENTS	% CHANGE VS. 2018	ASSETS UNDER CUSTODY ($M)	% CHANGE VS. 2018	MINIMUM ASSETS OF ADVISERS
Schwab Advisor Services 211 Main St., San Francisco, CA 94105	(877) 687-4085 advisorservices.schwab.com	Bernie Clark Executive vice president and head of Schwab Advisor Services	**7,600+**	--	$1,555,000	5.2%	N/A
TD Ameritrade Institutional One Plaza Four A, Jersey City, NJ 07311	(800) 934-6124 tdainstitutional.com	Tom Nally President	**7,000+**	--	N/D	N/A	N/A
Interactive Brokers 8 Greenwich Office Park, Greenwich, CT 06831	(877) 442-2757 interactivebrokers.com	Andrea Nagy Sales engineer	**4,503**	8.9%	$23,319	13.1%	N/A
SEI* One Freedom Valley Dr., Oaks, PA 19456	(610) 676-1000 seic.com/advisors	Wayne Withrow Executive vice president and unit head, SEI Advisor Network	**1,735***	-1.0%	$26,700	-3.6%	N/A
Shareholders Service Group 9845 Erma Road, San Diego, CA 92131	(800) 380-7370 ssginstitutional.com	Peter Mangan CEO	**1,604**	2.2%	N/D	N/A	N/A
Pershing Advisors Solutions One Pershing Plaza, Jersey City, NJ 07339	(800) 445-4467 pershing.com	Mark Tibergien CEO	**749**	-1.1%	$734,000	13.6%	$100M
Trade-PMR Inc. 2511 N.W. 41st St., Gainesville, FL 32606	(888) 579-8640 tradepmr.com	Robb Baldwin CEO	**675**	1.5%	N/D	N/A	N/A
LPL Financial 1055 LPL Way, Ft. Mill, SC 29715	(858) 450-9606 lpl.com	Marc Cohen Senior vice president, strategic business development	**435**	1.4%	$311,219	7.2%	N/A
U.S. Bank 425 Walnut St., Cincinnati, OH 45202	(513) 562-3621 usbank.com/itc	Alan M. Markarian Senior vice president	**265**	10.9%	$115,000	12.7%	N/A
ETRADE Advisor Services 7103 S. Revere Parkway, Centennial, CO 80112	(303) 705-6000 etrade.com/advisorservices	Matthew Wilson Head of advisor services	**225**	9.8%	$18,700	3.9%	$10M
National Advisors Trust Co. 800 E. 101st Terrace, Suite 300, Kansas City, MO 64131	(877) 527-3476 nationaladvisorstrust.com	James A.Combs Jr. CEO and president	**214**	8.1%	$12,000	0.0%	N/A
RBC Advisor Services 60 S. Sixth St., Minneapolis, MN 55402	(612) 371-2711 rbcadvisorservices.com	Brett Thorne Head, RBC Correspondent & Advisor Services	**145**	9.8%	$22,000	10.0%	N/A
Fidelity Clearing & Custody Solutions** 200 Seaport Blvd., Boston, MA 02210	(800) 735-3756 clearingcustody.fidelity.com	David Canter Executive vice president, head of RIA Segment	**N/D**	N/A	N/D	N/A	N/D

As of May 31, 2019. N/A = not available. N/D = not disclosed.
*As of Aug. 6, 2019
**As of June 30, 2019, Fidelity Clearing & Custody had 3,950 total clients and $2.3 trillion in assets. Firm did not break out custody clients from clearing clients.
Source: *InvestmentNews* Research

For the second time this year, *InvestmentNews* brought together industry experts in New York to predict and plot out what financial advice will look like in the future, specifically focusing on how human and digital advice will merge.

Executives from top advice firms, national brokerages, tech firms and others described the difficulties the advice industry faces adopting technology and how future automation needs to make the experience better for clients and more efficient for advisers. *InvestmentNews* reporter Ryan W. Neal describes the path advisers need to forge to make financial advice as easy as Uber and gives other glimpses into where the industry is headed.

Attendees at the June 19 Future of Advice event, like those who gathered in March, also shared some interesting responses to the question: "What's a disruptive force no one is talking about?"

Many of the experts who attended these two events will present their industry visions at a Future of Financial Advice event for financial advisers on Nov. 20 in New York. Learn more at InvestmentNews.com/FutureFAevent.

— Liz Skinner

Longevity planning will be central to future advice

BY RYAN W. NEAL

As people live longer, healthier lives, they will need more help managing their money through their retirement, which will likely last longer, too.

At a recent roundtable discussion hosted by *InvestmentNews* on the Future of Financial Advice, many industry leaders agreed longevity planning will increasingly play a role in how advisers work with clients, especially in the face of fee compression and automated investing.

Advisers of the future should be providing clients with peace of mind that they won't run out of money even as they live longer, said Frank McAleer Jr., Raymond James senior vice president of wealth planning and global wealth solutions.

Based on work with MIT Age Lab founder and director Joseph Coughlin, Raymond James tells advisers they should be asking these three questions to all clients.

"Who will change your lightbulbs, how will you get an ice cream cone … and who will you have lunch with?" Mr. McAleer said.

The questions change the conversation to planning for quality of life issues, such as where clients will live or how they will afford long-term care, he said. "Because that's really what money management is about."

KEY POINTS

- Longer, healthier life spans necessitate more help with retirement planning.
- Advisers must also work outside the realm of finance.

Advisers of the future will have to be increasingly comfortable working in planning areas beyond the traditional realm of finance, such as with geriatric-care managers and transportation companies.

"Wouldn't it make sense to connect those resources and integrate them more as part of your service offering?" Mr. McAleer asked. "I think whoever masters that, and we're trying, is going to be really disruptive. Because it really, really resonates."

Even if clients aren't yet asking for these services, they will soon, said Heather Kelly, United Capital Risk Management senior vice president. If advisers are serious about creating an "Amazon-like" experience for investors, one way they can do it is to build a sort of one-stop-shop for everything a person needs in retirement.

"People are buying things from Amazon that are more expensive than they can purchase them elsewhere because it's so easy to go on their phone and just buy it," Ms. Kelly said.

It was a convenience no one asked for 10 years ago that today is commonplace. Advisers who start working today on building that one-stop-shop for longevity will be ahead of the curve when clients start demanding it tomorrow.

But longevity also requires a rethinking of investment products, said Matthew Schlueter, Advisor Group wealth management solutions' president.

With baby boomers living longer than any previous generation, there needs to be assurance not just that clients won't outlive their money, but that they'll be able to live with dignity for the duration.

"WHO WILL CHANGE YOUR LIGHT BULBS, HOW WILL YOU GET AN ICE CREAM CONE?"

FRANK MCALEER JR., SENIOR VICE PRESIDENT OF WEALTH PLANNING AND GLOBAL SOLUTIONS, RAYMOND JAMES

"I think there is technology that lines up with that, which helps consumers," Mr. Schlueter said. "It will be disruptive if folks focus in that area and have good solutions."

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What's a disruptive force that no one is talking about?

"Using machine learning and artificial intelligence to create the augmented adviser, and really the augmented client, experience."

Doug Besso, chief technology officer, HighTower

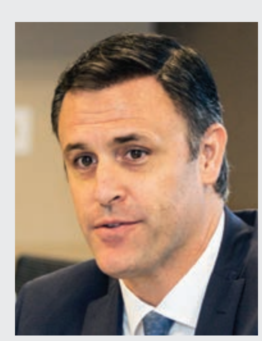
"I think we're all focusing on the adviser and technology, but how about the consumer?"

Cheryl Nash, president - investment services, Fiserv

"One thing that I really think is going to be more of a disruptor is as firms are growing, being able to differentiate themselves and really articulate their value proposition."

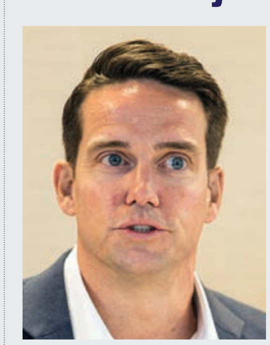
Rich Policastro, senior v.p. - sales and relationship management, Fidelity Investments

"I think it's how we continue to deploy our resources to really service our clients in the most efficient way, not only for how they want to be serviced, but also how we can get the most out of it."



Jack Snyder, managing director - East divisional director, Nuveen Investments

"I would say adviser performance accountability."



Sean Lawlor, head of enterprise data solutions, Envestnet

Creating an Uber-like advice model is no easy ride

BY RYAN W. NEAL

What does the future of financial advice look like? For many industry leaders, it's making financial planning and investment management as easy as shopping on Amazon, ordering a ride on Uber or streaming a movie on Netflix.

But getting there requires a Herculean effort by many firms, and most have just gotten started. At a recent *InvestmentNews* Future of Financial Advice roundtable in New York, executives from more than a dozen of the industry's most tech-forward firms shared their efforts toward building the future of advice.

A common theme was the shifting of strategies away from building or buying individual technology solutions, in favor of creating a comprehensive technology platform, or ecosystem, that brings multiple functions together.

Beyond technology, this shift requires firms to change how they think about working with clients, said Eric Lordi, Morgan Stanley Wealth Management managing director and head of product development.

The financial services industry has traditionally kept each type of client account distinct from each other and built individual technology products to manage them. Going forward, firms must think about connecting banking, insurance, retirement, brokerage and everything else into a single experience, Mr. Lordi said.

"If I had to start from scratch, I certainly wouldn't be building four products. You would build one container that does portfolio construction across accounts," Mr. Lordi said. "It wouldn't be about discretionary versus nondiscretionary; it would be about my advice and how we're going to implement it."

SILOED INDUSTRY

As it stands, the siloed nature of the industry means both advisers and clients still have to jump between several applications. There's a tool for financial planning, another tool for working with the custodian, and the adviser's own website or client portal.

This disconnection won't fly in an era when consumer technology is making everything else in life easy.

"Client expectations have changed. Financial advisers' expectations have changed," Mr. Lordi said. "They totally understand we can connect these things, and they keep asking us, why haven't we?"

Todd Thomson, Dynasty Financial Partners' co-founder and chairman, said this is one reason why technology startups like Betterment, Wealthfront and Personal Capital have built such successful client experiences: They were able to build from the ground up rather than try to stitch together a mix of legacy platforms and new technology. Building that comprehensive, next-generation platform is doubly challenging for independent advisers who work with even more technology providers, Mr. Thomson said. Doug Besso, chief technology officer of HighTower, agreed.

If you look at 100 independent advisers, you'll often find they will have 100 different technology platforms, Mr. Besso said.

Some of that complexity is out of necessity. For example, independent advisers sometimes need multiple accounting tools because clients require them to work with multiple custodians. In other cases, it's a result of business owners having strong opinions about the tools they use.

DISPARATE YET UNIFIED

How can firms build a technology platform that accounts for all these preferences while still offering a unified experience for advisers and clients?

"As good as we all like to think we are, we're not technology firms," Mr. Thomson said. "As a result, it's not as good as it needs to be and should be."

SS&C Technologies' Black Diamond strategist Kyle Van Pelt said firms need to rethink what it means to build technology integrations.

For example, at its core Uber is a platform for connecting riders and drivers, he said. Navigation, communication, payments and every other part of the digital experience are outsourced.

"When the driver picks you up, and you try and find out where you're going to, it doesn't take you out of Uber and into Google Maps. Google Maps is just there, and Uber built on top of that," Mr. Van Pelt said. "That is integration."

Jess Liberi, eMoney Advisor head of product, said advice firms and technology vendors need to think more about process and workflow; instead of thinking about how one piece of software shares information with another piece, the focus should be on how advisers and clients actually use those tools.

"Admittedly, I don't think we've cracked the code on this either, but it is part of what, as a team, we continuously are looking at," Ms. Liberi said. "Stop looking at things in a silo."

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"The RIA world is going to go through a very massive disruption as we start seeing very large, very professionally run national RIAs evolve onto the scene. It will make it very difficult to compete as a smaller shop in that industry, and increasingly difficult to compete if you don't have a fiduciary mindset, as you serve your clients."

Todd Thomson, co-founder and chairman, Dynasty Financial Partners

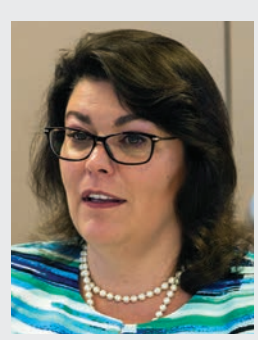
"Where advisers are finding their next new client. I think that that's a big disruptor."

Jess Liberi, head of product, eMoney

"The whole longevity, aging movement. If you're planning and dealing with people's money, this is what their money's being managed for, so wouldn't it make sense to connect those resources and integrate them more as part of your service offering? Whoever masters that is going to be really disruptive."

Frank McAleer Jr., wealth planning, global wealth solutions, Raymond James

"It's all about moments and experiences. It's what is that experience with the adviser, and did that adviser get me to achieve the goals?"



Heather Kelly, senior vice president, United Capital Risk Management

ATTENDEES

Doug Besso
chief technology officer, HighTower

Fred Gabriel
editorial director, *InvestmentNews*

Steve Gresham
chairman, Cogniscient

Heather Kelly
senior vice president, United Capital Risk Management

Sean Lawlor
head of enterprise data solutions, Envestnet

Jess Liberi
head of product, eMoney

Eric Lordi
managing director and head of product development, Morgan Stanley Wealth Management

Frank McAleer Jr.
senior vice president – wealth planning, global wealth solutions, Raymond James

Cheryl Nash
president - investment services, Fiserv

Kyle Van Pelt
strategy and innovation team, SS&C Black Diamond

Rich Policastro
senior vice president - sales and relationship management, Fidelity Investments

Matthew Schlueter
president – wealth management solutions, Advisor Group

Jack Sharry
chief marketing officer, LifeYield

Jack Snyder
managing director, East divisional director, Nuveen Investments

Todd Thomson
co-founder and chairman, Dynasty Financial Partners

"I AM GOING TO EXPECT SOMETHING BIG AND GOOD COMING TO MIT FROM THE JOHNSON FAMILY."

—EXCERPT FROM EMAIL BY THE DEAN OF MIT'S SLOAN SCHOOL OF MANAGEMENT REFERRING TO FIDELITY OWNERS, REVEALED IN A NEW COURT FILING BY JEROME SCHLICHTER ON BEHALF OF MIT 401(K) PARTICIPANTS

Social Security and Medicare issues get personal

From time to time, I write a "dispatch from the retirement front" based on personal insights from living with a retired husband or fielding questions during girlfriend getaways about enrolling in Medicare and claiming Social Security benefits.

KEY POINTS

- In 2024, a record 4.5 million Americans will turn 65.
- Social Security is expected to start dipping into trust fund assets to pay benefits in 2020.

This summer I had my own brush with contemplating the future of retirement — both from a national policy standpoint as well as on a more personal level. Don't worry. I'm not retiring any time soon. But following some major surgery in July, I was forced to slow down. For a few weeks, I perfected the art of doing nothing and wondered whether this is what retirement would be like for me.

My first decision was whether to delay my surgery until December, when I would qualify for Medicare and could significantly reduce my out-of-pocket costs for the procedure, or get it over with this summer when my business travel schedule for speaking engagements tends to be lighter. After weighing the pros and cons, I decided that timing and health concerns outweighed the financial costs.

BOGUS ROBO-CALLS

Because I spent more time home than usual during my recuperation, I was exposed to a slew of robo-calls, including one purportedly from Social Security telling me my account had been suspended.

The first hint that such phone calls are bogus is the recording refers to the "Department of Social Security." There is no such thing. Besides, the Social Security Administration doesn't call individuals to tell them their accounts have been suspended due to "suspicious activity." Crooks are just trying to scare people into giving them their Social Security numbers and other personal data that leads to identity theft. Just hang up.

HELPFUL TIPS

The Federal Communications Commission offers some great consumer tips — or helpful client tips — on how to recognize and combat such robo-calls and spoofing, which is when a caller deliberately falsifies the information transmitted to your caller ID display so it appears that an incoming call is coming from a local number or a government agency.

MARY BETH FRANKLIN

ONRETIREMENT

I can imagine how scary such phone calls can be to your retired or soon-to-be retired clients.

In contemplating my own retirement, I examined what the experts have to say about preparedness and what lawmakers are doing — or not doing — to add protections.

SAVINGS ANXIETY

More than three-quarters (80%) of nonretired Americans expressed anxiety that their savings may not provide enough to live on in retirement, according to a survey of more than 3,000 U.S. adults conducted in May by the Alliance for Lifetime Income. There is good reason for Americans to be concerned. A June World Economic Forum report estimated that 65-year-old Americans could outlive their retirement savings within nine years.

Given the sheer number of retirees, a retirement income crisis would be felt far and wide. The U.S. is a mere five years away from having the most 65-year-olds in history. In 2024, a record 4.5 million Americans will turn 65.

While these statistics underscore the growing importance of Social Security for many Americans, the nation's retirement program is facing some serious long-term financing problems of its own.

Beginning next year, Social Security is expected to start dipping into trust fund assets for the first time to pay all promised benefits, according to the most recent Social Security and Medicare trustees report. Those excess revenues would be depleted in about 15 years, forcing a 20% cut in benefits to all retirees unless Congress acts before then.

No one expects the worst to happen, but Social Security reform will require bipartisan support, and the sooner lawmakers tackle the problem, the better. But you would never know it based on the first two Democratic presidential candidates' debates, where Social Security was never mentioned, or Congress' inaction on the looming trust fund shortfalls.

(Questions about Social Security? Find the answers in my new ebook.)

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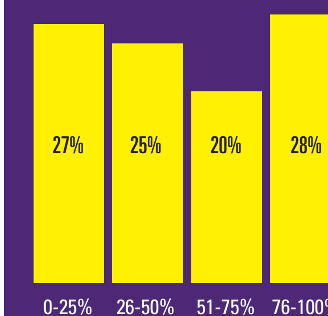
EXTENT OF RETIREES' DEPENDENCE ON SOCIAL SECURITY



$3.4T

POTENTIAL INCOME RETIREES LOSE DUE TO CLAIMING SOCIAL SECURITY AT A FINANCIALLY SUBOPTIMAL TIME.

9%

THE AVERAGE INCREASE IN INCOME SOCIAL SECURITY RECIPIENTS WOULD SEE IN RETIREMENT IF THEY MADE THE FINANCIALLY OPTIMAL DECISION ABOUT WHEN TO CLAIM THIS RETIREMENT BENEFIT.

50%

AMOUNT BY WHICH ELDERLY POVERTY COULD BE CUT IF RETIREES CLAIMED SOCIAL SECURITY AT THE FINANCIALLY OPTIMAL TIME.

Source: "The Retirement Solution Hiding in Plain Sight" by United Income

401(k) lawsuits creeping down to smaller plans

BY GREG IACURCI

LAWSUITS FILED against employers for allowing excessive fees to be charged in their 401(k) plans have, until fairly recently, targeted only the largest entities, those with more than $1 billion in their retirement plans.

However, lawsuits filed in recent weeks have moved down market to smaller plans that 401(k) advisers are much more likely to count among their client base.

Employers TriHealth Inc. and Adidas America Inc., which respectively sponsor a $462 million and a $630 million 401(k) plan, were sued last month. Greystar Management Services, which has a $188 million retirement plan, and West Corp., with a $361 million plan, were sued in May.

"It's highly unusual to see smaller plans like these facing excessive-fee litigation," said Duane Thompson, senior policy analyst at fi360 Inc.

"A lot of advisers advise small plans," Mr. Thompson added. "They're wondering, 'Am I going to be a target or is my client's plan going to be a target?'"

Sean Deviney, director of retirement plan consulting at Provenance Wealth Advisors, said the trend is something advisers should be cognizant of, especially since they may also be roped into the litigation.

"You still have to pay to defend yourself," he said. "For the adviser community, we're on the hook regardless of the size of the plan."

$9M

SIZE OF 401(K) PLAN SUED IN 2016 FOR EXCESSIVE FEES

EXCESSIVE-FEE SUITS

Excessive-fee lawsuits have proliferated over the past decade and a half, since attorney Jerome Schlichter brought lawsuits against such large corporations as Caterpillar, General Dynamics, International Paper and Lockheed Martin Corp.

Prior to the Adidas, Greystar, TriHealth and West Corp. lawsuits, there were hints that such 401(k) lawsuits might be making their way to smaller plans. A $25 million 401(k) sponsored by employer Checksmart Financial and a $9 million plan sponsored by LaMettry's Collision were sued in 2016. Independent broker-dealer Cetera Advisor Networks was named as a co-defendant in the Checksmart case. Both lawsuits were ultimately dismissed.

Gucci America Inc. settled an excessive-fee case for $1.2 million in June. Its 401(k) plan had approximately $140 million.

Legal experts believe plaintiffs' attorneys will keep suing small plans if they can extract settlements large enough to justify the effort.

"I don't think there's a trend yet, but it certainly bears watching," Mr. Thompson said.

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Advisers say go for gold to hedge trade-war fear

BY JEFF BENJAMIN

WHILE INTERNATIONAL tariffs and trade-war chatter have investors fleeing the equity markets, gold is rallying as a logical safe-haven play.

The S&P 500 Index was down 2.93% last Wednesday and halfway through the month had already declined 4.7%.

KEY POINTS

- Spotlight on gold is intensifying as U.S.-China trade tensions rise.
- Asset management industry products are designed for low-cost access to gold.

But gold has held up as one of the few bright spots, which is an example of gold doing exactly what it is supposed to do, according to Janet Briaud, founder of Briaud Financial Advisors.

"The technicals for gold are very positive, and it has rallied well this year," she said.

Ms. Briaud mostly allocates gold in her clients' portfolios through exchange-traded funds like SPDR Gold Shares (GLD), which was up 18% from the start of the year as of the end of trading last Wednesday.

Since December, Ms. Briaud has doubled the allocation to gold in client portfolios to 10%, but for clients who want even more exposure to the precious metal she is recommending gold-mining stocks through funds like VanEck Vectors Gold Mining (GDX) and Fidelity Select Gold Portfolio (FSAGX).

"I tell my clients that gold mining companies are more volatile than gold, and they are not for the faint of heart," she said.

So far this year, GDX was up 35% and FSAGX 31% through last Wednesday.

Paul Schatz, president of Heritage Capital, said gold is doing so well because it is perfectly suited for the risk facing the equity markets.

"Contrary to popular belief, gold is not this great hedge against all market volatility, because it depends on why the market is volatile," he said.

"For example, gold was not a good hedge against the dot-com bubble in 2000," he said, "but it is a good hedge against international turmoil."

STORING VALUE

As an alternative means of storing value, Mr. Schatz said, "the trade war with China is right up gold's alley."

While advisers might not have a lot of choice but to add gold exposure as a hedge to choppy markets on the near-horizon, Mr. Schatz said he will be waiting for a gold-market pullback before loading up on more gold.

"The recent price lows for gold are already in, but at some point you'll see small pullbacks in gold and that will be a screaming buy," said Mr. Schatz, who describes the current gold rally "just an appetizer for what's coming in the 2020s" when he expects gold prices to double where they are today.

The spotlight on gold has been increasing in stride with global trade tensions, mostly between the United States and China, which the asset management industry has met with products designed for low-cost access to gold.

"Investors have gravitated toward gold as a safe haven, given the ongoing trade tensions and the increased volatility in the equity market," said Todd Rosenbluth, director of ETF and mutual fund research at CFRA.

Ms. Briaud does not believe the current gold rush is temporary, but like Ms. Schatz, she believes investors should be cautious about buying too much exposure at current price levels.

"At this level it is very overcrowded, and you might need to wait for a pullback," she said.

However, Ms. Briaud also sees a real risk of a stock market correction or crash that might have some investors and advisers wondering if there is any price too high for a good gold hedge.

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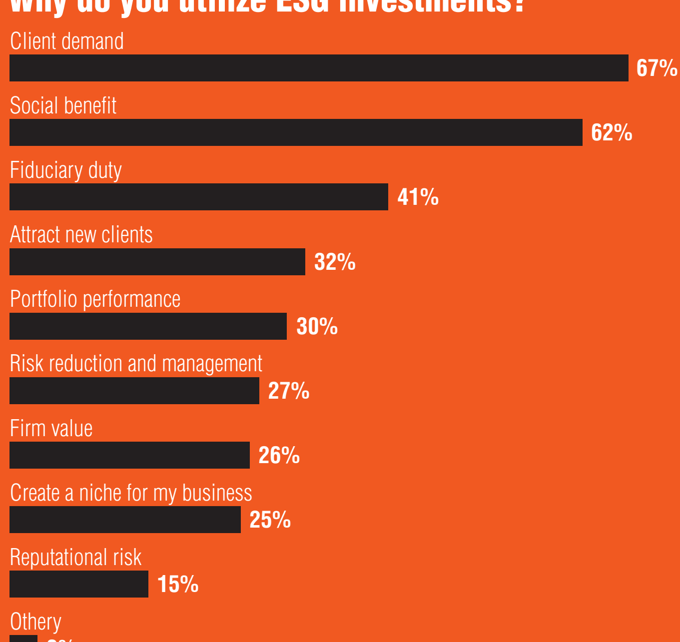
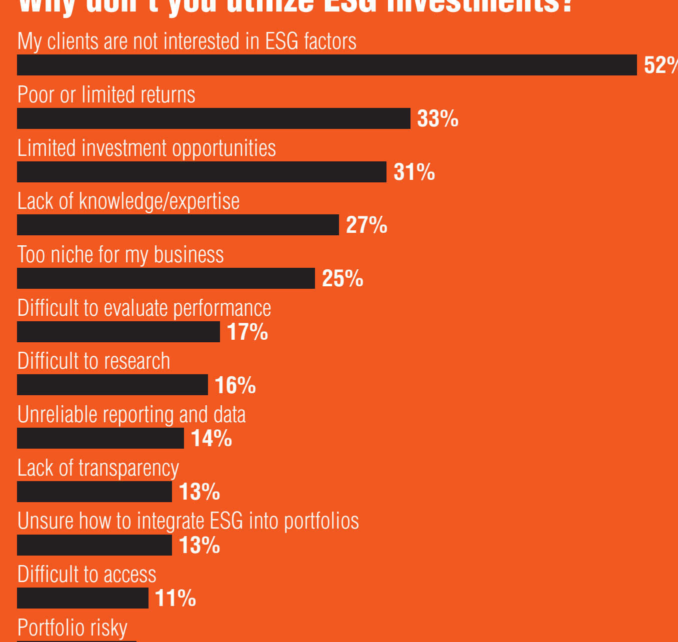
WHY OR WHY NOT?

FINANCIAL ADVISERS WEIGH IN ON WHY THEY INVEST SUSTAINABLY ... OR NOT

Why do you utilize ESG investments?



Why don't you utilize ESG investments?



Source: "Opportunity Knocks: How advisers can capitalize on growing ESG interest" By *InvestmentNews Research* and Calvert Research and Management

Bad yield curve? It's complicated

BLOOMBERG NEWS

A KEY PORTION OF the U.S. Treasury yield curve has inverted, an ominous sign for the economy and the stock market. But what investors should do about it is a complicated question.

Looking at 10 times when the spread between two- and 10-year Treasury yields first turned negative going back to 1956, the S&P 500 topped out anywhere from two months to two years later, according to data compiled by Bank of America strategists. Often, bailing immediately after the signal flashed meant missing out on double-digit gains.

"It's a great recession indicator. It just happens to work with a lag," said Tony Dwyer, Canaccord Genuity's chief market strategist. "Acting on it now is inappropriate."

For the first time since 2007, the rate on 10-year Treasury notes dipped below those on 2-year notes last Wednesday, sounding alarms across global financial markets. A key part of the U.K. yield curve also inverted last Wednesday, stoking further concerns over weak global growth, and major equity benchmarks plunged. The S&P 500 fell 2.9% and the Dow Jones Industrial Average lost 800 points, its largest one-day decline of the year.

The signal from the bond market has preceded each of the last seven recessions.

Six of the last 10 times the yield curve inverted, the S&P 500 rolled over within three months. In the other four, the gauge didn't top out until at least 11 months passed, data compiled by Bank of America show.

The wide range of possibilities muddies the waters for investors.

The S&P 500 "can take time to peak after a yield curve inversion," strategists at the bank, including Stephen Suttmeier, wrote in a note to clients last week. But ultimately, "the equity market is on borrowed time after the yield curve inverts."

The road to independence: Attracting and retaining clients

After 15 years with one wirehouse and five years at another, Don Garman wrote a seven-figure check to release himself from an employment contract so he could start his own Registered Investment Advisor (RIA) firm, Mirador Capital Partners, in Pleasanton, Calif. Driven by a desire to provide unconflicted advice as a fiduciary, he was motivated to better serve his current clients. At the same time, he wondered whether those clients would follow him to his own firm and whether he would be able to attract new clients without a wirehouse name on his business card. *InvestmentNews* Content Strategy Studio recently spoke with Mr. Garman, exploring how client acquisition and retention issues were resolved, and how Schwab Advisor Services™ supported him and his firm through the transition and afterward.

DON GARMAN
Registered Investment Advisor (RIA) firm
Mirador Capital Partners

***INVESTMENTNEWS:* Was there a particular moment when you knew you would go independent?**
DON GARMAN: My wife and I had discussed independence for several days, and one of the things I said in our conversation was that going independent was the smart thing to do because it's right for clients. A few days later, she asked me a really key question: "What would you do if you weren't afraid?" I hadn't thought about it that way, but her question hit the core issue. Was I afraid that my clients wouldn't follow me because maybe I wasn't really as smart or as good as I thought I was? Or was I afraid of the challenge? My wife's honesty crystallized my thoughts, and made me realize that I really did want the challenge, even if it meant that some number of my clients might not come along.

***INVESTMENTNEWS:* Now that you're in your fifth year, were those fears justified?**
DON GARMAN: The short answer is no. Pretty much all my clients moved with me, which I found kind of amazing, since I had lost some clients when I moved from one wirehouse to another earlier in my career. On top of that, our business has grown probably four times faster than it would have had I stayed — and I know that from having been with big firms for two decades.

You have to remember where I was coming from. Like many wirehouse advisors, I was under the impression that going independent meant you couldn't provide all the things your clients have gotten used to, either because you wouldn't be able to afford doing so or because the services couldn't be replicated. But that's simply not true. Now I am able to provide all the services a wirehouse provides — and more. The reality is that using Schwab as our custodian has provided our firm and our clients with everything we need. And, in terms of technological capabilities and access, it's been a huge upgrade.

***INVESTMENTNEWS:* Let's go back to your firm's growth. To what do you attribute that?**
DON GARMAN: There are several factors, but an important one, which I learned only after I went independent, is that there were many people who would not do business with me because I was at a wirehouse. There were local prospects I had been chasing for 15 years who wouldn't give me the time of day, who actually called me after we had been in business for a while and said they wanted to talk. The second reason for our growth is that I was finally able to realize my vision and seize an opportunity that wirehouses don't permit. Specifically, they restricted how my clients could invest in some of the companies these clients are familiar with from living and working in our community, the Tri-Valley, which could well become the next Silicon Valley. When I started my firm, I hired a director of research who specializes in tech to analyze these opportunities — something I could never do before. Now I can better serve my clients and also enhance our firm's potential for growth.

***INVESTMENTNEWS:* How did Schwab help you during your transition to independence and what value do you continue to receive?**
DON GARMAN: The support we got from minute one was top-notch. The Schwab team that came to our office to help with the onboarding was great and didn't cut any corners. Sure, getting up and running while repapering accounts is a lot of work, but the process went very smoothly.

The ongoing support has been just as high-quality. Now that I have relationships with people at Schwab, I know who to call to help me think through difficult problems. They are truly interested in helping us grow. If I need advice on a technology solution, for instance, they cut through the confusion and suggest some possibilities they know could be right for our firm. I couldn't be more pleased by the width and depth of the support and by the quality of the Schwab people.

***INVESTMENTNEWS:* What about support and assistance beyond that in the operations area?**
DON GARMAN: Another one of the misconceptions I had when I was an employee advisor is that you're all alone when you go independent. That's a myth, too, because I've developed valuable relationships with other advisors served by Schwab at the many conferences and meetings the firm conducts, where we learn about the latest tax law changes, market shifts, and regulatory developments, as well as hear from leading money managers. I've found independent advisors to be very generous about sharing ideas with each other, so I've never felt that I'm in this all on my own.

On the investment side, Schwab provides access to research and has a sophisticated trading operation. More importantly, clients appreciate the honesty and ease of doing business through Schwab, online or any other way they want access. And the fact that we are associated with a brand that's all about providing a better value proposition for the client reflects positively on our firm.

In talking to former wirehouse advisors who've gone independent, I discovered we all ask ourselves the same question: "Why didn't I do this earlier?" ■

To find out what going independent could mean for you, visit advisorservices.schwab.com/goindependent.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"The myth about going independent is that you start over without a book of business and offer clients less. Just the opposite was true. Our growth has been about four times what it would have been if I stayed at a wirehouse. Schwab has been invaluable to our success."
Don Garman–Mirador Capital Partners
charles SCHWAB

$300K AMOUNT THAT MASSACHUSETTS RIA RICHARD DUNCAN PERSUADED TWO CLIENTS TO INVEST IN AN APPARENT SCAM ORIGINATING IN TURKEY

Finra widens exam window for some

BY MARK SCHOEFF JR.

FINRA WILL WIDEN the examination cycle for some small brokerage firms, according to one of the regulator's board members.

Robert A. Muh, chief executive of Sutter Securities, said in an interview that small firms with a "clean record"— those that haven't demonstrated disciplinary problems — would be reviewed every four years instead of every two or three years by Financial Industry Regulatory Authority Inc. personnel.

Mr. Muh, a small-firm representative on the Finra board, said Finra staff have agreed to the adjustment and that it would start going into effect in the next round of examinations.

Exams can go on for extended periods, so having them frequently can make it feel as if a new one is starting just as the previous one ended, Mr. Muh said. Stretching the cycle out to four years will provide relief.

"That's a very meaningful savings and break for small firms," Mr. Muh said.

ROBERT COOK

'FOUR YEAR BACK STOP'

A Finra spokesman referred to comments made by Bari Havlik, Finra executive vice president of member supervision, at the organization's annual conference in May.

In a question-and-answer session, Ms. Havlik said most firms are either on an annual cycle or in the"four-year back stop." As part of its internal reform program, Finra is adjusting its exam frequency.

"We are revisiting that as part of the transformation: What's the right cycle for the different business models?" she said.

In the same session, Finra chief executive Robert W. Cook said the organization is moving away from the four examination cycle buckets, 1-, 2-, 3- or 4-year, and instead determining whether to conduct exams based on the risk a firm poses.

It's becoming more of a "this year or not"proposition, he said.

TOUTED AS ACCOMPLISHMENT

The exam cycle change for small firms is being touted by Mr. Muh as one of his accomplishments during his tenure on the board. He is campaigning for re-election. Member firms can cast votes until Aug. 19.

Linde Murphy, chief compliance officer at M.E. Allison & Co. Inc., is challenging Mr. Muh for the small-firm seat. She agrees that exams can pose a challenge for small firms.

"Any exam can be burdensome, no matter who the regulator is that's coming to visit you," Ms. Murphy said. "It's our responsibility as small-firm representatives to be able to clearly explain and build cogent arguments about the impact of rules on small firms."

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Schwab to pay $347,000 for helping competitor of RIA

BY MARK SCHOEFF JR.

FINRA ARBITRATORS ordered Charles Schwab & Co. to pay $347,000 to the owner of a registered investment advisory firm for allegedly helping a former official of the RIA lure millions of dollars of assets to her own advisory firm.

Joseph Ziomek, owner of the Laguna Financial Group in Laguna Beach, Calif., filed a lawsuit in 2013 against Kaitlin Hewell, former chief compliance officer of the firm, for secretly establishing her own business to compete with LFG while still working at LFG.

18 NUMBER OF HEARING SESSIONS NEEDED TO DECIDE CASE

Mr. Ziomek alleged Ms. Hewell induced him to entrust most of the business to her and then resigned and attempted to steal his clients while Mr. Ziomek was caring for his critically ill mother and dealing with his own medical issues.

CLANDESTINE ASSISTANCE

In the Finra arbitration case, Mr. Ziomek alleged Schwab gave clandestine assistance to Ms. Hewell to open her own RIA with Schwab serving as the custodian. Schwab was also the custodian for LFG.

Mr. Ziomek said he found out years after Ms. Hewell's departure that Schwab had violated its own conflict-of-interest policies regarding RIAs on its platform, and Schwab terminated its custodial relationship with LFG. Mr. Ziomek filed his Finra arbitration claim in November 2016.

COMPENSATORY DAMAGES

The three-person Financial Industry Regulatory Authority Inc. arbitration panel found Schwab liable for $200,000 in compensatory damages, $47,001.12 in costs and $100,000 in attorneys' fees, according to the Aug. 2 award.

Mr. Ziomek had requested damages between $1.2 million and $1.9 million, attorneys' fees of $451,000 and costs of $47,000.

"This case involved business and ethical violations by Charles Schwab in its capacity as a broker-dealer firm administering custodial platform services to an RIA," Robert J. Girard II, founding partner of the Girard Bengali law firm and an attorney for Mr. Ziomek and LFG, said in a statement. "Schwab lied about its involvement and took advantage of LFG's reliance on Schwab's supposed good faith dealings," Mr. Girard said. "While Schwab profited from this misplaced trust, the Finra panel administered the appropriate justice."

The arbitrators got it wrong, according to Schwab.

"While we disagree with the outcome of this case, we are pleased to have this matter behind us," Schwab spokesman Peter Greenley wrote in an email.

Ms. Hewell is now a partner at Financial Focus in Carlsbad, Calif. She did not respond to an email and phone call seeking comment. Her firm did not immediately respond to a request for comment.

WARNING TO OTHERS

Omar H. Bengali, who also represented Mr. Ziomek and LFG, said the award against Schwab sends a message regarding how custodians must work with RIAs on their platforms.

"Failing to acknowledge the existence of conflicts between clients will not be tolerated, especially where the motivation is to favor the interests of a potential client above an existing one,"Mr. Bengali said in a statement.

The arbitration case involved 18 hearing sessions between July 2018 and June.

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Dual registrants rife with conflicts: study

BY MARK SCHOEFF JR.

INVESTMENT ADVISERS who also are registered as brokers are rife with conflicts of interest and charge clients more than RIAs, according to a new academic study.

KEY POINTS

- Study finds dual registrants "often fall short of the spirit of the fiduciary standard."
- Dual registrants charge an average of 2.1% on AUM.

In a paper released Aug. 7, Nicole Boyson, professor of finance at Northeastern University, finds dual registrants "have numerous conflicts of interest" that arise from cross-selling of insurance products, revenue sharing with third-party mutual fund families and selling proprietary investment products.

She also found dual registrants charge an average of 2.1% on assets under management, much higher than the 1% fee assessed by most registered investment advisers, and are more likely to be the subject of disciplinary actions by securities regulators.

"The most obvious policy implication of my study is that dual registered investment advisers — who are required to act as fiduciaries — often fall short of the spirit of the fiduciary standard," Ms. Boyson wrote in the paper. "While these advisers mostly meet the letter of the law (frequent disciplinary actions aside), their conflicts, high fees, and poor investment management performance imply that they are not serving their clients' best interests."

Ms. Boyson examined the ADV Part I filings of 6,866 unique RIAs — 2,484 who were dually registered and 4,382 who were independent — from 2003 through 2016. She also reviewed ADV Part II narrative filings for the top 75 dual registrants and independent RIAs for each year since 2011.

CAVEAT EMPTOR

"Retail clients should be aware that dual registrant firms have these significant conflicts and that they likely will be asked to pay more [in fees]," Ms. Boyson said.

A trade association whose membership of independent broker-dealers and financial advisers is mostly comprised of dual registrants defended the business model.

"Our members continually work to ensure they are providing the best service and advice to their clients," David Bellaire, executive vice president and general counsel at the Financial Services Institute, said in a statement. "They help their clients achieve their financial goals and build a financially secure future. Dually registered advisers offer truly holistic advice."

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Ex-Woodbridge CEO pleads guilty to Ponzi

BLOOMBERG NEWS

ROBERT SHAPIRO, the former CEO of Woodbridge Group of Companies, pleaded guilty to running a $1.3 billion fraud that caused more than 7,000 investors to lose money, according to prosecutors.

ROBERT SHAPIRO

Mr. Shapiro, 61, of Sherman Oaks, Calif., promised returns as high as 10% from investments in loans to property developers. Instead, he used money from new investors to repay earlier ones and stole as much as $95 million, routing money through a network of 270 limited liability companies he controlled, Miami U.S. Attorney Ariana Fajardo Orshan said in a statement Aug. 8.

Losses to investors are expected to exceed $100 million. The scam ran from July 2012 until December 2017, when Woodbridge filed for Chapter 11 bankruptcy protection.

Mr. Shapiro pleaded guilty to conspiracy and tax evasion Aug. 7 in Miami. He faces up to 25 years in prison. In November, he agreed to pay $120 million to resolve related civil claims by the U.S. Securities and Exchange Commission. Two alleged co-conspirators are scheduled for trial in February.

The benefits of outsourcing investment management

Whether you recently transitioned to running an independent advisory firm or have been running your own business for years, as an advisor you often wear many hats: financial planner, back-office administrator, compliance specialist, and business development manager, to name just a few.

On top of that, advisors are increasingly assuming investment management responsibilities. But as your practice scales up, you may lack the time or resources to develop investment strategies and keep watch over client portfolios.

For those and other reasons, some advisors are outsourcing all or part of their investment management operations.

While smaller RIAs with limited in-house resources typically outsource more than larger shops, even big firms are embracing the many benefits of investment outsourcing. But outsourcing may be a bit of misnomer. For many RIAs, outsourcing speaks more to collaborating with third-party money managers than farming out the investment management function entirely.

BENEFITS OF OUTSOURCING

Here are some of the potential benefits of outsourcing investment management:

- **More time for client-related activities:** Client-facing activities are critical to growing an advisor's business, but less than 20% of a typical lead advisor's time is spent actually meeting with clients.[1] By reducing the time spent managing client portfolios, advisors can free up time to build and maintain client relationships.
- **Broader investment offerings:** The investment landscape is increasingly complex, and outside investment managers may have experience managing specific asset classes. Outsourcing allows advisors to tap this specialty expertise and offer a broader array of investment offerings to meet varying client needs.
- **Increased efficiency:** RIAs can also use advanced technology that allows advisors to hire multiple investment managers through one source and mix and match managers according to clients' investment needs—while still controlling the client experience.

HOW ABOUT A HYBRID APPROACH?

Of course, some advisors may have concerns about the cost of outsourcing and the potential risk of watering down their value proposition by using outside help. But technology providers are responding to these concerns with price-sensitive solutions and the ability to customize investment management offerings.

For example, you could delegate management of certain asset classes—say, fixed income, international equities, or alternatives—while managing US equities or money-market assets in-house. Alternatively, you may wish to be actively involved in setting investment objectives and selecting money managers, while outsourcing the day-to-day responsibilities of managing portfolios. In this respect, outsourcing is very much a collaborative process.

UNDERSTAND YOUR VALUE PROPOSITION

Ultimately, advisors may find that outsourcing provides a net financial gain by reducing overhead costs and more efficiently allocating staff resources to activities that drive revenue.

While opinions on the issue vary, outsourcing has been gaining traction. More than half (54%) of certified financial planners now outsource portfolio management, according to a Cerulli study.[2]

Ultimately, the decision could boil down to your firm's value proposition. Are you known for your chops as an investment manager, or would your time be better spent managing client relationships than picking stocks?

In the same way that investors each have unique financial goals, RIAs have unique service models, financial considerations, and client needs to consider.

For some RIAs, managing assets in-house could make sense. For others, outsourcing investment management has the potential to increase efficiency, drive revenue, and improve client outcomes.

1. Kitces.com, "How Do Financial Advisors Actually Spend Their Time And The Limitations Of Productivity," March 18, 2019, https://www.kitces.com/blog/how-do-financial-advisors-spend-time-research-study-productivity-capacity-efficiency
2. *InvestmentNews*, "Cerulli: Advisers increasingly outsourcing portfolio management," September 14, 2017, https://www.investmentnews.com/article/20170914/FREE/170919964/cerulli-advisers-increasingly-outsourcing-portfolio-management

INSURERS PIVOT

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James & Associates Inc. "As their portfolio yield continues to fall, they'll have to make adjustments to the pricing of pretty much everything they've got."

Executives from insurers including American Equity Investment Life Holding Co., American Financial Group Inc., Lincoln National Corp. and Principal addressed the lackluster interest-rate environment in their second-quarter earnings calls.

American Equity, among the largest providers of indexed annuities, has reduced participation rates and interest-rate caps on some S&P 500 products three times since mid-April, said president Ronald Grensteiner.

In addition, effective Aug. 6, the company decreased payouts on lifetime income benefit riders available on its annuities, Mr. Grensteiner said. Those will reduce guaranteed income on its best-selling IncomeShield products by roughly 6.5% to 7%, he said.

Other insurers have taken similar actions in response to interest-rate moves, with some hinting the changes could adversely affect annuity sales.

Craig Lindner, co-CEO of American Financial Group, said the company has made five or six adjustments so far this year and is "preparing to make another change as it relates to new business."

ONGOING ADJUSTMENTS

Lincoln has reduced its crediting rates on fixed annuities and dropped the guaranteed income rate in its VA living benefit riders by 0.15%, said Dennis Glass, Lincoln's president and CEO.

"We've taken what we think are the necessary actions," Mr. Glass said. "We'll continue to do what needs to be done to get the proper return on new business."

The Federal Reserve cut its benchmark fed funds rate by 25 basis points, to 2.25%, at the end of July, in an attempt to shore up the economy as the trade war between the U.S. and China continues and signs emerge of economic trouble on the international stage.

Economists expect the Fed will trim rates further by year-end, with some firms such as Morgan Stanley anticipating an eventual return to the rock-bottom rates that prevailed during the financial crisis.

The rate reduction was a turnabout from the Fed's moves to increase interest rates in recent years in response to indicators such as low unemployment that were signaling a healthy economy. The Fed had raised rates nine times since the end of 2015, including four times last year.

Deanna Strable, CFO at Principal, acknowledged that there's been a "slowdown" in fixed annuity sales as interest rates have declined.

"In the end, it just depends on, is the consumer willing to take the rates that we can afford to pay given everybody is kind of in the same boat," said Mr. Grensteiner of American Equity. "And are they going to choose to not do anything and put it under the mattress or buy a CD or what, we don't know."

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MARKET SWINGS

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the year, but not in a straight line."

Mr. Schatz expects the stock market to gain another 9% by the end of the year, and he does not expect a recession this year.

However, he is advising clients to embrace a barbell approach to equity investing, which involves investing in things like semiconductor companies on the aggressive side and consumer staples, utilities and real estate on the conservative end.

58%
S&P 500 RETURN BETWEEN 2007-17 IF FULLY INVESTED

When it comes to using the inverted yield curve as a sell signal, Chris Schiffer, executive vice president of AEPG Wealth Strategies, said "market timing is generally a bad idea."

Especially for investors with a longer time horizon, moving in and out of the market is considered risky because it is virtually impossible to move out at market highs and back in at market lows.

And getting it wrong can be costly.

According to a study by A. Stolz Investment Research and Thomson Reuters, over the 10-year period through January 2017, an investor in the S&P 500 Index who missed the best 10 trading days would have gained just 14% over that decade.

On the other hand, an investor who stayed in the market for the entire time period, including the 10 worst trading days, would have realized a 58% gain.

"Market timing is a really bad idea," said Devin Pope, partner and senior wealth adviser at Albion Financial Group.

"Even if the yield curve inversion ends up predicting a recession, it usually takes around 24 months for the recession to hit and the market could run around 20% from the time of the yield inversion to the peak," Mr. Pope said.

"Trying to time the market now could leave a good amount of chips on the table and then if the market goes up, you will be chasing to get back in."

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IRS TACKLES CRYPTO

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member of the Bitcoin Foundation, a nonprofit dedicated to improving the reputation of cryptocurrencies, was sentenced to two years in prison in 2014 for using Bitcoin to send money to Silk Road.

Cryptocurrencies' meteoric rise in value and popularity has only helped to attract grifters looking to take advantage.

Even cryptocurrency enthusiasts like Tyrone Ross, formerly managing partner of NobleBridge Wealth Management and now a financial consultant in Woodbridge, N.J., urges investors to keep a critical mind.

"I don't think you can go beyond five [cryptocurrencies] that are credible, but you're even stretching at that point. Most of the conversations right now revolve around Ether or Bitcoin," Mr. Ross said. "I'll be honest with you — as I've grown more bullish, I've grown more skeptical … I've seen what happens when the price rises."

CRIMINAL PAST

Yet advocates don't believe the technology's history of abetting crime should stop Wall Street from embracing cryptocurrency. As proponents like to point out, the fact that criminals use cash doesn't harm the value of the U.S. dollar.

In fact, they see IRS enforcement as just another step toward credibility. Even though old-school cryptocurrency users tend to have libertarian "taxation is theft" leanings, more of the crypto community realizes it has to play by the rules if it wants to be sustainable.

"I think it's a good thing; I think it's something that the institutional investors on the sidelines want to see," before diving into crypto assets, Mr. Ross said. "If you're in this space full-time like I am, you do see a lot of things that make you think the market is maturing."

Hunter Horsley, CEO of Bitwise, an asset management firm developing index funds of crypto assets, said it's "factually inaccurate" to say a primary value of cryptocurrency is that it can be used for nefarious purposes. In fact, it's inferior to cash for criminal activity, he said.

"While its origins were in some of the darkest parts of the internet, that is no longer the case," Mr. Horsley said. "I sort of view [the IRS action] as a positive step in the maturation of the industry."

BAD ACTORS

Yet even he admits that there are bad actors in the crypto space. For Mr. Horsley and Mr. Ross, the grifters looking to take advantage of cryptocurrency buzz are proof of what financial advisers need to understand about the space.

Despite its dark past, crypto is here to stay, Mr. Ross said. The fact that the IRS is acting to ensure the government gets a piece is only more proof.

Now it's up to advisers to dot the i's and cross the t's, and make sure clients don't break the rules.

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BUYOUT WASTE

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tions world of registered investment advisers) is that it doesn't sufficiently recognize that the key ingredient in every transaction is the client's assets — somebody else's money — and the fact that the clients might take their assets elsewhere.

Even with a clear succession plan, clients will often have their own new adviser picked out anyway, and most often this is outside their current adviser's firm.

There are some practitioners who are uniquely talented and charismatic. That is why they are so successful and lead some of the most extraordinary practices in the industry. They are worth the most when they are recruited because they absolutely deliver their clients to their new firm. Their clients love working with them.

Ironically, these practices will be the most harmed when the alpha dog practitioner retires because the successors are unlikely to be as talented and charismatic as the alpha dog who built the practice; the clients are clients of that alpha dog adviser, not the practice, and not the firm.

Because of this dynamic, too many retiring adviser deals are really just the purchase of empty oil

THE KEY … IN EVERY TRANSACTION IS THE CLIENT'S ASSETS

wells; there is uncertain production without the advisers who built the practice. The independent world has the exact same problem. Is there a thriving business without the founder in the picture? As top advisers retire over the next 10 years, I predict that the money given to them by their existing firms upon retirement, or by M&A buyers in the independent space, will become an even worse investment than the failed recruiting deals bemoaned and belittled by the largest firms in the industry.

Danny Sarch is the founder and owner of Leitner Sarch Consultants, a wealth management recruiting firm based in White Plains, N.Y.

ON ADVICE

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high, and Mercer does not require financial advisers to hustle or chase after new clients, according to the complaint. Instead, "Mercer has discrete marketing and sales departments that are responsible for developing new business," and feeds its adviser workforce 600 to 900 new clients each year, according to the complaint.

NOT JUST WIREHOUSES

Brad Stark, a founder and chief compliance officer of Mission Wealth, did not return calls for comment. An attorney for Mercer Global Advisors, Jason D. Gerstein, also did not return calls.

"It's no longer just the large wirehouses engaged in this kind of litigation, it's also the smaller RIAs," said James Heavey, a partner at the law firm Barton. "They're taking a page out of the big firm litigation play book. And what's ironic is that RIAs commonly recruit advisers from the large wirehouses."

"It's an attempt by the RIA to retain client assets and recurring revenue," Mr. Heavey said. "That will always drive the strategy for any of these firms when it comes to a departing adviser."

"What Mercer is effectively saying in its complaint is that the role of the adviser is to service clients," said David Gehn, a partner with Ellenoff Grossman & Schole.

"THEY'RE TAKING A PAGE OUT OF THE BIG FIRM ... PLAY BOOK."

JAMES HEAVEY, PARTNER, BARTON

"Here is the lead. Your role as an FA is to service the clients that we bring to you. The adviser had nothing to do with client acquisition. Mercer did it for you."

HARD WORK OVERLOOKED

Such reasoning, of course, gives short shrift to the adviser's work and dedication, in some cases over years, to helping clients meet their financial objectives. Did the adviser's effort keep the client at the firm?

RIAs routinely exalt the way they do business, pitching themselves as above the fray and focused on working with clients, not fighting over them.

Firms that are RIAs are supposed to be fiduciaries and free of conflicts that are inherent when a broker sells a mutual fund or shares of stock for a straight commission. And the RIA industry is seeing an unprecedented wave of mergers, and M&A in any business always leads to employees looking around at opportunities and perhaps eventually leaving for a competitor, potentially triggering more legal action.

A potential surge in complaints and temporary restraining orders by RIAs against advisers who move to a different employer is a potential mess for the financial advice industry.

People, don't fight over clients.

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CETERA

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ers who add revenue and ramp up production quickly.

InvestmentNews data, which can lag the market, has so far counted 190 advisers moving to Cetera B-Ds this year. Mr. Antoniades said that the *InvestmentNews* data was not up to date.

RECORD YEAR

"We're having a record year, and it's not just the Foresters acquisition," he said.

The significant majority, about 75%, of experienced advisers moving to Cetera are from other independent broker-dealers, but some are coming from wirehouses, Mr. Antoniades noted.

"The scale of the network ... is becoming much more real in the marketplace," he said. "You get a price advantage with scale, and increasingly recruits are recognizing the fragmented environment for small broker-dealers. It's tough for them as costs go up and returns on client assets go down."

In February, Cetera said that the wealth management group of North Ridge Securities Corp. would work under Cetera Advisor Networks, the network's broker-dealer that works with large offices. North Ridge Wealth Planning has over $2.5 billion in client assets and 85 affiliated advisers.

Another catalyst for Cetera right now when it comes to recruiting is the offerings by some of its large branch offices, particularly Carson Wealth, which is led by Ron Carson, a high-profile financial adviser, said Jon Henschen, president of Henschen & Associates, a recruiting firm.

NAME RECOGNITION

"His name does draw people's attention," Mr. Henschen said.

Carson Wealth is a hybrid wealth manager and uses Cetera for its broker-dealer business.

"Advisers are coming from other hybrids, RIAs and the wirehouses," Mr. Carson said in an interview.

Carson Wealth this year has had advisers with $2 billion in advisory assets move to the firm.

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JOE DURAN

CONTINUED FROM PAGE 2

ments to CDs. Just as importantly, they would bring an instant boost to our organic growth efforts by spreading our wealth management services across their platform. And regardless of market conditions, our team and clients would be safely harbored inside one of the most prestigious firms in the financial world.

Meanwhile, we can fast-track a truly revolutionary client experience with access to resources beyond anything we could conceive of as an independent firm. We could become the standard against which others are measured — not just for the affluent clients we work with directly at United Capital, but for the independent advisory firms that serve them through our white-labeled FinLife platform. Looking ahead, one option presented us with a brighter, safer future.

I HAVE THOUGHT ABOUT EVERY PERSON I WOULD LET DOWN IF WE FAILED IN ANY WAY.

3. The burden. This is the second time I have been involved in selling a company to a Dow 30 firm, but this time it was quite different. In the first instance, I had joined as an intern, became president and drove the business as part of a team. We sold it to General Electric and, after several iterations, it became AssetMark. Throughout that voyage, though, we had a shared burden.

RESPONSIBLE FOR FAILURE

As the person who started this most recent voyage, while I have incredible partners who deserve full credit for all that we have accomplished, I could never forget that I would always be the one responsible for its failure. That has been a lot of responsibility to carry for 14 years.

I have thought about every person I would let down if we failed in any way: Every adviser that sold us their life's work, and every employee who joined us and received equity. Every investor who put millions of dollars into our company. Every client who entrusted us with their life's savings.

Knowing that we made good on our promise is more important to me than continuing to be the founder and CEO of this thing that I once imagined. I now share the burden with my new partners at Goldman Sachs. We will all be working to make this one of the best investments they have ever made.

WHAT'S NEXT?

One of the more amusing parts of this transaction has been the speculation about what will happen with me and the firm I founded. Will I be able to play along with a large institution? Will the firm disappear?

The truth is that if you run a company the right way, it's never really yours. It belongs to the investors, the employees and the clients. The second time around, you aren't as attached. You learn that despite what people say, it's not your baby. It doesn't love you back the way your real babies do. It's just this thing you created, that you feel proud of having built, and that you hope will thrive in the future.

When we started the firm, we wanted to shake up an industry that we felt was staid, unimaginative and not helping people to really live better lives. We're turning the page on United Capital as an independent firm, but the future is still unwritten. We all intend to keep shaping the industry for years to come as indispensable advisers.

Joe Duran is CEO of United Capital, a Goldman Sachs company.

Allianz Life Insurance Company of North America

Our initial income percentages start STRONG – AND GET STRONGER

6.2%

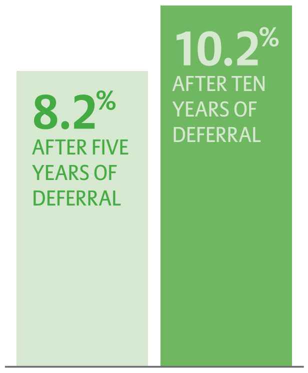
Age 65 for single Level Income option (5.7% joint Level Income option)

Income percentages are subject to change.[3]

Allianz Index Advantage Income® Variable Annuity is designed to help your clients meet their long-term goals with a unique combination of features – including indexed return potential with a level of protection through multiple index strategies (also called crediting methods), tax deferral with the opportunity to grow their savings faster, a variety of lifetime payout options, and a choice of death benefits.

How do our initial income percentages get stronger? Beginning at age 45[1], our Lifetime Income Percentages are guaranteed to increase each year your clients wait to start income, even if their asset values fluctuate.

For example, an individual purchasing the contract at age 65 would have a Lifetime Income Percentage of 6.2%, and it would increase by 0.40% for every year of waiting:



Please note: In addition to the Level Income option, the Income Benefit rider also offers an Increasing Income option.[2] This income option offers a smaller payment up front (1% lower than Level Income).

For more details, visit www.allianzlife.com/IAIncome.
For complete sales support, call the **Sales Desk at 800.542.5427**.

For all that's ahead.®

Allianz

[1] Initial Income Percentage at eligible person's age 45 (single, Level Income) is 4.70% and would increase by 0.25% for each year of deferral.

[2] A 1.25% product fee and 0.70% Income Benefit rider fee are accrued daily and deducted on each quarterly contract anniversary, calculated as a percentage of the charge base. The Income Benefit rider is automatically included in the contract at issue and cannot be added to a contract after issue.

[3] As of July 2, 2019. Lifetime Income Percentages are set at issue; income percentage increases are set on Index Effective Date (based on eligible person's age).

Lifetime Income Payments can begin on any Index Anniversary once the eligible person reaches age 50, and no later than age 100 after a minimum waiting period of one index year. Joint Lifetime Income Percentages are 0.50% lower than for single Lifetime Income Percentages. For joint income payments, the age of the younger eligible person will be used to determine income percentages, income percentage increases, and when income payments begin. Current rates for new business contracts are available at www.allianzlife.com/indexincomerates.

Withdrawals will reduce the contract value and the value of any protection benefits. Withdrawals taken within the contract withdrawal charge schedule will be subject to a withdrawal charge. All withdrawals are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal additional tax.

As with any investment vehicle, variable annuities and index variable annuities are subject to risk – including possible loss of principal. Investment returns and principal will fluctuate with market conditions so that contract values, upon distribution, may be worth more or less than the original cost.

For more complete information about Allianz Index Advantage Income® Variable Annuity and the AZL® Government Money Market Fund, contact Allianz Life Financial Services, LLC for a prospectus. The prospectuses contain details on investment objectives, risks, fees, and expenses, as well as other information about the index variable annuity and the AZL Government Money Market Fund, which your clients should carefully consider. Encourage your clients to read the prospectuses thoroughly before sending money.

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